

UNIVERSITY OF NAIROBI
INSTITUTE OF DIPLOMACY AND INTERNATIONAL STUDIES

**CHANGING PATTERNS IN FOREIGN INVESTMENTS IN KENYA AND
THEIR IMPACT ON HR POLICIES: CASE STUDIES OF CHINA AND
BRITAIN**

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**A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILMENT OF THE
DEGREE OF MASTER OF ARTS - DIPLOMACY**

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DECLARATION

I hereby declare that this is my original work and has never been presented in any other institution, the sources have been well acknowledged.

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DEDICATION

To my wife Susan Waceke and son Martin Njoroge, for all the support and positive encouragement.

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In acknowledging those who contributed to this study, I'm in no way intending to make them accountable for any shortcoming herein. This remains my sole responsibility for which I would accept any blame.

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ABSTRACT

Most countries continue to strive in attracting foreign direct investment (FDI). This is because of FDI's acknowledged benefits as tools of economic growth and development. Africa and particularly Kenya has joined other countries in seeking FDI as shown by the formation of the New Partnership for Africa's Development (NEPAD). NEPAD has been the centre of attraction of foreign investment to Africa. The major FDI investors in Kenya have for many years been Britain, United States of America, and other Western and European nations. However, Kenya has been shifting its priorities and started to attract FDI's from Asian Pacific nations such as China.

The aim of this study was to explore the changing patterns of foreign investment in Kenya and their impact on HR policies. The study was guided by the following objectives: to investigate how foreign investors have impacted HR policies in Kenya, to analyse how China as a FDI investor has impacted HR policies, to investigate how different government regimes have handled, facilitated and implemented FDI change in Kenya, to analyse why Kenya has shifted its foreign policy on investment to the East (China) rather than the west (Britain) and to determine how foreign investors have impacted HR policies in terms of transfer of technology and how they differ by comparing policies for Britain and China. The study was based on the following theories, namely: Neoclassical growth theory as per Solow and Endogenous growth theory as well as the Harvard Framework of HRM. The three models are appropriate for the study because they provide a theoretical framework for exploring the changing patterns of HRM in Kenya, especially on HR policies. They aimed to test the following hypothesis: Foreign investment by China and Britain has positively impacted the Kenyan human resource policies and Human Resources managers have negative perceptions of Chinese HR policies in comparison to Kenyan HR policies.

The study was conducted by the use of the case study design. Questionnaires and structured interviews were the primary data collection instruments. The study used a sample of three companies for comparative analysis, these included: National Oil Corporation of Kenya (Kenyan company), Standard Chartered Bank (a British Company) and China Jiangxi International (Chinese Company).

The study established that Kenya is generally characterised by a positive investment climate, which has made it attractive to international firms that seek locations for their regional or African operations. Key challenges for investors are Kenya's consistently low rankings on international measures of the ease of doing business and corruption. Kenya also faces increasing threat of insecurity from terrorism and crime. The findings show that FDI impact Human Resource policies in terms of transfer of technology. Technological transfers have taken place mostly through transfers of managerial skills and processes and not so much through embodied technology. The study concludes that FDI has the potential to absorb some of the surplus literate labour in the rural and urban informal sectors. It also concludes that foreign direct investment that is channelled into the country is supposed to be well applied towards the projects for which it is intended for considering reports that has shown mismanagement of funds meant for free primary and secondary education. The researcher recommends that FDI by Chinese companies in Kenya should be encouraged and the right investment environment provided for they have positive results in economic growth through human capital development, employment (jobs creation) and capital supply.

ABBREVIATIONS

BRICS: Brazil, Russia, India, China and South Africa

CBK: Central Bank of Kenya

COMESA: Common Market for Eastern and Southern Africa

EAC: East African community

FDI: Foreign direct investment

GDP: Gross Domestic Product

HR: Human Resource

HRM: Human Resource Management

HRD: Human Resource Development

IJVs: International Joint Ventures

ISI: Import Substitution Industrialisation

KIA: Kenya Investment Authority

KNBS: Kenya National Bureau of Statistics

LAPSSET: (Lamu Port) and the Southern Sudan–Ethiopia Transport Corridor

LNG: Liquefied Natural Gas

MNC: Multinational Companies

MNE: Multinational Enterprises

NEPAD: New Partnership for Africa’s Development

NESC: National Economic and Social Council

PRC: Peoples Republic of China

R&D: Research and Development

SEZ: Special Economic Zones

SPSS: Statistical Package for Social Sciences

TFP: Total-Factor Productivity

UK: United Kingdom

UNCTAD: United Nations Council on Trade and Development

CHAPTER ONE

INTRODUCTION

1.1 Introduction and Background to the Study

This chapter presents the proposal which includes the background of the study, statement of the problem, the objectives, literature review, theoretical framework, the hypothesis, the research methodology and finally the chapter summary on the changing patterns that characterise foreign investment in Kenya and their impact on Human Resources policies: A case study of China and Britain. A comparative analysis will be carried based on HR policies on three companies named: National Oil Corporation of Kenya, Standard Chartered Bank and China Jiangxi International other companies will also be considered.

Foreign direct investment (FDI) has been one of the most talked about global features in the last two decades, and it has been necessitated by globalization and facilitated by technological development. Extensive but also intensely contested work exists on the contributions that are made by multinational companies (MNCs) regarding the development and growth of human capital and other spillovers in developing economic.¹ Foreign Direct Investments (FDIs) have grown over the years and continue to grow as well its significant roles in growth and development of that continues to happen in many economies globally through its contribution to the growth of Gross Domestic Products (GDP). Kenya Investment Authority was set out in 2004 by the government to help attract investments in Kenya. Kenya Investment Authority (Ken Invest) is a statutory body established in 2004 by an Act of Parliament. It is responsible for promoting

¹ Blomstrom, M., & A, Kokko. (1998). Multinationals and Spillovers. *Journal of Economic Surveys*, Vol. 12, pp. 247-277; Fukasaku K. (2001). *Foreign direct investment and development: where do we stand*", first draft, OECD, Paris.

investment, facilitate the implementation of new projects, providing aftercare services for existing investments in Kenya, as well as organizing investment promotion activities both locally and internationally.² Kenya as a country has had a long history when it comes to foreign companies, especially Britain, Germany, Netherlands and the United States (U.S).

The level of FDI contributions in Kenya has been low and stagnant over the past years. It is also well below Kenya's potential. This has been characterised by a worrying trend regarding foreign investors moving out of Kenya and towards other countries.³ However, against this backdrop, the number of foreign investors from the East, especially China has been on an increase in the last five years. Among the key factors to growth are, Human resources and international transportation infrastructure, of which are two main aspects of that make Kenya to be an attractive investment environment. There is a supposition that the changing patterns of foreign investment in Kenya have an effect on HR policies, as a result of the increased FDI by the People Republic of China (PRC).

1.2 Statement of the Research Problem

Most countries struggle to attract foreign direct investment (FDI), and this is because of its known benefits as a tool for economic development. The continent of Africa and particularly Kenya has joined the rest of the countries around the world in seeking FDI as indicated by the creation of the New Partnership for Africa's Development (NEPAD). NEPAD has helped in the attraction of foreign investment to Africa as a major feature. The major FDI investors in Kenya have for many years been

² Nyaga, N. B. (2013). *The Impact of foreign investment on economic growth in Kenya*. Masters' Thesis, University of Nairobi.

³ Nyamwange, M. (2009). *Foreign direct investment in Kenya*. University of Nairobi

Britain, United States of America, and other Western and European nations. However, Kenya has been shifting its priorities and started to attract FDIs from Asian Pacific nations such as China. This is supported by a report in the Business Daily which stated that “The latest economic data available indicates that China, South Africa, India and South Korea status has risen among the top five major sources of foreign direct investment (FDI) that Kenya relies on. These countries have knocked off the United Kingdom, Germany and also the Netherlands who have for a longer time occupied space since independence.”⁴ The implication made by this statement is that China has replaced Britain in terms of foreign direct investment in the country. UK has in the last five years registered diminished results in terms of FDI cash flow. China, on the other hand, had in 2010 had a total investment of Sh40.2 billion in the Kenya economy, in addition to pumping Sh2.5 billion into the economy.⁵ This shows the paradigm shift in terms of FDI attraction and investment partners.

Based on these changes in terms of FDI, there are expected changes in human resource policy because most of the policy is based on the Britain’s (British) model, which was the former colonizer. According to the Business Week, “In the coming decades, China and India will cause disruption of workforces, companies, industries and markets in ways that we can barely begin to imagine . . . How these Asian giants integrate with the rest of the world will largely shape the 21st-century global economy”.⁶ The implication is that China has disrupted the workforces in Kenya, which were highly

⁴ Juma, V. (2011). China, India replace Britain as Kenya’s top sources of FDI. *Business Daily* [Online] Available at: <http://www.businessdailyafrica.com/China--India-replace-Britain-as-Kenya-s-top-sources-of-FDI-/539552/1232240/-/121fmsbz/-/index.html>

⁵ Juma, V. (2011). China, India replace Britain as Kenya’s top sources of FDI. *Business Daily*

⁶ Reuveny, R., & Thompson, W. R. (2008). *North and South in the world political economy*. Oxford, UK: Blackwell Pub.

influenced by Britain, but they have had little impact on human resource policies. Foreign firms of British origin are likely to show higher intensity levels than local firms concerning HR policies compared to Chinese companies. In spite of the increased number of Chinese companies in Kenya, HR policies for Kenyan companies are highly influenced by British HR policies. In this perspective, the research paper aims to investigate the changing patterns in foreign investment in Kenya and their impact on HR policies, which focus on China and Britain.

1.3 Research Gap

The current literature and most of the past research studies have focused on FDI and economic growth and the impact it has on the overall growth of a country. There has been limited research on the FDIs and Human Resource (HR) policies in terms of their influence and impact. Therefore, this research study seeks to explore the changing patterns of foreign investment in Kenya and their impact on HR policies. Unexplored theoretical issues touching on the impact of FDI have therefore compelled the researcher to undertake the current research study. Some of these issues are such as long working hours in China compared to UK and Kenya. For instance, Chinese work an average of 47 hours a week, compared with 40 in the UK. Moreover, the lack of a welfare state in China has contributed greatly to the culture of long hours, and that has influenced people to try to build up savings that can see them through hard times. Subsequently, Chinese people aspire to better conditions of work. Such as the working hours, rest and vacations, wages and occupational safety and health in China. The new labour law has left many gaps that needed to be addressed. First of all, the law discussed termination of

the labor contract but failed to specifically regulate the creation of the contract, and secondly, does not regulate some of the problematic practices that are common, such as the payment of "bonds" or deposits by workers to their employers.⁷

1.4 General Objective

The overall objective of the study is to explore the changing patterns in foreign investment in Kenya and their impact on HR policies: A case study of China and Britain

1.4.1 Specific Objectives

The following are the specific objectives that guided the study:

- i) To investigate how foreign investors have impacted HR policies in Kenya
- ii) To analyse how China as a FDI investor has impacted HR policies in Kenya
- iii) To investigate how different government regimes have handled, facilitated and implemented FDI change in Kenya.
- iv) To analyse why Kenya has shifted its foreign policy on investment to the East (China) rather than the West (Britain).
- v) To determine how foreign investors have impacted HR policies in terms of transfer of technology and how they differ by comparing policies for Britain and China.

⁷ Allard, G & Garot, M. (2010). *The impact of the new labor law in China: new hiring strategies for foreign firms?*. Retrieved from http://www.scielo.br/scielo.php?script=sci_arttext&pid=S1808-24322010000200009

1.5 Literature Review

The literature review is organized into three parts: The first part examines the FDI and its benefits. The second part explores the human resource management, in the context of HR policy formulation. The third section examines the effects of FDI on the host country.

1.5.1 Foreign Direct Investment

FDI has resulted from globalization, and it entails the integration of the local financial system with international markets. Foreign Direct Investment (FDI) is an investment made by a corporation in one country, into a company or entity based in another.⁸ The implication made is that FDI is achieved through opening up of the sectors of the local economy as well as the domestic capital used by foreign investors in establishing a business within the economy. Foreign direct investment is done for many motives that includes taking advantage of cheaper wages present in the country, the special investment privileges that includes tax exemptions that is offered by the country as an incentive for the purposes of gaining tariff-free access to the markets of the country or region.

As Pritchard observes, technological advancement led to the appearance of better means of transportation and communication. These in turn led to the movement of investors beyond political boundaries, especially during the post-colonial period.⁹ Even after nations had gained independence, globalization has continued to cause great

⁸ Gathaiya, R. J., Kinyua, J., Machuki, P., & Keraro, J. (2014). The Impact of Foreign Direct Investments by Chinese Companies in Kenya. *IJMBS* Vol. 4, Issue 1, pp. 9-16.

⁹ Pritchard, R. (1996). *Economic Development, Foreign Investment and the Law*, London, Kluwer Law International & the International Bar Association.

influence in the trade between investors and foreign countries. Less developed countries have been supported by the developed nations in terms of acquiring materials and equipment used for the extraction and utilization of the available natural resources for the purposes of economic development.¹⁰ However, the equipment required appropriate skills in ensuring that less developed countries were in the position to utilize to their full potential. Economies expanded that led to the growth of trade, and also the exchange of goods and services continued to advance. The less developed economies were in possession of plenty of raw materials required by industries abroad, foreign investment became inevitable, as industries from developed countries sought to establish in countries that were less developed due to availability of raw materials.¹¹

The lasting interest indicates a long-term relationship that occurs between the direct investor and the direct investment enterprise and often gives the direct investor an effective voice, or the potential for an effective voice when it comes to the management of the direct investment enterprise. By convention, the direct investment is always established when the direct investor acquires 10 percent or more of the voting power or the ordinary shares of an enterprise abroad.¹² The lasting interest involved in a direct investment enterprise mainly involves the establishment of manufacturing facilities, warehouses, bank premises, and other long-term or permanent organizations abroad. It may involve the formation of a new investment or joint ventures, and sometimes the acquisition of an enterprise that exists abroad (cross-border mergers and acquisitions).¹³

¹⁰ Sacerdoti, G. (1997). Press, Bilateral Treaties and Multilateral Instruments. *Journal of International Economic Law*, vol 269, pp 261-287.

¹¹ Sornarajah, M. (2004). *The International Law on Foreign Investment*, Cambridge University.

¹² Nyamwange, M. (2009). *Foreign direct investment in Kenya*. University of Nairobi

¹³ Musau, K. (2009). *Impact of foreign direct investments on economic growth and development in Kenya*, (M.A, Thesis), Nairobi

The investment might be incorporated or unincorporated, and it often includes, by convention, the ownership of a land and also buildings by individuals. Direct investment mainly comprises not only the initial transaction that establishes the FDI relationship that occurs between the direct investor and the enterprise involved in the direct investment. It also includes all subsequent transactions that occurs between them and also with the affiliated enterprises.¹⁴ Hence, the direct investment relationship do extend beyond the original direct investor and sometimes includes foreign subsidiaries and the affiliates of the direct investor considered as part of the “parent group.”

Once FDI has been established, the increases in FDI can be in the form of injections of the additional equity capital, and the reinvestment of earnings made that are not distributed as dividends by subsidiaries or the associated enterprises and also undistributed branch profits, various intercompany claims, that include the extension of suppliers’ loans or credits, all of which are the representation of the FDI capital.¹⁵ These transactions only cover one aspect the available financing to the direct investment enterprises involved in expansion of their operations by borrowing in the local markets and in the capital market globally (with or without assurance of direct investors). However, foreign investment is not devoid of negative components. There is a normal tendency for over utilization of the readily available natural resources, and this is due to the need for companies to maximize profits in their venture.¹⁶

The ‘tragedy of the commons’ involved where many organizations tend to compete to utilize a shared resource often leads to degradation of the natural resources as

¹⁴ Lall, S., Streeten, P. (1977). *Foreign Investment, Transnationals and Developing Countries*. London: Macmillan .

¹⁵ Nyamwange, M. (2009). *Foreign direct investment in Kenya*. University of Nairobi

¹⁶ Colen, L., Maertens, M. & Swinnen, J. (2009). Do Bilateral Investment Treaties attract FDI to developing countries? *Working LICOS. Centre for Institutions and Economic Performance*,

well as resulting in environmental pollution that has been associated with the concept of climate change.¹⁷ Importation of capital intensive and out-dated technology, the exploitation of local labour, Increased local wage cost due to payment of high wages by affiliates of MNC, Contribution to economic leakage (and worsening of balance of payments) due to preference of imported resources to local ones. Lack of relationship with local communities, mainly development of ‘enclaves’, extreme effects on competition characterised in the national market, transfer prices usage in escaping local taxes and cheating local partners on returns, tolerating corruption, environmental pollution, mainly in extractive and heavy industries, disruptions of social lives associated with increased commercialization and creation of desire for expensive foreign consumable goods and Political dependency on FDI source countries and, therefore, loss of sovereignty.¹⁸

1.5.2 Human Resource Management

The “human resource management” (HRM) and the human resources (HR) have mainly substituted the term “personnel management” as a description of the procedures involved in managing persons in organizations. Human resource management is the strategic and coherent approach to the management of an organization’s valuable assets; the people working in the organization who individually and collectively contribute greatly to the achievement of the objectives of the business. As a change agent, it is

¹⁷ Soi, N., Koskei, I., Buigut, K., & Kibet, J. (2013). Impact of Openness, Foreign Direct Investment, Gross Capital Formation on Economic Growth in Kenya. *Journal of Economics and Sustainable Development*, Vol.4, No.14, pp. 130-135

¹⁸ Bosworth, B.P., Collins, S.M. (1999). *Capital flows to developing economies: implications for saving and investment*. Brookings Papers on Economic Activity:

mainly involved with the nature of and regulation of the employment relationships at the workplace and the broader society.

Human resource management can also be defined as the function within an organization that is focused on recruitment of, management, and the provision of direction for workers.¹⁹ HR management has been defined by Hellriegel, Jackson, Slocum and Staude as: “The process involved in analysing and the management of organisation’s human resources needs so as to ensure the satisfaction of its strategic objectives”.²⁰ In a nutshell it means that HRM is mainly a combination of the activities that are carried at different levels within the organisation in ensuring that the realisation of the specified strategic objectives. According to Dessler HR is referred to as “The practices and policies that are involved in carrying out of the “people” or the human resources involved in the management position that includes recruitment, screening, appraising and training”.²¹ In this case, the HR policies and practices are considered as the part of HRM and they should be taken seriously and put into consideration.

The effective and efficient management of employees within an organisation (i.e. its human resources) has been found to be one of the single most difficult, most ambiguous and most complex, yet most significant task that managers face daily. It is an area of the management and policy-making that is seemingly not composed of rigorous globally accepted standards of professionalism. This is the truth for at least four reasons.²²

¹⁹ Ibid

²⁰ Hellriegel, D., S. Jackson, J. Slocum & G. Staude. (2009). *Management*. Oxford University Press

²¹ Hellriegel, D., S. Jackson, J. Slocum & G. Staude. (2009). *Management*. Oxford University Press

²² Dessler, G. (2007). *Human resource management*. U.S Pearson.

- HR policies often refers to the human behaviour, which is considered complex, and often its conflict ridden that is also culturally dependent.
- There are various HR policy instruments and practices.
- The success of various HR policies, plans and programmes is difficult to evaluate.
- Many managers have the opinion that management of people is just common sense.

It is important to note that HR policy mainly involves managing people; it simply involves the aspect of human behaviour and the relationships that are considered as inherently complex, conflictual in nature and sometimes problematic. HR policies are significant to organizations as they are concerned with human behaviour. Machines or money markets are easier to deal with compared to dealing with people, so that (contrary to widely known opinion) being a production engineer or an officer in the finance department is arguably far easier and less complex than being in charge of managing 'people management'.²³ Due to this reason, it is crucial to have a general view on the concept of HRM. The ultimate goal of HRM is to have a positive impact on the organizational performance.²⁴ This is through the creation of employment security, training and efficient and effective communication regarding change. The HR professionals assist in preparing the organization to realise its emerging strategic goals. Through hiring employees who are most qualified and suitable, they aim to ensure that there is improvement of employee satisfaction rates, reduce cases of absenteeism and increase productivity.²⁵ The HR theory indicates that employees require comprehensive support from the HR department. HR professionals consider the organization's

²³ Storey, J. (1992). *Developments in the management of human resources*. Princeton University Press

²⁴ Legge, K. (1995). *Human resource management; rhetorics and realities*. Macmillan Business, London

²⁵ Storey, J. (1992). *Developments in the management of human resources*. Princeton University Press

employees in terms of business partner since they manage change, represent employee interests and also are involved in the administration of transactions concerned with benefits and retirement options.

Through the creation of consistent policies and procedures involved in recruiting, interviewing, hiring and orienting new employees, the HR professionals tend to prepare employees to work productively. The HR management functions ensures that employees have the necessary skills and knowledge so as to produce products and offer services required for the company to realise and maintain making profits.²⁶ By hiring employees having the necessary credentials or training existing personnel, organization's HR professionals tend to position the organization ready to carry out the process improvement of the work. By aligning the development goals of the employees with the company's vision and mission, the human resource managers ensures that employee's personal career development efforts are aligned with the company needs. For example, companies that plan to implement process that are aimed at improving initiatives aimed at reducing product defects and also to eliminate waste require employees with extraordinary quality management skills and expertise.²⁷ By mandating that the existing employees complete the annual development plans that include the goals that are relevant to the business such as improving sales or customer satisfaction levels, HR helps in ensuring that everyone works to achieve similar end result, company success.

Effective HR professionals always recognize the need for executive sponsorship involvement for all activities that they are involved in. Organizational readiness activities for change includes motivating employees to prepare for and adopt the changes. It

²⁶ Ibid

²⁷ Legge, K. (1995). *Human resource management; rhetorics and realities*. Macmillan Business, London

includes communicating in an effective, efficient and timely manner. This is done by prioritizing changes and minimizing disruptions, and they help maintain productivity in the workplace. By making sure that employees have the necessary information, skills and experience to adapt to the new changes; HR professionals assist the company makes transitions smoothly.²⁸ For example, they ensure that employees have information regarding company moves to other facilities, the changes to salary increases or the updates to attendance policies. If human resource professionals do not help organize and manage the changes in the company, chaos tends to happen, and productivity and profitability suffers.²⁹ To ensure organizational readiness, the human resource professionals solicit input and feedback from the employees and give a response to employee concerns with honesty and integrity.

1.5.2.1 Human Resource Management in China

The evolution of HRM in China has taken a much more accelerated route. Prior to market reforms, government policies regarding standardized pay scales, centralized labor allocation, and lifetime employment and job protection regardless of performance rendered most traditional HR-type decision making largely moot.³⁰ With the newly conditions that are competitive, HRM practices in China have rapidly advanced, covering in just over ten years much, however it has not covered all, of the ground that took the HR in America almost 100 years to traverse. As the market in China's continues to reform, HRM will help to power the companies found in the country into achieving

²⁸Armstrong, M. (2011). *Strategic Human Resource Management: A Guide to Action*. Kogan Page.

²⁹Armstrong, M. (2011). *Strategic Human Resource Management: A Guide to Action*. Kogan Page.

³⁰ Associated Press. 2004 China Advertises for vice presidents and other executive openings at state firms. <http://channels.attbusiness.net>, June 25

further world-class competitiveness. In the pursuit of that aim, it is expected that, among other things, employers throughout China constantly increase its view and how it treats their workforces as human capital. Treating HRM as a strategic partner, demand increased in terms of measurability and accountability from their human resource officers, and institute High-Performance Work Systems.

The government in China is still extremely influential throughout society and in allocating resources. This is not surprising considering that approximately one-third of the GDP is from state-owned enterprises. Since the Communist Party has historically been responsible for these enterprises, there has traditionally been no HR function. The Party's responsibilities have often been quite far-reaching and are comparable to social services or welfare departments of other governments. Subsidiaries of foreign corporations tend to have HR departments that are similar to corporate headquarters and implement retention and development practices as closely to those as possible.

Research on performance appraisal in some Indian state-owned organisations have been found to employ some aspects of the Chinese HR practices. The style of management communication adopted by the Indian organisations tends to be more formal, and management is always inclined to follow the explicit standards and procedures that are laid down by the companies. It is a clear indication that there is an influence of the Chinese HR practices within Indian economy³¹. The social interactions between supervision and their subordinates have changed from the traditional personal to be more of impersonal. Within the Indian trade union roles, there has been a slight

³¹ Warner, M. (1998). Joint ventures vs. state-owned enterprises: management and human resources in China. *Hong Kong Baptist University* 2(9): 83- 97

adoption of the traditional Chinese Government influence of their roles. Studies have indicated that mainly state-owned companies have been able to experience these changes. This is a direct application of the Chinese trade union roles where they are mainly in support of the policies that are driven by the Communist Party. The shift in the Indian HR practices from the UK-based practices that have been dominant is attributed to the increasing trade between China and India. There has also been an increase in the number of Chinese companies within India hence creating a diffusion of their HR practices within India³².

1.5.3 Effects of FDI on the Host Country

Foreign direct investment can create a positive contribution to the host economy through the supply of capital, technology and management resources that would not be available within the host economy. Such resource transfer can stimulate the economic growth of the host economy.³³

Jenkins and Thomas have argued that FDI contributes to the economic growth not only through provision of foreign capital but also through crowding in additional domestic investment. Hence, it improves the total growth effect of FDI.³⁴ Bosworth and Collins have effect of capital inflows on domestic investment in three types of inflows: the FDI, portfolio investment, and other financial flows such as loans from the bank.³⁵ They found that almost half of each dollar of capital inflow translated into increase in the

³² Ibid

³³ Hill, C. (2000). *International Business - Competing in the Global Marketplace*. University of Washington: Irwin McGraw-Hill

³⁴ Jenkins, C., Thomas, L. (2002). *Foreign Direct Investment in Southern Africa: Determinants, Characteristics and Implications for Economic Growth and Poverty Alleviation. Globalization and Poverty Project*. University of Oxford

³⁵ Bosworth, B.P., Collins, S.M. (1999). *Capital flows to developing economies: implications for saving and investment*. Brookings Papers on Economic Activity:

domestic investment. They claimed that increase of a dollar in capital inflows is connected with an increase in domestic investment amounting to about 50 cents. The capital inflows and domestic investment are mainly expressed as percentages of GDP.

Technological spill over is another contribution of FDI to the host country. Existing literature has established that FDI encourage technology growth, which in return stimulates economic development and industrialization. For this paper technological spill overs are described as: “the benefits that arise from foreign firms demonstrating new technologies, providing technological assistance to their local suppliers and customers, and the training of local workers who may in turn move to local firms.”³⁶ Technology can be integrated into the production process (e.g. the technology used for discovering, extracting as well as refining oil) or it can be integrated in a product (e.g., personal computers).³⁷

However, several countries lack the appropriate research and development resources and skills that are required to develop their own local product and process technology. It is particularly true of the world’s less developed nations. Evidence provides that the vast majority of economic studies dealing with the relationship that exist between FDI on the one hand and the productivity and/or economic development growth on the other hand, have indicated that technology that is transferred via FDI has yielded positive contribution to productivity and economic growth in host countries. Technologies that are transferred to countries that are developing in connection with FDI tend to be more modern and environmentally

³⁶ Blomstrom, M., & A, Kokko. (1998). Multinationals and Spillovers. *Journal of Economic Surveys*, Vol. 12, pp. 247-277.

³⁷ Hill, C. (2000). *International Business - Competing in the Global Marketplace*. University of Washington: Irwin McGraw-Hill

conscious than what is locally available.³⁸ In addition, there has been observation of positive externalities where local imitation, employment turnover and the supply-chain requirements caused more general environmental improvements within the host economy.

FDI encourages the transfer of knowledge from MNCs to the host nation, which improves management. By transferring knowledge, FDI increases the existing knowledge on stock in the host country via labour training, skills transfer, and also the transfer of new managerial and organizational practice. Moreover, management skills acquired through FDI from the foreign country produce significant benefits for the host countries. The Benefits often spin-off effect due to the local personnel who are trained to handle managerial, technical and financial posts in the subsidiary of a foreign MNE leave the firm and help to establish local firms.³⁹ Similar advantages may arise if the significant management skills of a foreign MNE arouses local suppliers, distributors and competitors to enhance their own management skills. The organization's Workers gain new skills via explicit and implicit training. Particularly, training in foreign firms sometimes if of higher quality given that only the most productive firms trade. The workers take these skills with them each time they re-enter the labour market domestically. Training received by foreign firms sometimes may be viewed under the general heading of 'organization and management'. It means that the host country will benefit from the 'managerial

³⁸ Saggi, K. (2000). *Trade, foreign direct investment and international technology transfer: a survey*. Washington DC, The World Bank, mimeo.

³⁹ Alfaro, L. and Charlton, A. (2009). Foreign Direct Investment and Financial Development. An Analysis of Complementarities and Channels and some possible extensions. *Journal of International Business Studies*, vol. 19, no. 1, pp.1-31

superiority' of MNCs. Some of the major managerial benefits derived as a result of FDI as provided by Lall and Streeten are:⁴⁰

- ❖ Entrepreneurial capability in seeking out investment opportunities;
- ❖ Managerial efficiency in operations due to better training and higher standards;
and
- ❖ Externalities arising from training received by employees.

1.5.4 Justification of the Study

This study will be imperative in the sense that Kenya continues to experience decreasing trend of FDI inflows over the years, especially from Britain, but experienced increased FDIs from China. It should be noted however that FDI inflows to Kenya are significant because it acts as a capital source and given that foreign aid is constantly reducing over the years. This study is significant in the sense that FDI stimulates domestic investment, promotes economic growth and creates employment opportunities.

Moreover, findings of this study will be significant to both academicians and policymakers in the following ways; first, it will impact on the knowledge of the researchers carrying out studies in the same field and secondly, it will act as a guide to both policymakers and academicians.

The findings would encourage policy makers to come up with designs and to follow the pro-FDI policies in employed in developed, developing and the least developed countries. The findings would also provide evidence to policy-makers that would allow them to work for a better institutional quality for growth and development.

⁴⁰ Lall, S., Streeten, P. (1977). *Foreign Investment, Transnationals and Developing Countries*. London: Macmillan .

Finally, the results will show the impact of changing patterns of FDIs on HR policies, as influenced by China and Britain. This will be beneficial in the implementation of policies at departmental levels in organizations.

1.6 Theoretical Framework

The study was based on the following theories, namely: Neoclassical growth theory as per Solow and Endogenous growth theory as well as the Harvard Framework of HRM. The three models are appropriate for the study because they provide a theoretical framework for exploring the changing patterns of HRM in Kenya, especially on HR policies.

1.6.1 Neoclassical Growth Model

Solow⁴¹ developed neoclassical growth model. The theory outlines how a steady economic growth rate will be accomplished with the proper amounts of the three driving forces: labour, capital and technology. It states that by varying the amounts of labour and capital in the Cobb Douglas production function, an equilibrium state can be accomplished. This theory emphasizes that technological change has a major influence on economic growth. It further argues that economic growth will not continue unless there are continuous advances in technology.

The neoclassical theory postulates that long-run economic growth arises from two exogenous factors namely: technological progress and labour force growth. In the neoclassical theory, FDI inflows are a solution to fill the saving-investment gap, the

⁴¹ Solow, R. (1956). A Contribution to the Theory of Economic Growth. *Quarterly Journal of Economics*, vol. 70, pp 65-94

fiscal gap and the foreign exchange gap in host developing countries. FDI may act as an engine of the economic growth of the host economies through increasing capital formation, augmenting employment, promoting manufacturing growth, bringing management expertise and establishing brand names, and providing the skilled labour with an access to the international production network. Neoclassical theory considered the role of uncertainty in investment decisions.⁴² It stipulates that if investors are uncertain of the future returns they may reduce the investments or completely fail to invest. The theory states that there is a negative link between uncertainty and investment thus FDI volatility has impacts on economic growth.

1.6.2 Endogenous Growth Theory

These are equilibrium models of endogenous technological change in which Long run growth is driven primarily by the accumulation of knowledge by forward looking, profit maximizing agents.⁴³ The endogenous growth theory points out that FDI have a long-run effect on the growth of output. In order to explain the role of FDI in the long term growth of host countries, Barro and Sala-i-Martin, amended the neoclassical growth model by Solow by including the growth-driving factors of the human capital and also the physical capital to explain the importance of FDI in developing countries.⁴⁴

The authors made it possible to model FDI as promoting economic growth focusing in the long term through the transfer of knowledge permanently that accompanies FDI. As one of the externality, this knowledge transfer will account for the

⁴² Solow, R. (1956). A Contribution to the Theory of Economic Growth.

⁴³ Romer, M. (1987). Growth Based on Increasing Returns Due to Specialization,' *American Economic Review*, Vol. 77 no. 1, pp 56-62

⁴⁴ Barro, R. & Sala-i-Martin, X. (1995). *Economic Growth*. McGraw-Hill, New York.

non-diminishing returns that result in long run growth.⁴⁵ Thus, if growth determinants that include FDI, are made endogenous in the model. The long run effects of FDI will follow. Hence, a particular way whereby technology spills over from the advanced countries to lagging countries is the flow of FDI.⁴⁶ FDI not only contributes to economic growth through the capital formation and technology transfers but also does so through the augmentation of the level of knowledge through labour training and skill acquisition.

Based on the endogenous growth theory, three primary channels can be found through which FDI affects growth. The first detection is that FDI increases capital accumulation in the receiving country through the introduction of new inputs and technologies. Secondly, it increases the level of knowledge and skills in the host country through labour and management training. Thirdly, FDI enhances competition in the host country industry through overcoming the involved entry barriers and also the reduction of the market power of existing firms. The endogenous growth theory states that FDI has a positive effect on economic growth, however, the volatility in FDI inflows has a negative effect on economic growth. The endogenous theory states FDI positively impacts on growth by decreasing the costs of research and development via stimulating innovation.⁴⁷ If FDI inflows are uncertain then the costs of research are uncertain, which in turn negatively affects incentives to innovate. Hence, FDI volatility depresses investment and negatively affects real GDP growth.

⁴⁵ Ibid

⁴⁶ Gathaiya, R. J., Kinyua, J., Machuki, P., & Keraro, J. (2014). The Impact of Foreign Direct Investments by Chinese Companies in Kenya. *IJMBS* Vol. 4, Issue 1, pp. 9-16

⁴⁷ Ibid

1.6.3 The Harvard Framework

The seminal Harvard Model (also referred to as the Harvard Map or Framework) was devised to assist managers in their assessments of the effectiveness of human resource policies and practices. Created by Michael Beer, Richard E Walton and Bert A Spector, it takes an analytical approach to the causal factors or determinants of HRM policies, as well as their likely consequences.⁴⁸ It offers the architects of a strategic HR process a valuable opportunity to model the potential outcomes of people decisions. Their central contention is that problems around people issues can only be solved when HR considers a vision of the employee/organisation interrelationship, and creates policies and practices around this. They claim that, “without either a central philosophy or a strategic vision.... HRM is likely to remain a set of independent activities, each guided by its own practice tradition”⁴⁹. This advocating of a cohesive and strategic approach defines strategy as “a longer-term perspective in the management of people and consideration of people as significant assets rather than merely a variable cost”.⁵⁰

Whilst an increasing amount of pressure is being placed upon HR functions to justify their existence through proven impact on the bottom line, Beer et al are quick to explain that effective HR policies will not focus exclusively on short-term financial benefits. They suggest that “human resource management has much broader consequences than simply last quarter’s profits or last year’s return on equity”.⁵¹ Moving away from this narrow financial perspective, they clarify that “by organizational effectiveness it means the capacity of the organization in terms of response and

⁴⁸ Beer, M., Walton, E. E., & Spector, B.A. (1984). *Managing Human Assets*. Oxford, HBS Publishing.

⁴⁹ Beer, M., Walton, E. E., & Spector, B.A. (1984). *Managing Human Assets*. Oxford, HBS Publishing.

⁵⁰ Beer, M., Walton, E. E., & Spector, B.A. (1984). *Managing Human Assets*. Oxford, HBS Publishing.

⁵¹ Ibid

adaptation to the environment”.⁵² In today’s environment of ongoing change, this ability to adapt has become one of the central priorities of the strategic approach to HR.

According to Beer et al., there are two key considerations influencing human resource policy decisions: situational factors and stakeholder interests. Situational factors are external in terms of the business environment surrounding an organization, or internal.⁵³ They include the following: legal imperatives, societal values, labour market conditions, unionisation workforce make-up and diversity, technological capacity and competitive business strategies, dominant management philosophy and internal cultural norms. On the other hand, Beer et al emphasise the importance of taking the broad spectrum of stakeholder interests into account when designing the policies and practices of human resource management.⁵⁴ If these perspectives are not taken into consideration, they warn, “The organisation will fail to meet the needs of the stakeholders in the long run. Hence. It will fail as an institution”. Such stakeholder interests include: employees, employee unions, management, shareholders, community and government.

1.7 Hypotheses

- i. Foreign investment by China and Britain has positively impacted the Kenyan human resource policies.
- ii. Human Resources managers have negative perceptions of Chinese HR policies in comparison to Kenyan HR policies.

⁵² Ibid

⁵³ Ibid

⁵⁴ Ibid

1.8 Research Methodology

A research design is primarily a plan that specifies how data from the study was collected and analysed. For this study, a case study designed was applied to get the necessary required information. The case study design was chosen due to its ability to provide in-depth insights of the case to be studied. It is appropriate for gathering data from various sources including existing literature, questionnaires and interviews. It is also useful in studying a particular social unit and it guarantees a particular freedom and flexibility in the actual process of data collection in the area of study. In this study explanatory design in combination with quantitative and qualitative approaches are to be used by the researcher to collect data. The type of research design employed is applied to discover ideas, concepts, generate possible explanations and hypotheses.

Questionnaires and structured interviews were the primary data collection instruments used in data collection. Questionnaires were of open-ended questions, to allow individuals to express their views concerning FDI in Kenya and their impact on HR policies. Findings were to be presented by using statistical procedure/models such as tables and percentages, which are used to summarize the results in order to draw conclusion the Impacts of Foreign Direct Investment (FDI) in Kenya, particularly on HR policies. The study applied both qualitative and quantitative analysis techniques. The researcher will use Statistical Package for Social Sciences (SPSS) in analysing both primary and secondary data. With the use of Microsoft word and SPSS the researcher will be able to analyse the information from the findings quickly. The analysis is guided by research objectives and research questions.

In addition, comparative analysis (which combines qualitative and quantitative approaches) will be used to analyse the research findings. Notably, a comparison between the impact on HR policies by Britain and China FDIs are considered.⁵⁵ The reason why comparative analysis is used is because it is based on the supposition that the technique combines both the strengths of case-oriented (qualitative) and variable-oriented (quantitative) approaches. Strength of the comparative analysis as a research design is based on its ability to introduce additional some explanatory variables (or to allow variation in terms of the variables that take a fixed value in its initial case of interest). It also shows that relations are more or less general than had been initially thought.⁵⁶

For comparative analysis, three companies were chosen namely: National Oil Corporation of Kenya (Kenyan company), Standard Chartered (British Company) and China Jiangxi International (Chinese Company).

1.9 Chapter Summary

This project is organized into five chapters with an introduction and conclusion of the themes discussed in every chapter.

Chapter one gives covers the introduction to the study. It provides the background of the study, the problem statement, objectives, hypothesis, theoretical framework, literature review and methodology in relation to the changing patterns in foreign investment in Kenya and their impact on HR policies.

⁵⁵ Ragin, C.C. (1987). *The Comparative Method*. University of California Press, Berkeley.

⁵⁶ Ragin, C.C. (1987). *The Comparative Method*. University of California Press, Berkeley.

Chapter two presents an overview of changing patterns in FDI Kenya and its impacts since 1990-2014. It is organized in the following sub-topics: FDI and its benefits, changing patterns of FDI, and finally the conclusion.

Chapter three analyzes how foreign investors have impacted HP policies in Kenya, compares different practices from the two countries (Britain and China) and how they differ. It also looks at the Asian culture on FDI.

The chapter will also provide an analysis on how different government regimes in Kenya (President Moi's, President Mwai Kibaki's and President Uhuru Kenyatta regimes) have handled and facilitated change in relation to whom the government has decided to trade with. It will also discuss how and why Kenya has shifted its interests away from Britain to emerging economies like China. A comparative analysis on how these two countries operate their HR policies will also be provided.

Chapter four analyzes the research findings based on the data collected on the perceptions of the Chinese HR policies and British compared to Kenyan HR policies.

Chapter five presents the discussion of the findings based on the objectives, concludes the research and recommend on the findings.

CHAPTER TWO

AN OVERVIEW OF CHANGING PATTERNS IN FDI IN KENYA AND ITS IMPACTS

2.1 Introduction

This chapter presents an analysis of the changing patterns in FDI Kenya and its impacts since 1990-2014. It is organized in the following sub-topics: FDI and its benefits, changing patterns of FDI, and finally the conclusion.

2.2 FDIs and their Impacts Kenya HR Policies

The histories of FDI transactions are kept by the Central Bank of Kenya which makes it hard for a researcher to have access on them. Foreign direct investment (FDI) is defined as investment in foreign assets, such as foreign currency, rights, credits, benefits or property, undertaken by foreign national mainly for production of goods and services, which are to be supplied either in the domestic market or exported overseas (Investment Promotion Center Act, Chapter 518).⁵⁷ With the newly competitive conditions, HRM practices in China advanced rapidly, covering in just over ten years much, but not all, of the ground it took HR in America close to 100 years to traverse.

Kenya is regarded as the most industrialized country in East Africa, and also one of the top performing countries within Sub-Saharan Africa. It is because Kenya provides an impressive condition to invest in its industries. Kenya is reported by foreign investors to have a well-developed port system.⁵⁸ Kenya is one of the key members of the East African Commission with 93 Million people, characterized by an envisaged trade that

⁵⁷ UNCTAD. (2006). *Kenya*. Retrieved from http://unctad.org/sections/dite_fdistat/docs/wid_cp_ke_en.pdf

⁵⁸ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

flow freely across Uganda, Kenya and Tanzania by 2013⁵⁹. Besides, Kenya is a member in common Market for Eastern & Southern Africa. It is a market with nearly 385 Million people. Hence, encouraging a number of international firms to increase substantially in the recent years. For instance in 2003, the top exports included horticulture (26.7%) and tea (24%). This was followed by apparel, coffee, steel, iron, soda ash, plastic and fish.⁶⁰ China's market continues to experience reforms, HRM will help to empower the nation's companies into achieving world-class competitiveness. In pursuit of that aim, it is expected that, among other things, employers throughout China have increased their view and treatment of their workforces as human capital, HRM being treated as a strategic partner, and increasing the measurability and accountability from the organization's HR officers, and also institute work systems of High-Performance.

Caves observe that the rationale for enhanced efforts to attract more FDI originates from the belief that FDI presents various positive effects. Some of the positive effects are productivity gains, technology transfers, and new processes introduction, managerial skills and technical know-how in the domestic market, training of employees, the international network of production, and market access.⁶¹ Borensztein et al. see FDI as an important vehicle for the transfer of technology, contributing to growth in larger measure than domestic investment.⁶² Findlay is of the opinion that FDI increases the rates involved in the technical progress that occurs in the host country via the "contagion" effect that arises from the use of more advanced technology, management

⁵⁹ Ibid

⁶⁰ KPMG. (2015). *Country Profile*. Retrieved from <http://www.kpmg.com/Africa/en/KPMG-in-Africa/Documents/Kenya.pdf>

⁶¹ Caves, R. (1996), *Multinational Enterprise and Economic Analysis*, 2nd ed., Cambridge University Press, Cambridge

⁶² Borensztein, E., de Georgio, J.W. Lee (1998), "How does Foreign Direct Investment affect economic Growth?" *Journal of International Economics* 45: 115-135.

practices that is used by foreign firms.⁶³ Based on these assertions governments have been providing special incentives to foreign companies to set up businesses in their countries. According to Carkovic and Levine, the economic rationale involved in offering special incentives for the purposes of attracting FDI is frequently derived from the notion that foreign investment often produce externalities in the form of transfer of technology and spill overs.⁶⁴

A lot of research interest have shown the relationship between FDI and economic growth. Although, most of such research work is not based on Africa. The focus of the research work on economic growth and FDI can be classified into two. First, FDI is believed to have a direct impact on trade by assuring growth process.⁶⁵ Second, FDI is considered to enhance domestic capital thereby stimulating the productivity of domestic investments.⁶⁶ These two arguments are in conformity with endogenous growth theories⁶⁷ and cross country models on industrialization⁶⁸ in which the quantity as well as the quality of the production factors involves the transfer of the production processes ingredients in developing thus enhancing competitive advantage. FDI has empirically been found to stimulate economic growth by a number of researchers.⁶⁹ Dees⁷⁰ submits

⁶³ Findlay, R. (1978). Relative Backwardness, Direct Foreign Investment, and the Transfer of Technology: A Simple Dynamic Model. *Quarterly Journal of Economics* 62: 1-16.

⁶⁴ Carkovic, M. and Levine, R. (2002). *Does Foreign Direct Investment Accelerate Economic Growth?*. University of Minnesota.

⁶⁵ Markussen, J. R., & Vernables, A. J. (1998). *Multinational firms and the new trade theory*. *Journal of International Economics* 46, 183–203

⁶⁶ Driffield, N.L. (2001) 'The impact on domestic productivity of inward investment in the UK.' *The Manchester School*, 69(1) pp103-119.

⁶⁷ Romer, P. (1990). Increasing returns and long-run growth. *Journal of Political Economy* 94: 1002- 1037

⁶⁸ Chenery, H.B., S. Robinson & M. Syrquin. (1986). *Industrialization and Growth: A Comparative Study*. Washington, D.C.: The World Bank.

⁶⁹ Glass, Amy J. & Saggi, K. (1999). Foreign Direct Investment and the Nature of R&D. *Canadian Journal of Economics* 32: 92-117.

⁷⁰ Dees, S., (1998). "Foreign direct investment in China: Determinants and Effects", *Economics of Planning*, 31: 175-194

that FDI has been important in explaining China's economic growth, while De Mello⁷¹ presents a correlation that is positive for the selected Latin American countries. Inflows of FDI are assumed to boost investment levels.

Blomstrom et al.⁷² indicates that FDI exerts a positive impact on economic growth, but that there seems to be a certain threshold level of income above which FDI tends to have a positive effect on economic growth and at some levels below which it does not. Some of the previous works suggest human capital as one of the main reasons for the differential response to FDI that occurs at different levels of income. This explanation has been used by only those countries that have reached a certain income level that is able to absorb new technologies and also gain benefits from diffusion of technology, and hence reap the extra advantages that FDI offers. It is because it takes a well-educated population to absorb, understand and even spread new innovations to the whole economy. The study suggests further that countries may often need a average threshold stock of human capital for the purposes of experiencing positive impacts of FDI. Borensztein et al. also indicate that the interaction between FDI and human capital has important effect on growth of the economy, and gives a suggestion that the differences in the technological absorptive rate may explain the differences in growth effects of FDI across countries.⁷³

Balasubramanyan et al. have reported a positive interaction that occurs between human capital and FDI.⁷⁴ Their study had earlier found significant results supporting the assumption that FDI is significant for economic growth in export promoting than the

⁷¹ De Mello, L.R., JR. (1997), Foreign Direct Investment in Developing Countries and Growth: A Selective Survey, *Journal of Development Studies*, Vol. 34,

⁷² Blomström, M., Kokko, A. & Zejan, M. (1994). Host Country Competition and Technology Transfer by Multinationals, *Weltwirtschaftliches Archiv* 130: 521-33.

⁷³ Borensztein, E., de Georgio, J.W. Lee (1998), "How does Foreign Direct Investment affect economic Growth?" *Journal of International Economics* 45: 115-135.

⁷⁴ Balasubramanyam, V.N., Salisu, M.A. & Sapsford, D. (1996) Foreign Direct Investment and Growth in EP and IS Countries, *Economic Journal* 106: 92-105

experience in import-substituting countries. It implies that the effect of FDI varies across countries and it might be as a result of the effect of the trade policy on FDI in the economic growth. In a nutshell, UNCTAD submits that FDI has both positive and negative impacts on the output depending on the variables entered alongside it within the test equation.⁷⁵ The variables can include initial per capita GDP, attainment in education, domestic investment ratio, level of political instability, trade terms, exchange rates of the black market exchange regarding premiums, and the state of financial development. Looking at other variables that might have the explanation for the interaction between FDI and growth. The submission by Olofsdotter that the beneficiary effects related to FDI are stronger in countries characterised with a higher level of institutional capability.⁷⁶ Olofsdotter therefore gave an emphasis on the importance of bureaucratic efficiency in promoting FDI effects

The neoclassical economists argue that FDI influences economic growth through the increase in the amount of capital per person. Due to the diminishing returns to capital, FDI does not influence long-run economic growth. According to Bengos and Sanchez-Robles FDI is positively correlated with economic growth, there is a minimum requirement by a host in terms of the human capital, economic stability and market liberalization in order to enjoy long-term benefits of FDI inflows.⁷⁷ Bende-Nabende et al.⁷⁸ interestingly found that direct long-term effects of FDI on the output is significantly

⁷⁵ UNCTAD. (2005). *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*, United Nations Publication UNCTAD/GDS/AFRICA/2005/1, 2005.

⁷⁶ Olofsdotter, K. (1998). Foreign direct investment, country capabilities and economic growth. *Review of World Economics*, 134 (3), 534-547.

⁷⁷ Bengos, M., and Sanchez-Robles (2003), "FDI, Economic Freedom and Growth: New Evidence from Latin America", *European Journal of Political Economics*, 19: 529-545

⁷⁸ Bende-Nabende, A., Ford, J.L. and Slater, J.R. (2000). The Impact of FDI on the Economic Growth of the ASEAN-5 Economies 1970-94: A Comparative Dynamic Multiplier Analysis from a Small Model with

positive for comparatively economically less advanced countries such as the Philippines and Thailand. However, the negative effects comes as a result within the more economically advanced countries like Japan and Taiwan. Thus, the level of economic development is not necessarily the main enabling factor in FDI growth nexus. There is a view by the endogenous school of thought that opines that FDI has effects on long-run variables within the host country that includes research and human capital and development (R&D).⁷⁹

FDI also contributes to economic growth via the transfer of technology. TNCs can transfer technology in various ways, it can do so directly (internally) to their Foreign Owned Enterprises (FOE) or sometimes the transfer can be indirectly (externally) to domestically owned and controlled firms in the host country.⁸⁰ The Spill overs of technology advancement from enterprises that are foreign owned to domestically owned can happen in four ways: it can be through the vertical linkages between affiliates and suppliers in the domestic market and consumers; the second way is through horizontal linkages that occurs between the affiliates and firms within a host country's industry⁸¹; the third way is through the labour turnover from affiliates to domestic firms; the fourth way is through the internationalization of R&D.⁸² The pace at which technology changes

Emphasis on Liberalisation, in J.L. FORD (ed.), *Finance, Governance, and Economic Performance in Pacific and South East Asia*, Edward Elgar.

⁷⁹ Romer, P. (1990). Increasing returns and long-run growth. *Journal of Political Economy* 94: 1002- 1037

⁸⁰ UNCTAD. (2005). *Economic Development in Africa: Rethinking the Role of Foreign Direct Investment*, United Nations Publication UNCTAD/GDS/AFRICA/2005/1, 2005.

⁸¹ Lim, E. (2001), “*Determinants of and Relationship between Foreign Direct Investment and Growth: A Summary of Recent Literature*”, IMF Working Paper No. 175, International Monetary Fund, Washington D.C.; Smarzynska, B. K. (2002). *Does foreign direct investment increase the productivity of domestic firms : in search of spillovers through backward linkages*. Retrieved from <https://ideas.repec.org/p/wbk/wbrwps/2923.html>

⁸² Blomström, M. & Kokko, A. (1998) Multinational corporations and spillovers, *Journal of Economic Surveys*, 12, 247-77.

in the economy as a whole depends on the host country's innovativeness and social capabilities, together with the capacity to absorb other enterprises in the country.⁸³

According to researchers such as Findlay, Lall, Loungani and Razin, and Romer FDI brings much needed physical capital, managerial and marketing talents and expertise new technology, international best practices involved in doing business as well as enhancing competition within the country⁸⁴. These resources may have the potential to undergo diffusion into indigenous firms hence creating products that are more innovative and increasing growth of productivity. FDI creates more jobs to the local economy through the addition of new jobs directly and indirectly. It occurs when local spending increases due to purchases of goods and services. All of these effects in turn are expected to have positive multiplier within the economy.⁸⁵ Benefits realised from the balance of payments effects comprises of improvement in the capital account as a result in the inflows of new capital into the host country. In addition, the improvements in the current account balance due to the possibility in decline of the imports of goods and services that could have been imported. Tax addition from multinational corporations also has the potential to improve the host country's budgetary allocation.

2.2.1 Globalization Trends and New Demands on Human Resources

Globalization as a phenomenon has created whole new value chains. This because of multinational corporations' increasing roles in world economy. The previously

⁸³ Carkovic, M. and Levine, R. (2002). *Does Foreign Direct Investment Accelerate Economic Growth?*. University of Minnesota.

⁸⁴ Ikiara, M.M. (2003). *Foreign Direct Investment (FDI), Technology Transfer, and Poverty Alleviation: Africa's Hopes and Dilemma*, African Technology Policy Studies Network (ATPS) Special Paper Series No. 16, 2003, Nairobi, Kenya.

⁸⁵ Bengos, M., and Sanchez-Robles (2003), "FDI, Economic Freedom and Growth: New Evidence from Latin America", *European Journal of Political Economics*, 19: 529-545

considered safe markets are changing dramatically. Companies are aggressively competing against foreign and local competitors for market shares.⁸⁶ Hence, it is not surprising that the number of firms recruiting expatriates, and the number of qualified expatriates themselves is rising. Increase in the number of companies that are born global” and they tend employ more local people as well. The process of globalization influences the development of organizations' management of the human resource. These processes bring new concepts into the development of internal environment of the company, and they affect the competitive environment in various ways that are new. There are also changes in the labour market development that are significant. Understanding of developments in careers has changed significantly. Personal responsibility of the employees is emphasized in terms of developing their own individual skills. Professional knowledge and skills are significant for the employee's ability to experience success within the labor market. Employers within their careers gradually cross the borders to find the needed experience. Multicultural labor force is passing to the top management.⁸⁷

Globalization has forced managers to cope with the questions on how sustain competitive advantage, how to face the competition at home and abroad. The recruitment and training of the human resource that is needed to implement international or global strategy are of crucial importance. The objective of strategic human resource management is to be the leader in this environment to be the interconnection between the practices and programs. HR and corporate strategy should therefore be integrated, and

⁸⁶ Ibid

⁸⁷ Collins, S.M. (2009). *Capital flows to developing economies: implications for saving and investment*. Brookings Papers on Economic Activity:

this is because it is a key aspect is to ensure coherence of human management with the strategic focus of the organization.

2.3 Changing Patterns of FDI in Kenya

Kenya has an investment climate that is positive and that has made it attractive to international firms seeking to invest in Africa. The attractive investment climate has been made possible by stable monetary and fiscal conditions and also presence of a legal environment hence making few distinctions between domestic and foreign investment. There is the presence of strong telecommunications infrastructure in Kenya, a robust financial sector, and solid air transport connections both within Africa and to Asia and to Europe.⁸⁸ Its port at Mombasa is a significant trade gateway for East Africa. Kenya is characterised by a well-educated population and urban-middles class that is constantly growing. Increasing integration among East African Community members as well as Kenya's membership in other regional trade blocks enhances Kenya's access to a large regional market. Key challenges for investors in Kenya is the consistently low rankings on international regarding the ease of doing business and corruption. Kenya as a country also faces a rising threat of insecurity mainly from terrorism and crime.⁸⁹

The key macroeconomic fundamentals in a period like 2012-14 in Kenya have been strong. Inflation is constant in the range of 5-7 per cent. Foreign exchange rate is constant at 86 Kenyan shillings to the U.S. dollar. The Central Bank of Kenya (CBK) has managed to hold the interest rates steady at 8.5 per cent, however many banks do not pass

⁸⁸ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

⁸⁹ KPMG. (2015). *Country Profile*. Retrieved from <http://www.kpmg.com/Africa/en/KPMG-in-Africa/Documents/Kenya.pdf>

the lower rates as advised by CBK monetary policy on to consumers. It creates a drag on investment within the country, Kenya has also maintained stable fiscal policies characterised with a manageable debt levels and deficits. Debt to GDP ratio in Kenya is rising; it recently crossed the 50 per cent threshold.⁹⁰ The mentioned ratio may lower as Kenya's GDP is statistically being increased which should revise estimates by 20 per cent increase. However, Kenya's interest payments on debt are affecting its budget by cutting it down, which the revision will not help. Spending on public debt repayment by Kenya was 70 per cent higher than its spending on development in the year 2013⁹¹. The ongoing concern is the high wage bill in the public sector, which the government is trying to control.

The ease of doing business in Kenya is not strong. World Bank's Ease of Doing Business report ranked Kenya position 129 of 189 countries. However, the United Nations Council on Trade and Development (UNCTAD) lauded Kenya's progress towards enhancing investment conditions in a 2013 report. Kenya's restrictive and erratic application of its work permit policies is the single greatest barrier to foreigners doing business. The report notes that over 50 per cent of the facilitation to foreign investors involves foreign work permits. As a country Kenya is a prime choice for foreign investors who are seeking to establish their presence in Eastern and Southern Africa.

A World Bank study on benchmarking FDI competitiveness indicates that Kenya is reported by foreign investors to have port system that is well developed with cold storage facilities and the procedures are computerized, and there is presence of a

⁹⁰ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

⁹¹ United Nations Conference on Trade and Development (1998), "*World Investment Report*", New York, United Nations Publication

motivated work force. Kenya is also a member of the East African Community (EAC) that has 93 million people. Trade within EAC from 2013 was envisaged by a free flow across Uganda, Tanzania and Kenya. In addition, Kenya's membership in the Common Market for Eastern and Southern Africa (COMESA), that has nearly 385 million people, hence making it easier to see why a number of international companies and organizations choose Kenya as their regional business hub.⁹²

There is a long history between Kenya and foreign firms. Since independence in 1963 through to the 1970s and part of the 1980s Kenya was one of the most favoured destinations for FDI in the Eastern Africa by Foreign companies. FDI grew steadily through the 70s, as Kenya was the most suitable choice for foreign investors wanting to venture into Eastern and Southern Africa.⁹³ Kenya was the most favoured destination for FDI in the 1970's in East Africa. However, over the years, Kenya has lost her appeal to foreign investors and it is still happening presently. Kenya launched vision 2030 in 2008 with the one of the objective to achieve global competitiveness for FDI and acquire economic prosperity. Since then there has been a renewed commitment that is aimed at attracting FDI for the purposes of assisting in achieving higher economic growth rates. There has been inconsistent trends in Kenya regarding FDI inflows starting with the 1970-1980 period.⁹⁴ The characteristics of the 1970-1980 period where Kenya had a high level of development, presence of good infrastructure, huge market size, openness and growth to FDI when other countries in the region experienced a relatively closed regimes

⁹² Republic of Kenya. (2014). *Foreign direct investment*. Retrieved from <http://republicofkenya.org/economy/foreign-direct-investment/>

⁹³ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

⁹⁴ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

all contributed to the MNCs choosing Kenya as a regional hub. Kenya had a relatively political stability and security. FDI started very low at about US\$ 10 million a year in the early 1970s , and it peaked to US\$ 60 million by 1979-80.

Kenya received relatively large capital inflows that was partly driven by the rapid expansion of the agricultural sector, fiscal and monetary policies expansion, sustainable budget deficit and the substitution industrialisation (ISI) strategy within its imports. It involved overvalued exchange rates, tariffs on imports, quantitative restrictions and licensing of import.⁹⁵ In addition, the presence of large and favourable regional markets within the original East African community (EAC) attracted FDI.⁹⁶ However, after the 1980s, Kenya's economy faced deterioration in the performance of the economy, corruption and bad governance. Implementation of economic policies and structural reform was inconsistent as well as the poor performance of the public service and infrastructure ensured low level of FDI inflows for a decade. FDI inflows in 1981-1999 averaged only US\$ 22 million annually. It is also noted that although Kenya was East Africa's leading destination of FDI in the 1970s and 1980s. The relative level of flows was not high even by the standards of developing countries'. This can be noted by looking at the FDI stock that was only 7.5% of the total GDP in 2003. This is compared to 25.3% for Africa as a continent and 31.5% experienced by the developing countries (UNCTAD).⁹⁷

⁹⁵ Ikiara, M.M. (2003). *Foreign Direct Investment (FDI), Technology Transfer, and Poverty Alleviation: Africa's Hopes and Dilemma*, African Technology Policy Studies Network (ATPS) Special Paper Series No. 16, 2003, Nairobi, Kenya.

⁹⁶ World Investment Report (2006), "FDI from Developing and Transition Economies Implications for Development", U.N.

⁹⁷ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

Regional leadership by Kenya in attracting FDI also vanished as soon as Tanzania and Uganda underwent economic reforms and opening up to foreign investors beginning of the early 1990s. The flow of FDI in the 1996-2003 period was averaged at US\$ 29 million per year while flows of FDI to Tanzania and Uganda surged to a new level of US\$ 280 million and US\$ 220 million respectively, and this is from, the negligible amounts in the 1980s.⁹⁸ In relative terms, it was worse for the Kenyan case since its economy was 30% larger than that of Tanzania and twice as big as Uganda's in the year 2002. Developing countries as a whole has been noted to attract an annual average of US\$ 41 in 1996-2003 in terms of FDI per capita and this is when Kenya only managed that have FDI inflows of US\$ 1.3 per capita. The FDI inward of Kenya's share stock was 55%. This was among the East African countries in the periods of the mid-1990s. This declined to 18% by the end of 2003. Tanzania was the biggest beneficiary of this loss who's share rose by 34% share, and also rising to 46% by the year 2003.

Through the 80's and 90's, the economic performance deteriorated together with rising problems characterize with poor infrastructure, high cost of borrowing, corruption, crime and insecurity, the reduction of investor confidence in reforms led to a long period of low FDI inflow. In addition, net inflows surged by more than fourteen fold between period of 2006 and 2007, and this was from US\$51 million (0.2% of GDP) experienced in 2006 to a record US\$729 million (2.7%) experienced in 2007 and it is based on the World Bank's World Development Indicators.⁹⁹ Inflows of FDI decreased sharply in 2008, it was at US\$96 million (0.3%), and then in 2009 it increased to US\$116 million

⁹⁸ United Nations Conference on Trade and Development (2005), "*An Investment Guide to Kenya*", *Opportunities and Conditions*, New York, United Nations Publication.

⁹⁹ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

(0.4%) and in 2010 it rose to US\$186 million (0.6%). These figures compare poorly to the neighboring countries of Tanzania and Uganda. The two countries have both posted higher net FDI inflows in terms of dollar than Kenya annually since 2005, and this is with the exception of 2007 and it is despite their smaller economies.¹⁰⁰

Trends have been evident regarding the number of FDIs in Kenya. Report by the KPMG Africa reveals that poor data collection in Kenya has led to misunderstanding the actual inflows of FDI. No agency has a clear mandate to collect data regarding FDI. The Central Bank of Kenya (CBK), the Kenya National Bureau of Statistics (KNBS) and the Kenya Investment Authority (KIA) collect only partial information that is based on balance of payments inflows or projected investment.¹⁰¹ The government of Kenya does not publish data regarding the value of foreign direct investment (position/stock or annual investment capital flows). This does not happen based on the country of origin or by industry sector destination. It has made it difficult to track the changes in FDI investment since 1994 and 2014.

2.3.1 Chinese FDI in Kenya

With ten out of the fifteen world's fastest growing economies, Africa has been able to attract a considerable FDI inflows. This positive trend is projected to continue. Africa has benefited for a longer period from significant inflows of FDI from China. Currently, over US\$16b of China's portfolio regarding global FDI is based in Africa. With the increase in FDI in 2005 US\$392m to US\$2.5b in 2012 (Chinese Ministry of

¹⁰⁰ Ibid

¹⁰¹ United Nations Conference on Trade and Development (2005), "*An Investment Guide to Kenya*", *Opportunities and Conditions*, New York, United Nations Publication.

Commerce).¹⁰² Of course, trade is larger compared to FDI and the figures usually excludes credit lines. FDI in Africa has reached the highest level experienced in a decade and is projected to reach an estimated USD\$80b in the coming years.¹⁰³ The evolution of HRM in China has been by accelerated route. Before the market reforms, China's government policies regarding standardized pay scales, lifetime employment, centralized labor allocation, and job protection rendered most traditional HR-type decision making largely moot regardless of performance.¹⁰⁴

Kenya's relationship with China has existed since the 15th century but trade in recently has seen unprecedented growth. The bi-lateral trade between Kenya and China has grown by 30 per cent annually in recent years, and it is now worth \$2.84 billion. There are changes in trends regarding FDI's in Kenya. The major shift is from the West (US, UK and other European Nations) to a more Eastern approach, specifically China. Diplomatic relations between China and Kenya were established in 1963.¹⁰⁵ Since then, various companies from China have invested in various projects. By 2010 China had become the highest source of foreign direct investment (FDI) to Kenya, investing KES 2.5 billion into the economy according to Kenya Investment Authority, yearly reports.¹⁰⁶

Kenya's involvement with the East for business and development financing under the Kibaki government has had a toppling effect to the European countries from their

¹⁰² Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014>

¹⁰³ Ibid

¹⁰⁴ Associated Press. 2004 China Advertises for vice presidents and other executive openings at state firms. <http://channels.attbusiness.net>, June 25

¹⁰⁵ Business Daily Africa. (2012). *China, India replace Britain as Kenya's top sources of FDI*. Retrieved from <http://www.trademarksa.org/news/china-india-replace-britain-kenya%E2%80%99s-top-sources-fdi>

¹⁰⁶ Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014>

long-held position as the main source of FDI.¹⁰⁷ Recent economic data indicates that Brazil, India, Russia, China and South Africa (BRICS) are among the top five sources of FDI for Kenya. Hence, knocking off the UK, Netherlands and Germany who have occupied the space since 1963. The Kenya Investment Authority has revealed change in FDI pecking order that has deepened in the past couple of years. This is because the majority of developed countries mostly under the debt crises have cut back on foreign investment. This is despite the fact that emerging economies have scaled up their search for new business opportunities within frontier markets.

In the first six months of this year, China, India, South Africa, and South Korea have invested a total of Sh4.4 billion hence making four out of five top sources of FDI for Kenya. The Kenya Investment Authority data indicates that most of the investment are directed into manufacturing, tourism, construction and energy sectors.¹⁰⁸ China has become Kenya's leading source of FDI. This is after it pumped Sh2.5 billion into the country's economy and it is aimed at consolidate its newfound economic influence in the country. China broke into Kenya's list of leading sources of FDI last year, and this is with a total investment of Sh40.2 billion. It implies that China is currently the second largest trade partner to Kenya. It is the number one source for FDI.¹⁰⁹

Most importantly, the developed economies such as Israel, Germany, Canada and Italy have lost their power after each invested less than Sh500 million into Kenya's economy last year. Kenya's former colonizer, the UK, has recorded the largest decline in

¹⁰⁷ Business Daily Africa. (2012). *China, India replace Britain as Kenya's top sources of FDI*. Retrieved from <http://www.trademarksa.org/news/china-india-replace-britain-kenya%E2%80%99s-top-sources-fdi>

¹⁰⁸ Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014>

¹⁰⁹ Business Daily Africa. (2012).

FDI flows to Kenya recently. The country's FDI in Kenya is at Sh202 million for the first six months of the year. This has placed it sixth in the FDI table.¹¹⁰ The ranking represented a significant drop from 2009 when it was the leading at the Kenya's FDI table with investments worth Sh19.6 billion. 'Developed economies often attach strings to their FDI inflow, and this is besides being overly risk-averse. It makes it less reliance on them for investment to be critical. Nevertheless, the challenges of development that Kenya faces including poor infrastructure and lack unemployment, should have an increasing effect in the country's interest in FDI flows mainly to the labour-intensive sectors such as the manufacturing sector.

In the recent past Kenya has made clear its intention to look East-bound diplomatic charm offensive that was initiated by President Kibaki. Since coming to power in 2003, President Kibaki has made a visit to all the emerging markets that are now ranked top in the list of FDI sources. However, has not made a trip to any of the industrialized economies that have topped the list in the past years save for the US. In Kenya, the growing role of the emerging economies is viewed as a positive move offers various benefits not only for the government to have easier foreign policy management window but also in helping expand the jobs market by establishing new ventures.¹¹¹

Investment coming from emerging economies should be translated into affordable pricing for big-ticket regarding public infrastructure projects and to the consumable goods for Kenya. The emerging markets companies have always tended to have lower prices compared to that from the developed countries' and this is in cases where both are

¹¹⁰ Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014>

¹¹¹ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

competing for contracts with a frontier markets.¹¹² It is worth noting that the low cost model that has been used by the Chinese is supported by cheaper technologies and the low labour costs hence attracting many African countries to look East for FDI and this is the case of Kenya.¹¹³ A number of Sub-Saharan African countries in the past ten years have been spending less on building and maintenance of railways, roads and energy sources, but with the rising presence of Chinese firms in the continent, developed economies have fully exploited traditional sectors like agriculture. They are now focused on top-end business with the infrastructure businesses for which they charge higher prices.¹¹⁴

For instance, in the recent past, firms from China have been establishing auto assembly plants in Kenya and at the same time expanding their distribution in the country through offering new frontiers aimed at controlling the local market against their higher-priced European rivals.¹¹⁵ In this year, Chery Automobiles has indicated plans to build an assembly plant in Kenya. This is following in the footsteps of its Chinese rival Foton Motors which is currently building a Sh1.2 billion assembly plant in the country located on Mombasa Road, Nairobi. Kibaki as the president had actively encouraged a deepening of economic ties and other emerging economies as broader plan to reduce Kenya's

¹¹² Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-20141014>

¹¹³ Sanchez, D. (2013). *China Is Kenya's No. 1 Source For Foreign Direct Investment*. Retrieved from <http://afkinsider.com/17452/china-is-kenyas-no-1-source-for-foreign-direct-investment/>

¹¹⁴ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

¹¹⁵ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

dependency on the West for trade, fiscal and technical co-operation.¹¹⁶ United Kingdom companies have constantly lost business in Kenya, and this is due to the change in diplomatic stance that has encouraged the South-South co-operation since Mr Kibaki came to power in 2003.¹¹⁷

The government has shifted to East as it has been buying Toyota Land Cruisers for its agencies that includes the police. It is a business that the British has been dominating through their Land Rover brand since 1963. Since coming to power, Mr Kibaki has only chosen to work with the US regarding security matters and often looked East for any economic support since it comes with fewer conditions.¹¹⁸

China for instance has kept its distance regarding Kenya's tumultuous political scene and is among the few developed countries that supported Kenya's bid for deferral of the post-election violence cases currently at the International Criminal Court. Kenya as country is now pursuing a business-centred diplomacy that is new with an eye on diversifying sources of FDI. Early this year, Kenya's Ministry of Foreign Affairs said it was contemplating hiring foreigners as heads of its commercial departments of its diplomatic missions across the world. The plan is aimed at bringing on board professionals possessing the right skills and networks to head the charm offensive to increase FDI flows.¹¹⁹ The emerging economies have a better understanding and identification with the risks in Africa that are sometimes overestimated. Despite the

¹¹⁶ Parkes, D., Mendelsohn, B., & Kwafo-Akoto, O. (2014) *Overview of foreign direct investment in Africa*. Retrieved from <http://www.kwm.com/en/uk/knowledge/insights/overview-of-foreign-direct-investment-in-africa-2014>

¹¹⁷ Ibid

¹¹⁸ Business Daily Africa. (2012). *China, India replace Britain as Kenya's top sources of FDI*. Retrieved from <http://www.trademarksa.org/news/china-india-replace-britain-kenya%E2%80%99s-top-sources-fdi>

¹¹⁹ Business Daily Africa. (2012).

challenges faced, the experienced double-digit returns have made Africa a more attractive continent to investors across the world.

2.3.2 China's Economic and Trade Cooperation with Kenya

The signed agreements between Kenya and China includes Economic and Technical Cooperation, the agreement on the concessional loan provision by China to Kenya and the Air Services Agreement that has granted Kenya Airways landing rights in China's. In 2006, Kenya and China had signed six agreements that signalled closer economic and technical cooperation between the two countries and it took place during a meeting held in China at the Great Hall between President Kibaki and his host President Hu Jintao. They also signed agreements on Radio Cooperation between the State Administration of Radio, Television and Film of China and the Ministry of Information and Communications of Kenya. It is a collaborative agreement between General Administration of Quality Supervision Inspection and Quarantine of China and the Kenya Bureau of Standards. China and Kenya signed a Trade Agreement in 1964 that was later revised in 1978. The Ministry of Trade of Kenya has begun consultations aimed at reviewing this agreement to accommodate the changes in the international economic arena and the phenomenal growth of the Chinese economy. For active implementation of the already-signed bilateral cooperation agreements, China has encouraged its businesses to import Kenyan goods, and at the same time expand investment in Kenya, take part in infrastructure construction and energy & resources exploitation within Kenya and expand cooperation with Kenya's processing industries and the agricultural sector.

China will continue to offer economic aid through its available resources and strengthen the assistance for Kenya's HR development. The Chinese government has set up special fund aimed at encouraging Chinese companies at importing Kenyan products. The products include coffee beans, black tea, rose seeds and sisal, and all of which have to be exported in raw form. Attempts are being made at bridging the bilateral trade that should focus on value addition before any export takes place. The Third Economic and Trade Committee meeting that happened between Kenya and China that took place on 25th April 2006. It addressed various issues of interest to common to both countries, it included ways of bridging the balance of trade which heavily favours China. Future FDI Projects by Chinese Firms in Kenya are to take place in Lamu that is intended at re-engineering the economies of regional countries that includes South Sudan and Ethiopia. Kenya's Head of State was grateful to the substantial bilateral support that has been extended to Kenya by the Government of the People's Republic of China together with the cumulative official development assistance that totalled Kshs. 42.21 billion (\$510 million). Much of the infrastructural development that has been witnessed in various parts of Kenya had been realised with assistance from the Chinese Government (KBC News, April 2012). The LAPSET project that amounts to Kshs. 1.5 trillion (\$18 billion) that consists of a port, road, a railway line and an oil pipeline that is linking Kenya, Ethiopia and South Sudan was launched in March of 2012.

2.3.3 Britain's FDI in Kenya

Since Kenya gained independence, the largest investors when it come to FDIs have been the Western nations such as Germany, US, UK and other European countries.

The Government of Kenya has made the attraction of FDI very clear in terms of policy priority and to this end it has established Keninvest which is a semi-autonomous agency in 2004. Since that time, the inflows of FDI to Kenya have been increasing steadily, reaching US\$ 141 million in the year 2009 and US\$ 133 million in the year 2010. The exceptional FDI inflows of US\$ 729 million experienced in 2007 are attributable to large.¹²⁰

As a former British colony, Kenya's significance when it comes trade was reduced to that of producing raw material and supplying the British manufacturing industries. Kenya would also serve as a growing market for the products manufactured in Britain. Once these products have been manufactured in Britain they would be exported back to the Kenyan market and other markets including those of other British colonies in the region. It brought a negative implication by not stimulating strong domestic manufacturing capability development. British Government also provided for funds to be used in infrastructure development. The infrastructure included roads and railway to facilitate movement of primary goods such as food crops and raw materials from the mainland. The funds are attributed to the construction of the Kenya Uganda railway in the period (1895-1901).¹²¹ Kenya's port facilities were also developed and export-import warehouses were also established to promote export of primary goods and allow for importation of consumer goods. Second, the European settlers were encouraged by the British government to settle in Kenya and take part in commercialization of agriculture directed towards exporting to Europe.

¹²⁰ UNCTAD. (2012). *An investment guide to Kenya Opportunities and Conditions 2012*. Retrieved from http://unctad.org/en/PublicationsLibrary/diaepcb2012d2_en.pdf

¹²¹ Leys C (1974). *Underdevelopment in Kenya: The Political Economy of Neo-Colonialism 1964-1971*, Nairobi: Heinemann

At independence, Kenya's economy and specifically manufacturing ownership structure was mainly dominated by European and some Asian firms. MNCs from the UK dominated in the category of European firms. The MNCs were engaged in high manufacturing processes, and the Asian firms mainly dominated light manufacturing industries, and hence, sharing the entire market with no share left for the indigenous locals.¹²² By this time, Kenyan manufacturing industry was among the most advanced and developed as compared to those of the other countries within the region.

2.4 Conclusion

The consensus found in the literature indicates that FDI enhances economic growth through productivity and efficiency gains made by the local companies. Although the empirical evidence is entirely unanimous. However, the available evidence from developed countries tend to support the idea that the productivity experienced by domestic firms is positively related to foreign firms presence. The effects of FDI on host economies is as complex as the indicated through foreign investors interaction with it, and hence influencing many local individuals, institutions and firms. Local firms benefit in various ways: learning from example of the MNCs, the mobility of labour, export market access, enhanced supply bases, or direct relations among suppliers or customers. Nevertheless, these impacts with the features of the FDI project, particularly its development of networks of supply locally, human capital investment, employee mobility, and the addition of value in local operations. The reviewed literature has also indicated that the debate on the effects of FDI on economic growth is far from reaching a conclusion. The role of FDI from the reviewed literature seems to be country specific,

¹²² Kaplinsky R Ed. (1978). *Readings on the Multinational Corporations in Kenya*, Nairobi: Heinemann

and it can be positive, negative or insignificant. It is dependent on the economic, technological and institutional conditions in the host countries. Most importantly, the script significantly mentions on Human capital a crucial tool in the measurement of FDI effects to economic growth

The impact of FDI varies significantly with the ability of local stakeholders to take advantage of the available benefits of FDI. Specifically, the local regulatory framework has to ensure that there is provision for competitive conditions that are conducive to local investments, while avoiding the undue market power of the foreign investment firm. Moreover, local individuals and firms need to have the ability to learn from foreign partners. Moreover, the criteria for judging the success of FDI by host governments have changed over the years and these have led to a less confrontational and a more cooperative stance between host countries and foreign investors. More particularly emphasis in evaluating inbound Multinational Corporations (MNCs) over the past three decades has changed from contributing directly of foreign affiliates to growth and development of the economic to their wider impact on the upgrading of the competitiveness of host countries' indigenous capabilities and the promotion of their dynamic comparative advantage.

The review has established a shift in FDI patterns in Kenya. For instance, FDI from China has emerged as the leading compared to British, U.S and other European Nations. Change in Britain foreign policy has compelled the government to focus on Asia, especially China and India, which resulted to decline in the number of Britain's FDIs.

CHAPTER THREE

IMPACT OF FOREIGN INVESTORS ON KENYA'S HUMAN RESOURCE (HR) POLICIES

3.1 Introduction

This chapter provides an analysis on how foreign investors have impacted HR policies in Kenya, and provides a comparison of the different practices from Britain and China and how they differ. It also looks at the Asian culture on FDI. The chapter also provides an analysis on how different government regimes in Kenya have handled and facilitated change in relation to which the government has decided to trade with, in addition to how and why Kenya has shifted its interests away from Britain to emerging economies like China.

3.2 FDI Impact on HR Policy

The possibility that FDI can affect the human capital accumulation has been widely suggested by some authors. Nevertheless, in analysing the various avenues present in the literature through which FDI might have a positive effects on human capital accumulation in countries that are developing, the study used a framework based on demand and supply.¹²³ There is no assuming that HRD and FDI are among the key drivers of the growth of the economy both in countries that are developed and developing. While HRD and FDI affect growth individually, they complementary effects, they also reinforce each other. Therefore, there is the persistence element of causality between these two variables. The challenge is the visualization on whether the causality

¹²³ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production".

is bidirectional or uni-directional. In general, improved HRD encourages the FDI forces by making the climate of investment attractive for foreign investors. It is achieved through a direct effect involving the upgrade of skill level among the workforce, as well as through indirect effects that can include improved health and socio-political stability.¹²⁴ On the other hand, FDI improves HRD since MNEs tend to be active providers of education and training hence bringing in new skills, information and technology also is brought by to host countries that are developing. There is a complementary effect that causes virtuous circle of HRD and FDI. It happens where host countries experience a continuous FDI inflow over time by enhancing its attraction to higher value-added MNEs. At the same time improving the skill contents of the already existing MNEs and domestic enterprises.

Technological transfer from MNC parents to its affiliated enterprises and other host country firms not mainly embodied in machinery, patent rights, equipment and expatriate managers and the technicians. However, it is also realised via training of local employees. The training impacts on most levels of employees. For instance from simple manufacturing operatives through supervision to the technically advanced professionals and other top-level managers. Most recipients of the training are MNC's employees within its own affiliates. The beneficiaries also include MNC's employees such as the suppliers, customers and subcontractors. The training always range from on-the-job training to the training seminars and formal schooling that involves overseas education and sometimes at the parent company, and this depends on the needed skills. The various skills that are gained through involvement with the foreign MNCs may spill over directly

¹²⁴ World Bank. (2003). *World Development Report: Global Development Finance*. Washington, D.C.: Oxford University Press.

when MNCs fail to charge the full value involved in the provision of the training to local firms or for the over time. As the employees move away to other firms or when they set up their individual businesses. This section examines the three steps on how FDI affects the development of human capital in the host country. It first discusses the role of MNCs in education formally, followed by a the evidence's summary regarding training of MNC's employees and some comments on the service sector, where human capital is arguably even more important than in manufacturing.

Investment in physical capital related to new technology is another link that connects the development of human capital and FDI.¹²⁵ The implication involved is the embodiment of new technology within new capital goods.¹²⁶ Hence, the leading an increased demand for skilled labour that will also lead to increased acquisition of new capital goods. According to Slaughter¹²⁷ the coincidence between the host affiliates capital deepening and shifting of relative employment in favour of more skilled workers tend to be consistent with the capital skills that are complementing the transfer of technology. Borenzstein, et al¹²⁸ claims that the training that is required to prepare the host affiliates labour force to adopt the new technology suggest that there may be an impact of FDI on human capital accumulation. Borenzstein et al¹²⁹ employed the use of panel data in testing 69 developing countries and found that FDI results into a "crowding-

¹²⁵ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production".

¹²⁶ Blomstrom M, Globerman S, & Kokko A (1999). The determinants of host country spillovers from foreign direct investment: review and synthesis of the literature. *SSE/EFI Working Paper Series in Econ. Financ.* 239:2-3.

¹²⁷ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production".

¹²⁸ Borenzstein E, De Gregorio, & Lee, J. W. (1998). How does foreign direct investment affect economic growth. *J. Int. Econ.* 45(1):115-135.

¹²⁹ Borenzstein E, De Gregorio, & Lee, J. W. (1998). How does foreign direct investment affect economic growth. *J. Int. Econ.* 45(1):115-135.

in" effect on investments done domestic hence facilitating the domestic firms' expansion. FDI leads to more investments domestically.

Slaughter¹³⁰ gives the suggestion that MNEs often lend support to the local educational institutions in countries that are developing. Hence, affecting human capital accumulation. Willem Te Velde gives prove that MNEs are involved in provision of worker training in countries that are developing but always happens where the work force is huge, highly educated, and where the MNEs have invested in R&D and are export oriented. According to Slaughter¹³¹ in the end, MNEs enhances the national supply of labour that is skilled in developing countries indirectly through its impact on the macro economy. Slaughter contends that MNEs can ensure that there is a steady supply of income that can the fiscal policy. Hence, making a provision for governments to enhance their spending on education. In addition, FDI provides capital investment stability that has the potential to inhibit brain drain (no evidence has been found on this) as well as contributing to the general incentive equilibrium of individuals within the host countries in acquiring skills through training and/or education.¹³² In conclusion, studies have evaluated the effects of human capital and FDI on economic growth and the total-factor productivity (TFP). The results are mixed but there is an agreement that both human capital and FDI results in positive economic growth and TFP.

¹³⁰ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production"

¹³¹ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production"

¹³² Ibid

3.3 A Comparative Analysis on Chinese and British HR Policies

Studies of the MNCs and the management practices involved have concentrated on MNCs from the countries that are in advanced economies. Most of these MNCs follow policies based on the home practice whilst operating overseas believing it sustains competitive advantage.¹³³ It means that both China and the UK operate or replicate their home-based HR policies within the Host country. The study revealed that the HRM strategic choice and practice of the MNCs exhibits obvious features of their country of origin. First, HRM strategic choice implemented by their need to compete at the international market levels, a requirement that has been up brought by the reforms within the Chinese economic and business system. Second, extent of localisation indicates that the characteristics of the stages involved in economic development of “the country of origin”.¹³⁴ Third, the localisation process also reflects characteristics and effects of the Chinese national business system. For example, control is highly centralised in the companies’ localisation: activities localisation primarily follow a “top-down” process. Managers in the subsidiaries companies have little autonomy when it comes on decision-making. In this part, the literature review provides the major similarities and differences in HR policy and practices between China and Britain/UK. The differences and similarities revolve around culture which has played an integral role in these two countries.

¹³³ Edwards, C. & Zhang, M. (2003). Human Resource Management Strategy in Chinese MNCs in the UK: A Case Study with Six Companies, *Research and Practice in Human Resource Management*, 11(1), 1-14

¹³⁴ Slaughter J (2002). *Does inward foreign direct investment contribute to skill upgrading in developing countries?* Prepared for New School University's CEPA conference, "Labor and the Globalization of Production".

Existing research has shown considerations levels at which HRM is impacted on by culture. Generally, scholars concur that while HRM philosophies may entail culturally universal features, it is the specific HRM practices that are primarily culture-bound and thence showing variation across cultures.¹³⁵ For instance, in their study of Indian and British firms Budhwar and Sparrow¹³⁶ reveal that despite the convergence in the desire among the British and Indian HR managers in integrating HRM with business strategy, they tend to differ in the underlying rationality involved in the execution of this integration.

3.3.1 HRM in China and the Britain: Comparisons

The cultural and institutional environments present in China are different from that that is present in the UK. Namely, Chinese culture has a high in power distance, moderate in uncertainty avoidance and masculinity, low in individualism and high in long-term orientation.¹³⁷ The management culture of the Chinese is deeply rooted in Confucianism: that is mainly harmony and consensus (the primary tenets of the Confucian philosophy of harmony, or attitude that is harmonious, and the consensus towards working relation that is free); thrift; ordering relationships by status; protecting 'face'; duty to family; and the involved economic egalitarianism.¹³⁸ Protecting face

¹³⁵Teagarden, M. B., & Von Glinow, M. A. (1997). Human resource management in cross-cultural contexts: Emic practices versus etic philosophies. *Management International Review*, 37(1), 7-20.

¹³⁶ Budhwar, P. S., & Sparrow, P. R. (2002). An integrative framework for understanding cross-national human resource management practices. *Human Resource Management Review*, 12, 377-403.

¹³⁷ Hofstede, G. (1980). *Culture's Consequences. International difference in Work-related Values*, Beverly Hills, California: Sage.

¹³⁸ Huang, T. (1997). The Effect of Participate Management on Organizational Performance: The Case of Taiwan", *The International Journal of Human Resource Management*, 8(5): 667-80.)

related to harmony in avoidance of conflict regarding interpersonal relationships.¹³⁹ China's institutional environments has also shaped HRM practices especially in labour-management relationships.¹⁴⁰ In the United Kingdom, the main concept of HRM is based on individualism, which is because of the "no such thing as society" culture that has been created by many years of relating to the existence of Conservative Government.¹⁴¹ For the purposes of exploring the home and host country effect regarding the adoption of HRM practices by the Chinese MNCs in the United Kingdom, the study used extant literature in the identification and comparison of HRM practices mainly used British companies and Taiwanese counterparts.

Regarding recruitment and selection, the findings indicate that British companies appear to employ the use of 'executive search consultants' and 'recruitment agencies' more frequently than the Chinese-owned companies regarding managerial and professional vacancies.¹⁴² Regarding the recruitment process, Chinese firms employ 'friends and relatives' (quanxi).¹⁴³ Based on the selection techniques, British firms have been found to use 'aptitude tests', 'panel interview', and 'competency-based interviews' and also the 'application forms' frequently than the Chinese-owned companies.¹⁴⁴

As regards to employee training and development, the Chinese firms tend to use on-the-job programmes of training that includes the professional training for the purposes

¹³⁹ Wu, P. (2004), "HRM in Taiwan". In P.S. Budwar (ed.) *Management Human Resources in Asia-Pacific*, Routledge, London

¹⁴⁰ Chen, S., Ko, J. & Lawler, J. (2003) "Changing Patterns of Industrial Relations in Taiwan", *Industrial Relations*, 42(3): 315-44.

¹⁴¹ Guest, D. (2001). HRM in the UK" in *Human Resource Management: A Critical Text*, In J. Storey (2nd) (ed.), Thomson Learning, London.

¹⁴² Hsu, Y-R. & Leat, M. (2000). A Study of HRM and Recruitment and Selection Policies and Practices in Taiwan", *The International Journal of Human Resource Management*, 11(2): 413-35.

¹⁴³ Hempel, P.S. & Chang, C-Y. D. (2002). Reconciling Traditional Chinese Management with High-Tech Taiwan. *Human Resource Management Journal*, 12(1): 77-95.

¹⁴⁴ Hsu, Y-R. & Leat, M. (2000). A Study of HRM and Recruitment and Selection Policies and Practices in Taiwan", *The International Journal of Human Resource Management*, 11(2): 413-35.

of maintaining advanced skills among the key employee¹⁴⁵ of the company more than the British counterparts.¹⁴⁶ Due to the influence of Confucius culture in China such as 'everyone can potentially be my teacher', most Chinese firms provide specialised technical training for lower-level key members within the company as well as offering of more general training for the potential candidates for the top-level posts within the company.¹⁴⁷

Pay and benefits are significant part in the designing of the HR policies. This is done under the guidance of the Chinese culture that promotes 'the middle way', and tries to protect the junior employees economic security, and enhances a caring and supportive environment to those in the lowest positions. Firms from China are more egalitarian when it comes to pay than British companies.¹⁴⁸ In order to maintain and emphasize harmony in the work place, the Chinese firms use team and group related pay than on pay related to individual performance. In contrast, British firms that focus more on rewards and punishments relating to the performance of an individual.¹⁴⁹

Another aspect of HRM which has been studied in the past is performance appraisal system. For instance, Performance appraisals vary widely between Chinese companies and their British counterpart.¹⁵⁰ Chinese companies focus less on objective, quantifiable results than do their British equivalents. Additionally, Chinese firms have

¹⁴⁵ Zhu, Y., Chen, I. And Warner, M. (2000), "HRM in Taiwan: An Empirical Case Study", *Human Resource Management Journal*, 10(4): 33-44.; Zhu, Y. (2003) "The Post Asian Financial Crisis: Changes in Human Resource Management in Taiwanese Enterprises", *Asia Pacific Business Review*, 9(4): 148-64.

¹⁴⁶ Faulkner, D., Pitkethly, R. & Child, J. (2002). International Mergers and Acquisitions in the UK 1985-94: A Comparison of National HRM Practices", *International Journal of Human Resource Management*, 13(1):106-22

¹⁴⁷ Von Glinow, M.A., Huo, Y. and Lowe, P. K. (1999) "Leadership Across the Pacific Ocean: A Trinational Comparison", *International Business Review*, 8: 1-15.

¹⁴⁸ Ibid

¹⁴⁹ Wu, P. (2004), "HRM in Taiwan". In P.S. Budwar (ed.) *Management Human Resources in Asia-Pacific*, Routledge, London

¹⁵⁰ Wu, P. (2004), "HRM in Taiwan". In P.S. Budwar (ed.) *Management Human Resources in Asia-Pacific*, Routledge, London

been found to be more reluctant in the provision of feedback to their employees as compared to the British firms and this is due to the face saving need and maintaining a good relationship with the company employees.¹⁵¹ Thus, Chinese managers prefer keeping the reward range very narrow when recognising and rewarding the best performers in the company. Nevertheless, they are also involved in encouraging the worst achievers in the company to improve their current job performance. They avoid the application of control techniques involved in formal and systematic performance appraisal as British firms tend to do.¹⁵²

Management promotion and reward system vary from these two countries. According to Von Glinow et al¹⁵³ there are noticeable cross-cultural differences between Chinese and the UK in managers' criteria for promotion and reward. Previous researchers claim that there is presence of high level of collectivism in Chinese firms as compared to the UK¹⁵⁴. A good manager in Taiwan must have the need in generating cooperation among employees as well as showing loyalty to the firm. Seniority is also more important in Chinese than in the UK.¹⁵⁵ By contrast, companies in Britain tend to use 'hard' criteria in performance such as 'bottom line delivery'; functional experience; and overall

¹⁵¹ Wakayashi, M., Chen, Z. and Kondo, M. (2001). Comparative Managerial Skills: A Study on Asian-Styles of Management Based on Managers From Ten Different Area/Nations", *Forum of International Development Studies*, 1-20

¹⁵² Easterby-Smith, M., Malina, D. & Yuan, L. (1995) 'How Culture-sensitive is HRM? A Comparative Analysis of Practice in Chinese and UK Companies', *International Journal of Human Resource Management*, 6(1): 31-59.

¹⁵³ Von Glinow, M.A., Huo, Y. and Lowe, P. K. (1999) "Leadership Across the Pacific Ocean: A Trinational Comparison", *International Business Review*, 8: 1-15.

¹⁵⁴ Hofstede, G. (1980). *Culture's Consequences. International difference in Work-related Values*, Beverly Hills, California: Sage.

¹⁵⁵ Teagarden, M. B., & Von Glinow, M. A. (1997). Human resource management in cross-cultural contexts: Emic practices versus etic philosophies. *Management International Review*, 37(1), 7-20.

performance record as a yard stick and experience in not only in one business area but also in business within another country.¹⁵⁶

Relating to flexible working, most companies that are Chinese provide a stable and permanent job for workers. Based on the Executive Yuan's statistics, about 1.2 per cent of total labour force in China consists of part-time workers.¹⁵⁷ It is because there is a small influence from the Confucius values that includes 'long term orientation'¹⁵⁸. In Britain, nearly quarter of the labour is made up of part-time workers¹⁵⁹ and about 64% of the workforce in Britain worked as a part time basis in 2004.

Communication within the organizational is necessary in HRM and HR policy. Chinese managers are more concerned with the face losing risk.¹⁶⁰ Hence, Chinese firms focus less on setting goals and methods of open-communication to disseminate their business strategy and mission.¹⁶¹ Communication that happens between employees and managers is always minimum and up-ward feedback does not exist. By contrast, British firms often conduct formal communication through regular meetings that takes place between senior management and all employees.¹⁶² Besides, the British firms tend to pass

¹⁵⁶ Easterby-Smith, M., Malina, D. & Yuan, L. (1995) 'How Culture-sensitive is HRM? A Comparative Analysis of Practice in Chinese and UK Companies', *International Journal of Human Resource Management*, 6(1): 31–59.

¹⁵⁷ Executive Yuan Economic Development Committee (2003) Monthly Report on Employment Conditions, Executive Yuan, Taiwan.

¹⁵⁸ Hofstede, G., & M. Bond. (1988). Confucius and Economic Growth: New Trends in Cultural Consequences. *Organizational Dynamics*, 16:4, 4-21.

¹⁵⁹ OECD. (2003). *OECD Issues 2003 Employment Outlook*, OECD, Geneva.

¹⁶⁰ Redding, S.G. (1990) *The Spirit of Capitalism*, Walter de Gruyter, New York

¹⁶¹ Wu, P. (2004), "HRM in Taiwan". In P.S. Budwar (ed.) *Management Human Resources in Asia-Pacific*, Routledge, London

¹⁶² Cully, M. (1999). *Britain at Work: As Depicted by the 1998 Workplace Employee Relations Survey*, Routledge, London.

their credos, corporate mission statements and visions as a formal tool involved in the management of the firm.¹⁶³

The participatory management and the industrial relations that are influenced by Confucian values of collectivism and harmony impacts on Chinese firms.¹⁶⁴ Participatory management tools that includes quality control circles, committee on labour-management and work councils are widely practiced by the Chinese companies.¹⁶⁵ In comparison, British companies employ less participatory management tools. However, they tend to have an elaborate system that ensures there is control through setting up the budget and monitoring systems that are linked to short-term firm's financial performance.¹⁶⁶ The role played by trade unions in China is limited to the performance of the administrative functions such as the arrangement of communication programmes for the firms' managers and the employees as well as organising annual meetings that takes place between the employees within the firms¹⁶⁷. The unions are not part of the decision-making of the enterprises¹⁶⁸ and in practice, they do not exercise the rights regarding collective bargaining. According to Goodall and Warner's¹⁶⁹ comparative study on the

¹⁶³ Ferner, A. & Quintainilla, J. (1998). Multinationals, National Business Systems and HRM: the Enduring of National Identity or A Process of 'Anglo-Saxonization', *The International Journal of Human Resource Management*, 9(4): 710-31.

¹⁶⁴ Hofstede, G., & M. Bond. (1988). Confucius and Economic Growth: New Trends in Cultural Consequences. *Organizational Dynamics*, 16:4, 4-21.

¹⁶⁵ Wakayashi, M., Chen, Z. and Kondo, M. (2001). Comparative Managerial Skills: A Study on Asian-Styles of Management Based on Managers From Ten Different Area/Nations", *Forum of International Development Studies*, 1-20

¹⁶⁶ Coates, J., Davis, E., Emmanuel, C., Longden, S. & Stacey, R. (1992). Multinational Companies Performance Measurement Systems: *International Perspectives*", *Management Accounting Research*, vol. 3, pp. 133-150.

¹⁶⁷ Zhu, Y. (2003) "The Post Asian Financial Crisis: Changes in Human Resource Management in Taiwanese Enterprises", *Asia Pacific Business Review*, 9(4): 148-64.

¹⁶⁸ Zhu, Y., Chen, I. & Warner, M. (2000), "HRM in Taiwan: An Empirical Case Study", *Human Resource Management Journal*, 10(4): 33-44.

¹⁶⁹ Goodall K. & Warner, M. (1997) . Human resources in Sino-foreign joint ventures: selected case studies in Shanghai, compared with Beijing', *The International Journal of Human Resource Management* 8:5 October: 569-594.

HRM policies revealed that the common Chinese “iron-rice bowl” policy within the state-owned companies in China is not being applied fully in joint venture companies involving foreign investors.

3.3.2 Differences of HR Policy and Practices in China and Britain

Chinese personnel and employment practices used to be characterized by the 'iron rice bowl' policy.¹⁷⁰ The model that is known as the 'iron rice-bowl' was originally borrowed from Soviet practice that took place in the early 1950s. It is a model that implies that companies have to take full care of their employees through the provision of wages as well as their housing, medical and social insurance, and employment security, and this is through the lifetime systems of employment. The growing and opening economy in China in the mid-1980s resulted into the change of personnel and employment practices so as to allow further development of the Chinese economy as well as improvement regarding the living standards of the workforce in China.¹⁷¹ Evidence exist regarding HRM practice in China, and it indicates that it has shifted following the reforms in China's economy aimed at moving China from 'command economy' to the economy that is more responsive regarding the market.¹⁷² It has led to the introduction of new policies regarding employment and the development of new relationships regarding employment in many companies that includes those owned by the state.

¹⁷⁰ Zhu, Y., Chen, I. & Warner, M. (2000), "HRM in Taiwan: An Empirical Case Study", *Human Resource Management Journal*, 10(4): 33-44.

¹⁷¹ Goodall K. & Warner, M. (1997) . Human resources in Sino-foreign joint ventures: selected case studies in Shanghai, compared with Beijing', *The International Journal of Human Resource Management* 8:5 October: 569-594.

¹⁷² Chan A. (1993). 'Revolution or corporatism? Workers and trade unions in post-Mao China', *Australian Journal of Chinese Affairs* 29, 31-61

The cultural distance that exists between HRM in China and HRM in Western oriented societies (US and UK and) has been revealed by several studies.¹⁷³ The few studies that directly compare HRM in the United Kingdom and China,¹⁷⁴ have revealed significant differences. The present management cultural values in the United Kingdom have been explained as being more of individualism, moderately\low regarding uncertainty avoidance and the existing power distance as well as moderately high on masculinity levels.¹⁷⁵ In contrast, the Chinese culture is more of high on power distance, moderate on uncertainty avoidance and masculinity, low on individualism, and high on the long-term orientation. Hence, there exist significant differences based on the management culture between the two countries characterised by strong emphasis on collectivism and obedience among Chinese firms, and on individualism and equality within the UK firms. Consequently, conformity regarding organisation and harmony involved in the management-worker relationships are encouraged within the Chinese organisations. On the other hand, individual responsibility is practiced in UK firms as well as adversarial relationships.

Before the 1970's reforms in China, labour market did not exist, jobs were allocated centrally by the state and employees had no freedom of moving between provinces.¹⁷⁶ Managers of Chinese organisations had no role in the recruitment, selection and reward processes involving employees. Members of the party controlled trade unions. The union officials' duties were primarily based on resolving employee's welfare

¹⁷³ Hofstede, G., & M. Bond. (1988). Confucius and Economic Growth: New Trends in Cultural Consequences. *Organizational Dynamics*, 16:4, 4-21.

¹⁷⁴ Kao H., S Hong & Y. K. Chan (1990). Cultural adaptations and diffusion for managerial strategies and responses in Hong Kong, *International Journal of Psychology* 25, 657- 674

¹⁷⁵ Hofstede, G. (1980). *Culture's Consequences. International difference in Work-related Values*, Beverly Hills, California: Sage.

¹⁷⁶ Zhao A. & Wu, M. (1988) .'Ten theoretical questions facing reform', *Beijing Review*, 26: 22-28

and their family problems. Unions had no role as the representatives of the employees because there was system of collective bargaining contrary to what is practiced in the UK. The human resource personnel department was in control of the administration, discipline, conformity, punishment and recording employees' personal details.¹⁷⁷ It contrasts with the case of the UK that typically involves recruitment, selection, reward, training, performance management, and employee relations. Based on these substantial cultural and organisational differences, some researchers have concluded that it is extremely difficult to transfer the HRM practice from China to other countries.¹⁷⁸

The increase in adoption of the preceding practices indicate that within China, there is recognition that Western management techniques offers competitive advantage and their acquisition increases the process of economic development. Several factors strongly suggest that the application of the localisation strategy in HRM is likely to be adopted by Chinese MNCs that operate in the UK. It is clear that differences in cultural practices between the UK and China can render the implementation of Chinese HR practice within United Kingdom difficult and significant degrees of compliance localisation can be expected. More significant is the fact that MNCs from China considered as new entrants to the global market and with a government that is committed to remitting to the internationalization needs to learn advanced management practice for the purposes of competing globally. In addition, scaling up competition enhances motivation to acquire similar expertise. Hence, the conditions required for the

¹⁷⁷ Ding D., D. Fields & Akhtar, S. (1997). A empirical study of human resource management policies in foreign-invested enterprises in China: the case of Shenzhen Special Economic Zone', *International Journal of Human Resource Management* 8(5), pp. 594- 603

¹⁷⁸ Easterby-Smith, M., Malina, D. & Yuan, L. (1995) 'How Culture-sensitive is HRM? A Comparative Analysis of Practice in Chinese and UK Companies', *International Journal of Human Resource Management*, 6(1): 31-59.

utilisation and absorption localisation are available. This proposition is yet to be subjected to investigations empirically. The following section reports the findings of six case studies that involved HRM strategic choices and practices among the Chinese MNCs that are in the United Kingdom.

A study carried by Edwards and Zhang on HRM strategy in Chinese MNCs operating in the UK and established a number of significant differences.¹⁷⁹ To start with, it was established that UK operates market-led recruitment, labour contract and remuneration systems, while Chinese use the job for life' and 'egalitarianism' systems. Five of the six companies that have been recruited are largely from the local market and employ the use of employment contracts regarding all the local employees.¹⁸⁰ There is also the adoption of local remunerations based on local criteria for the salary and benefits of the staffs who are locally based.

The Chinese use a more individual-led management culture and give employees more responsibilities and rights.¹⁸¹ There is stressing of Individualism and competitiveness that involves conforming to the organization rules. Moreover, collectivism continues to predominate as a significant part of the socialist political system. According to Branine,¹⁸² socio-cultural values have been reinforced through the use of tacit socialist norms of solidarity, mutual assistance, equality, friendship, honest and obedience to the laws that are existing. Such norms and values are based on their

¹⁷⁹ Edwards, C. & Zhang, M. (2003). Human Resource Management Strategy in Chinese MNCs in the UK: A Case Study with Six Companies, *Research and Practice in Human Resource Management*, 11(1), 1-14.

¹⁸⁰ Edwards, C. & Zhang, M. (2003). Human Resource Management Strategy in Chinese MNCs in the UK: A Case Study with Six Companies, *Research and Practice in Human Resource Management*, 11(1), 1-14.

¹⁸¹ Hofstede, G., & M. Bond. (1988). Confucius and Economic Growth: New Trends in Cultural Consequences. *Organizational Dynamics*, 16:4, 4-21.

¹⁸² Branine M (1997) 'Change and Continuity in Chinese Employment relationships' *New Zealand Journal of Industrial Relations*, vol. 22, April, pp. 77-94

roots in the country's history as well as the ideology. They have continued to impact on the aspects of work relationships regarding behavior and employment.

In contrast to China, the values of management in the UK are high on individualism, moderately low and exhibit both avoidance of uncertainty and existence of power distance, and there is moderation of high on masculinity/femininity.¹⁸³ Based on such cultural values, the Human Resources Management environment in the UK would have been based individual autonomy and achievement; dissent, uncertainty and acceptable risk taking; minimization of the influence of hierarchy and equality emphasized; definition of sexual roles, and assertiveness of male values, money, and admiration of possessions. From 1980s, there has been a constant growth of individualism in the UK and collectivism in terms of industrial relations has diminished. Some researchers have claimed that the traditional employment relationship is currently moving to a partnership model away from adversarial one.¹⁸⁴

3.4 Kenya's Paradigm Shift from Britain's to China's Foreign Investment

Kenya has signed agreements regarding bilateral investment with Burundi, China, France, Finland, Iran, Germany, Italy, the Netherlands, Libya, Slovakia, the United Kingdom and Switzerland, although only those with Germany, France, Switzerland, Italy, the United Kingdom and the Netherlands have entered into force.¹⁸⁵ Since independence, the major trade partners and investors in Kenya have been from the

¹⁸³ Hofstede, G., & Bond, M.H. (1988). The Confucius Connection: From Cultural Roots to Economic Growth", *Organizational Dynamics*, 14: 4-21

¹⁸⁴ Hofstede, G. (1980). *Culture's Consequences. International difference in Work-related Values*, Beverly Hills, California: Sage.

¹⁸⁵ USA. (2014). *Department of State: 2014 Investment Climate Statement*. [Online] Available at: <http://www.state.gov/documents/organization/229096.pdf>

West with Germany, UK, Netherlands and other European nations being the major partners. However, the scramble for Africa by China has been slowly shifting the relationships between most of the African countries with China. This is despite the fear that China's engagement with Africa will be exploitative and ultimately hurt Africa's development.¹⁸⁶ There are trepidations that China's disregard for human rights and illiberal values will have a devastating impact on Africa's fight against corruption and struggle towards democratic governance.¹⁸⁷ There are also concerns over the terms/conditions of Chinese trade and there are no strings attached with the aid to Africa. Not to mention, the interest of China in African's natural resources.¹⁸⁸

Kenya is on the verge of shifting its trade operations from the West to the East. This has been driven by China's ability to offer its experience regarding rapid poverty alleviation and industrialization, as an alternative to the development model of the West.¹⁸⁹ The Chinese investment model in essence results into economic growth objectives and foreign policy as well as guiding trade and investment decisions in Africa that has "no strings attached" to its financial and technical assistance. The Chinese bid is to compete for resource and construction projects using investment and infrastructure loans. The loans are often advanced based at zero or near-zero per cent interest or allow for repayment in natural resources.¹⁹⁰

¹⁸⁶ Naidu, S. (2010). China in Africa: A maturing of the engagement? In: A. Harniet-Sievers and S. Marks and S. Naidu (eds) *Chinese and African Perspectives on China in Africa*. Oxford: Pambazuka, pp.25-38.

¹⁸⁷ Alden, C. (2007) *China in Africa*. London: Zed Books.

¹⁸⁸ Guardian (2010). *US embassy cables: China providing military and intelligence gathering support to Kenya*, 17 February, The Guardian <http://www.guardian.co.uk/world/usembassy-cables-documents/249097> [Accessed 7March 2015].

¹⁸⁹ Mbaye, S. (2010). Matching China's Activities With Africa's Needs. In: A. Harniet-Sievers and S. Marks and S. Naidu (eds) *Chinese and African Perspectives on China in Africa*. Oxford: Pambazuka, pp.39-53.

¹⁹⁰ Brautigam, D. (2009). *The Dragon's Gift: The Real Story of China In Africa*. Oxford: Oxford University Press

One of the main issues of China's engagement with Kenya is the large infrastructure with the construction projects. However, taking into considerations the quality of other Chinese goods, there is a chance that the large-scale projects may be substandard. This was the case in Angola where a newly constructed hospital had to be shut down after a few months when significant cracks were shown in the walls. Yet the reason that Chinese companies are Africa's first choice for infrastructure building¹⁹¹ is because projects are completed quickly and cheaply with minimal red tape and bureaucracy.¹⁹² The fear is what is cheap now in the short term might be expensive in the long run. In addition, it is China's interest to ensure that their African consumers experience satisfaction so as to secure investments in the future.¹⁹³

It is estimated that there are 44 Chinese construction in Kenya.¹⁹⁴ China has contributed immensely in addressing Kenya's infrastructure deficit. Railways, roads, power grids, ports among others are being built at a faster speed.¹⁹⁵ These projects provide Kenyans with a leading source of employment as well as having construction of infrastructure using affordable means. It also boosts Kenya's performance economically, hence making Kenya a stronger competitor.¹⁹⁶ Construction of infrastructure is perhaps a good example of the Chinese promise of a win-win' situation. Improving Kenya's

¹⁹¹ Qiang, Z. (2010). China's Strategic Relations with Africa. In: A. Harniet-Sievers and S. Marks and S. Naidu (eds) *Chinese and African Perspectives on China in Africa*. Oxford: Pambazuka, pp.56-69.

¹⁹² Chege, M. (2007) Economic Relations Between Kenya and China, 1963-2007. In: H.G. Broadman (Ed) *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC: World Bank, pp. 17-38.

¹⁹³ Raine, S. (2009) *China's African Challenges*. Oxon: Routledge.

¹⁹⁴ Chege, M. (2007) Economic Relations Between Kenya and China, 1963-2007. In: H.G. Broadman (Ed) *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC: World Bank, pp. 17-38.

¹⁹⁵ Onjala, J. (2008). *A Scoping Study on China-Africa Economic Relations: The Case of Kenya*. , Institute for Development Studies. Retrieved from http://www.aercafrica.org/documents/china_africa_relations/Kenya.pdf [Accessed: 26 February 2015].

¹⁹⁶ Chege, M. (2007) Economic Relations Between Kenya and China, 1963-2007. In: H.G. Broadman (Ed) *Africa's Silk Road: China and India's New Economic Frontier*. Washington DC: World Bank, pp. 17-38.

infrastructure capacity is significant for the aspirations of attaining industrial and middle-income status by the year 2030.¹⁹⁷

Fourie¹⁹⁸ explains that the shift to the East has been driven by the successful story of the China Model. The rise of China from a developing state to one of the emerging and developed economies has captured the interests of countries like Kenya, hence the shift. Thus, for instance, Ramo claims that numerous ‘nations are examining China’s rise and trying to see what they copy that is manifested in their own land.’¹⁹⁹ Ramo sees China as the incarnation of an East Asian in the recent years regarding the model of modernisation that can assist emulators in breaking free from age-old stalemates in development, and thus construct an extensive principles that are listed based on what China can teach others looking that are keen on learning its success path. Although the characteristics of the Chinese experience has had authors believing that the transfer of the lessons vary widely, based on the cautions taken in economic liberalisation, and also the ability to construct policies domestically.

3.5 Role of State in Foreign Investment

Different government regimes in Kenya have played a role in the paradigm shift of FDI in the country. These regimes have which are President Moi’s, President Mwai Kibaki’s and President Uhuru Kenyatta regimes have handled and facilitated change in relation to whom the government has decided to trade with different.

¹⁹⁷ GOK (2008). *The Vision*, Government of Kenya. Retrieved from <http://www.vision2030.go.ke/index.php/vision> [Accessed: 18 February 2012].

¹⁹⁸ Fourie, E. (2013). *Does The 'Chinese Model' Undermine The Influence Of The Eu's Approach To Development? The Case Of Kenya*. University of Trento (Italy)

¹⁹⁹ Ramo, J. (2004). *The Beijing Consensus*. London: Foreign Policy Centre. At <http://fpc.org.uk/publications/TheBeijingConsensus> [Accessed March 10 2015].

Moi's regime has been described as authoritarian and characterized by sanctions from the West and having had a poor economic performance. Moi favoured the west with Britain, the former colony, being the primary investor in the country. In 1963, when there was established diplomatic relations between Kenya and China, trade between the two countries was favouring Kenya at KES 29.2 million.²⁰⁰ Between 1978–2002, during President Daniel Arap Moi's regime, there was a bad blood between China and Kenya that was characterised with accusations and counter accusations regarding undermining of Kenya's sovereignty. Kenya accused China of a plot to overthrow the Kenyan government and thus expelled the China's Third Secretary. On the other hand China accused Kenya of vilifying Beijing. Demonstrations took place outside Kenya's embassy in Beijing in 1966, that made Kenya to recall its ambassador to China. The youth wing of the ruling party at that time Kenya African National Union staged a counter-demonstration outside embassy of the Chinese embassy in Nairobi. This led to both countries expelling each other's chargé affaires in 1967.²⁰¹

Nevertheless, during the second period between 1978–2002, the two governments of Prime Minister Zhao Ziyang and President Moi started to rebuild relations. High-level state visits by the two led to the signing of economic and technical co-operation agreements. It had been under discussions since the year 1977 and covered a number of projects. The projects included exchange of goods between the two governments' that involved the state agencies. From the beginning of 1990, imports from China to Kenya

²⁰⁰ Patroba. H. (2012). *China in Kenya: Addressing Counterfeit Goods and Construction Sector Imbalances*. China in Africa Project

²⁰¹ Patroba. H. (2012). *China in Kenya: Addressing Counterfeit Goods and Construction Sector Imbalances*. China in Africa Project

steadily picked up.²⁰² In 1978, there was a signing of agreements on Economic and Technological Co-operation and on Trade that was later followed by an agreement to promote and protect of investments in 2001.²⁰³ The close relationship between China and Kenya resulted into a room for major turn from the West to the East.

From 2003–2012, a reform coalition took over the leadership of Kenya, and President Kibaki led the embracing of the Chinese partnership approach. Agreements were signed between Nairobi and Beijing that attracted huge Chinese investments in Kenya. It led to increased Chinese imports as well as contracts signing between Chinese construction companies and Kenya to develop projects in Kenya. It is during this era that Kenya's sharp turn to the East for business and development financing under the Kibaki government toppled European countries from their long-held position as the country's leading sources of foreign investment.²⁰⁴ The number of foreign direct investment (FDI) for Kenya from China increased compared to the UK, Germany and the Netherlands. Kenya made clear its intention to shift with an East-bound diplomatic charm offensive that was spearheaded by President Kibaki. Since 2003 when he came to power, Mr Kibaki has visited all the emerging economies that are now ranked as the leading FDI sources but has not travelled to any of the industrialized economies topping the list in the past years except the US. The growing influence of economies that are emerging in Kenya is being viewed in terms of a positive move. It offers the government of Kenya an easier foreign policy management opportunity as well as helping in the expansion of the job market by

²⁰² Ibid

²⁰³ Ibid

²⁰⁴ Business Daily Africa. (2012). *China, India replace Britain as Kenya's top sources of FDI*. Retrieved from <http://www.trademarksa.org/news/china-india-replace-britain-kenya%E2%80%99s-top-sources-fdi>

establishing of new ventures.²⁰⁵ The effects of China's interests and investment within Kenya as seen it being transferred to the HRM as well.

China's interest in Kenya coupled by governmental influence has seen the China become the leading source of FDI in Kenya by investing KES 2.5 billion.²⁰⁶ Currently firms from China have significant stakes in Kenya's local infrastructure sector. This is through projects such as Jomo Kenyatta International Airport expansion, the construction of the Nairobi-Thika superhighway as well as the construction of the upcoming second port (Lamu Port). Another significant project is the Southern Sudan–Ethiopia Transport Corridor (LAPSSET) project. It is an ambitious construction plan that involves port, railway, roads and pipeline that connects the corridor. The construction of vehicle assembly plants by the Chinese as well as oil exploration in Kenya is a major boost.²⁰⁷ Other significant areas of co-operation includes manufacturing (whereby Chinese firms have been setting up companies in Kenya) and tourism that targets travellers from China. Chinese firms have also invested in Kenya's pharmaceutical industry e.g. technological (eg ZTE Technologies) and Huawei as well as the media industry. China Central Telecoms has entered into telecommunications agreement with Kenya Broadcasting Corporation. Recently a Chinese firm was given the digital signal tender,²⁰⁸

In his macro-economic policy, Kenya's former President Mwai Kibaki was advised primarily by the National Economic and Social Council (NESC), an advisory body established in 2004 and comprising selected government officials, business leaders,

²⁰⁵ Munyao, P. M. (2012). A study on Chinese economic relations with Africa: Case study, Kenya. *Prime Journal of Business Administration and Management (BAM)*. Vol. 2(3), pp. 485-496.

²⁰⁶ Ombaba, K. M.O. et al. (2012). A Study on the Impact of China's Investments in Africa: The Case of Kenya. *Journal of Emerging Trends in Economics and Management Sciences (JETEMS)* 3(5): 529-537.

²⁰⁷ Patroba, H. (2012). *China in Kenya: Addressing Counterfeit Goods and Construction Sector Imbalances*. China in Africa Project

²⁰⁸ Ombaba, K. M.O. et al. (2012). A Study on the Impact of China's Investments in Africa: The Case of Kenya. *Journal of Emerging Trends in Economics and Management Sciences (JETEMS)* 3(5): 529-537

representatives of professional organisations and economic advisors.⁵ NESC's flagship project is the highly ambitious Vision 2030, a long-term development plan that seeks to transform Kenya into a 'newly-industrialising, middle-income country' by 2030. Although Vision 2030 explicitly seeks to address the social, political and economic 'pillars' of development in equal measure, NESC has not, at the time of writing, contained any representatives from the NGO sector. In contrast, the business sector plays a dominant role in NESC/Vision 2030, with several entrepreneurs and business elites having held key positions from the conceptualisation to the implementation phases.

Other than the model of China, Anyang' Nyong'o²⁰⁹ has explained that the need for change and economic growth compelled President Mwai Kibaki to shift to the East. For example, the economic growth of East Asia, and later of the Kibaki regime has been the central driver for moving from the West to the East.

Chinese business ventures in Africa are also negotiated directly with African governments. These deals are often lubricated with bribes in the form of aid donations. African governments find doing business very appealing as China offers cheaper, and fast deals with little dogma or conditionality.²¹⁰ China is not interested in the countries internal issues of political legitimacy, human rights violations, or corruption. This is a refreshing change from Western scrutiny, critique, and economic sanctions.²¹¹ These factors have driven both Kibaki's regime and current regime (Uhuru's) regimes to shift their interests to the East which is more appealing and less restrictive.

²⁰⁹ Nyong'o, A. P. (2005). 'Planning for Policy Making and Implementation in Kenya: Problems and Prospects'. In *At the Crossroads: ICT Policymaking in East Africa*, edited by Florence Etta and Laurent Elder. Nairobi/Ottawa: East African Educational Publishers/ IDRC.

²¹⁰ Raine, S. (2009) *China's African Challenges*. Oxon: Routledge.

²¹¹ Taylor, I. (2009) *China's New Role In Africa*. London: Lynne Rienner Publishers

Under President's Uhuru regime, the initiatives which were started by President Kibaki continue to prosper with China being a major foreign investor in the country. For example, in 2013, President Uhuru Kenyatta visited China which has become the East African nation's biggest economic engine. He snubbed Great Britain and U.S.A which are Kenya's biggest aid donors and investors.²¹² Such actions speak volumes about China's growing presence in Kenya. Because of the strategic relationships between the two nations, Chinese investment in Kenya had reached \$474 million in 2012, representing Kenya's largest source of foreign direct investment, and how bilateral trade had reached \$2.84 billion by 2012²¹³.

3.6 The Asian Culture on FDI

Implicit to the concept effects of cultural is the opinion that societies are considered to vary based on arrangements in terms of their institutions and organisations composition, and that these variations are a reflection of their distinctive traditions, values, attitudes and historical experiences. In this regard, culture can be defined as the "crystallisation of history in the thinking, feeling and acting of the present generation."²¹⁴ Similarly, culture has been described by Hofstede as the "Collective programming of the mind that distinguishes the members of one group and sometimes it can be a category of people from another" (p. 9). There is an influence of culture on different institutions and

²¹² Raghavan, S. (2013). *In snub to Washington, Kenyan president visits China, Russia in first official visit outside Africa*. [Online] Available at: http://www.washingtonpost.com/world/in-snub-to-washington-kenyan-president-visits-china-russia-in-first-official-visit-outside-africa/2013/08/17/baaed162-06a4-11e3-bfc5-406b928603b2_story.html.

²¹³ Raghavan, S. (2013). *In snub to Washington, Kenyan president visits China, Russia in first official visit outside Africa*. [Online] Available at: http://www.washingtonpost.com/world/in-snub-to-washington-kenyan-president-visits-china-russia-in-first-official-visit-outside-africa/2013/08/17/baaed162-06a4-11e3-bfc5-406b928603b2_story.html.

²¹⁴ Hofstede, G., & M. Bond. (1988). Confucius and Economic Growth: New Trends in Cultural Consequences. *Organizational Dynamics*, 16:4, 4-21.

activities. Traditional and national cultural values impacts on the managerial processes and organizational behaviours which in turn, affects economic performance. It has been a common trend to conceptualize and measure culture based on various value dimensions. An important concept of the cultural perspective relies on Hofstede's²¹⁵ conceptualization regarding four distinct cultural value dimensions. Suggestion by Hofstede is that cultural patterns are mainly rooted in the systems of value of a substantial groupings within the population. They tend to stabilize over long periods in history²¹⁶. These opinions are useful when it comes to analysing and understanding the managerial behaviours and reactions. Particularly, as cultural differences tend to be embedded in managers' frames of reference as well as ways of thinking culture reinforces particular values and gives guidance on the managerial actions and choices.

The Asian culture revolves around Confucius culture and majority of the countries have adopted this form of culture. Such a region's culture has had an extreme impact on the region's. Many countries in East Asia, particularly China and Taiwan, have resisted traditions that are based on Western culture. It is the adoption and use of Asian values and institutions that have been responsible for the Chinese economic advancement. The growth in Asia has been attributed by its Confucian influence. Confucianism heavily benefits China's and other states economic development because it encourages savings and places high value on education. For this reason, China has a higher level of trust compared to Latin America because it has a homogenous population and relatively more equality in wealth distribution. According to Fan and Wang, the more

²¹⁵ Hofstede, G. (1980). *Culture's Consequences. International difference in Work-related Values*, Beverly Hills, California: Sage.

²¹⁶ Ibid

China has been marketized, the higher is its level of trust.²¹⁷ In addition, the culture has strongly defined the history of economic development.

The Confucian culture has its origins in China, but its impact has expanded to the whole of East Asian region. Confucianism culture is based on three significant stages of development. The period of Confucius marked the beginning of Confucianism. The second stage of the culture is the School of Principle and the Ming Dynasty during the Song Dynasty (960-1280 A.D.).²¹⁸ Today we are in the third stage of Confucianism, and it is referred to as the “renaissance” of Confucianism.²¹⁹ The Confucianism culture has many components as listed by below by Zhang Hongyi;- 1) Economic functioning must rely on comprehensive harmony and consistency with natural laws as well as human supremacy and avoiding extremes²²⁰. 2) Economic relations should curtail selfishness and enhance inequality reduction. 3) Economic behaviors should give emphasis on using small ways of making fortunes, working hard and living a thrifty life. 4) Government economic policies should involve making people rich and poverty reduction. 5) Management of the economy should highlight efficiency of the government. 6) Economic life should reflect economic morality.²²¹

There is a close relationship between Confucius culture and FDIs. For instance in their study on the effects of Confucius institute of FDI's and China's trade, Lien, Hoon

²¹⁷ Feng, Z. (2008) China's Rise Will Be Peaceful: How Unipolarity Matters. In: R. Ross and Z. Feng (eds) China's Ascent: Power, Security, and the Future of International Politics. London: Cornell University Press.

²¹⁸ Zhang, K. (2001). What Explains the Boom of Foreign Direct Investment in China? *Economia Internazionale* LIV, 2, 251-274.

²¹⁹ Zhang, K. (2001). What Explains the Boom of Foreign Direct Investment in China? *Economia Internazionale* LIV, 2, 251-274.

²²⁰ Hongyi, Z. (1989). *Rujia jingji sixiang (Confucianist Economic Thinking)*. Hunan People's Publishing House.

²²¹ Hongyi, Z. (1989). *Rujia jingji sixiang (Confucianist Economic Thinking)*. Hunan People's publishing House.

and Selmier established that Confucius Institutes (CI) has a significant influence on outward trade and FDI flows from China.²²² It was established that significant increment in both China's exports and outward FDI flows to countries that are developing through the establishment and operation of CIs. However, little effect on the same flows to developed countries.²²³ Additionally, CIs command stronger impacts on FDI than on outward trade.

3.7 Conclusion

In sum, in the UK context power distance has abridged, structures of hierarchy are flatter, and the trend is towards individualism, despite the degree of adversarial industrial relations that still remain. China's management cultural values are moving from strong emphasis on higher power distance as well a power distance that is collectivism towards a lower power distance through the acknowledgement of individualism. In the United Kingdom managers, by comparison, are involved in the formulation of their business plans, including HR plans that happens without any government intervention. There is presence of management hierarchy that is comprised of the owners and/or their representative as well as the professional administrators is established mainly to manage the organisation. The authority regarding decision-making flows from the top. There is usually a unity of command as well as individual accountability. Based on the organisation's obedience to the supervisor, and the relationship that is harmonious in industrial relations are highly encouraged. These imperative differences have been

²²² Lien, D., Oh, H. C., & Selmier, W. (2011). Confucius institute effects on China's trade and FDI: Isn't it delightful when folks afar study Hanyu? *International Review of Economics and Finance*, 21, 147–155

²²³ Lien, D., Oh, H. C., & Selmier, W. (2011). Confucius institute effects on China's trade and FDI: Isn't it delightful when folks afar study Hanyu? *International Review of Economics and Finance*, 21, 147–155

employed by various researchers in explaining why some western HRM practices are difficult to transfer to China. For instance, Chinese resistance to performance-related pay systems has been explained based on their “egalitarian” cultural values.

There has been a shift in paradigm from the West to the East. During the Moi era, the government encouraged closer ties between the two nations and entered into trade agreements and partnership. In 2002 after Kibaki took office, the relationship between the two nations was strengthened. In addition, more companies continued to invest in the country. The trend has continued with such changes basically because of China’s Model has been established to be effective for economic growth. It is believed that the changes from UK to China will have impact on the HR policies.

CHAPTER FOUR

**ANALYSIS AND PRESENTATION OF THE CHANGING PATTERNS IN
FOREIGN INVESTMENTS IN KENYA AND THEIR IMPACT ON HR
POLICIES: CASE STUDIES OF CHINA AND BRITAIN**

4.1 Introduction

This chapter covers presentation and analysis of data collected by use of questionnaires and interview guide. The main objective of the study was to determine the changing patterns in foreign investments in Kenya and their impact on HR policies: case studies of china and Britain. In order to simplify the discussions, the researcher provided tables that summarize the collective reactions and views of the respondents.

4.2 Response Rate

The targeted sample size was 89 participants from among others National Oil Corporation of Kenya (Kenyan company), Standard Chartered (British Company) and China Jiangxi International (Chinese Company) including three managers from each company and the employees as calculated through a proportion of 10%. The total sample obtained comprised of 89 respondents.

Questionnaires and structured interviews were the primary data collection instruments used in data collection. Questionnaires were of open-ended questions to mainly allow individuals to express their views concerning FDI in Kenya and their impact on HR policies. The study applied both qualitative and quantitative analysis techniques and used Statistical Package for Social Sciences (SPSS) in analysing both primary and secondary data.

Table 4.1: Target population

Target Companies	Total no of employees	proportion of 10%	Managers	Total sample
National Oil Corporation of Kenya	304	30	3	33
Standard Chartered	231	23	3	26
China Jiangxi International	272	27	3	30
Total	800	80	9	89

Those filled and returned questionnaires were 89 respondents making a response rate of 100% %. According to Mugenda and Mugenda ²²⁴ a response rate of 50% is adequate for analysis and reporting; a rate of 60% is good and a response rate of 70% and over is excellent. This means that the response rate for this study was excellent and therefore enough for data analysis and interpretation.

Table 4.2: Response rate

Questionnaires	Frequency	Percent (%)
Response	89	100%
Non-response	0	0%
Total	95	100.00%

²²⁴ Ibid

4.3 Demographic Information

The study sought to establish the demographic information in order to determine whether it had influence on changing patterns in foreign investments in Kenya and their impact on HR policies. The demographic information of the respondents included age, gender and education levels of the respondents.

4.4 Gender of Respondents

The figure displays demographic information according to gender.

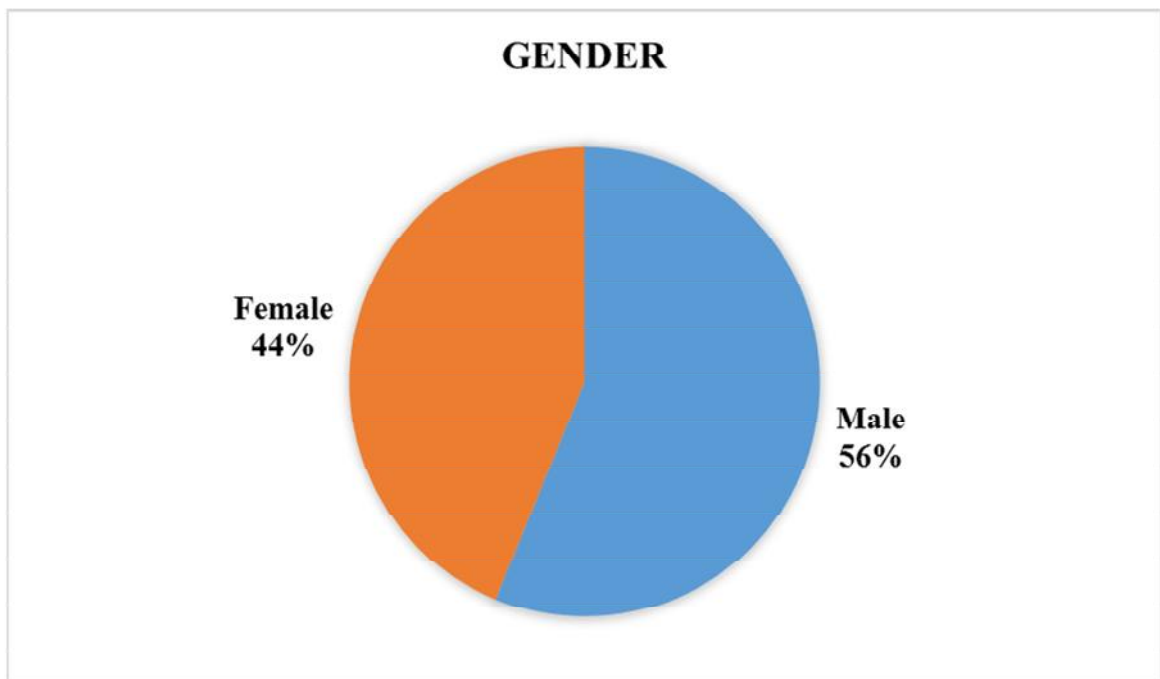


Figure 4.1: Gender

The study found it is paramount to determine the respondents' gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The findings of the study are as shown in figure 4.1. According to the analysis it was evident that majority of the respondents were male which represented 56% while 44%

were female. It can therefore be deduced that males were the most dominant gender in the companies analyzed.

4.5 Age Bracket of the Respondents

The researcher sought to determine if the respondents were old enough to provide valuable responses that pertain to changing patterns in foreign investments in Kenya and their impact on HR policies.

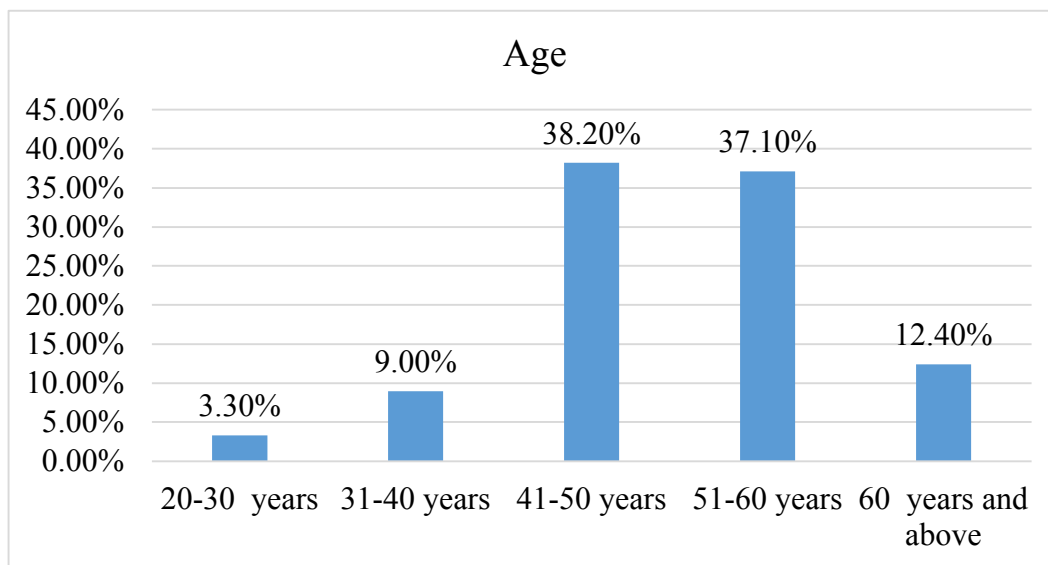


Figure 4.2: Age

The respondents were required to indicate their age in which it was established that the majority (38%) were in the age bracket of between 41 and 50 years. Analysis of findings also indicated that 37% of the respondents were between 51 and 60 years of age. The findings further indicated that 12% were 60 years and above. However, 9% indicated that they were 31-40 years. While the remaining 3% indicated that, they were 20 - 30 years. The finding therefore implies that the respondents were old enough to provide

valuable responses that pertain to changing patterns in foreign investments in Kenya and their impact on HR policies.

4.6 Level of Education of the Respondents

The figure shows the respondents level of education.

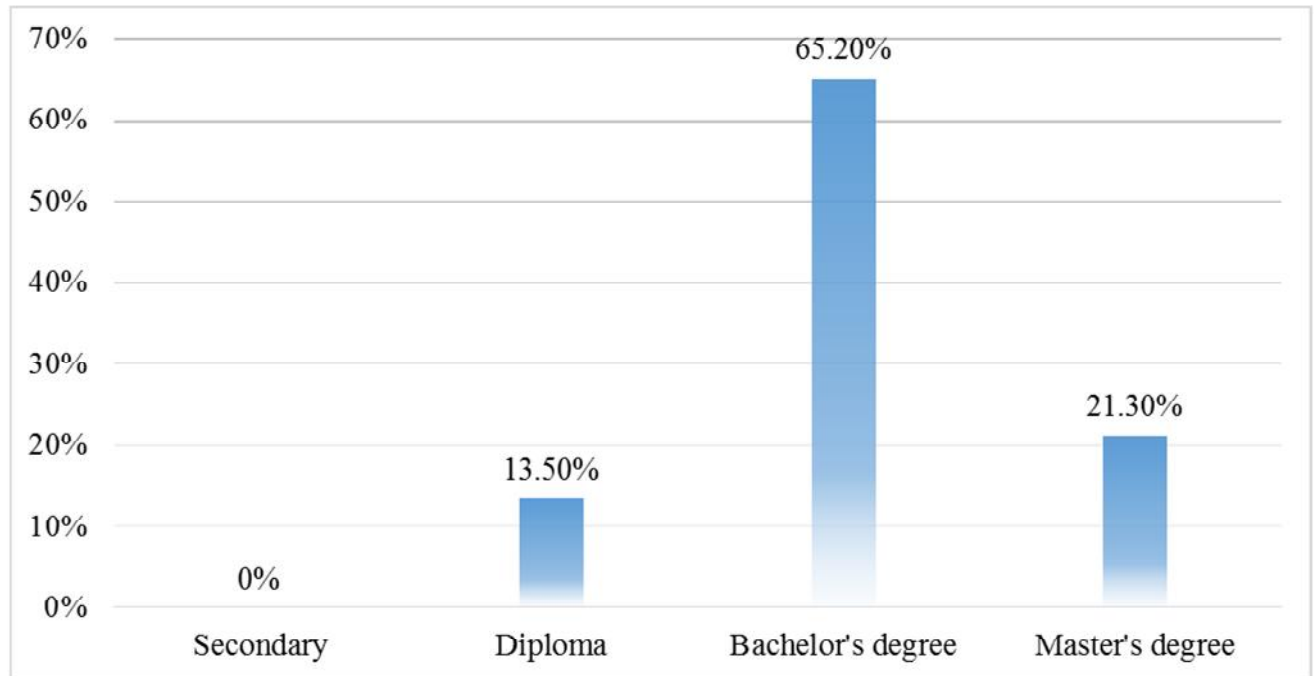


Figure 4.3: Level of education of the respondents

The study sought to find out the respondents level of education. The findings of the study are presented in figure 4.3 From the findings, majority (65.2%) had university degrees followed by 21.3% who indicated that they had master degree and the remaining 13.5% indicated that they have attained college diplomas. Therefore, the findings conclude that most respondents had adequate education to give information pertaining to changing patterns in foreign investments in Kenya and their impact on HR policies.

4.7 Changing Patterns in Foreign Direct Investments (FDI) Kenya

Respondents were asked to indicate the extent to which they agreed with the listed statements on changing patterns in foreign direct investments (FDI) Kenya on scale of 1 to 5. where 1= To a very low extent, 2- To a low extent, 3- To a moderate extent, 4- To a great extent and 5-To a very great extent. The findings are displayed on table 4.3.

Table 4.3: Changing Patterns in Foreign Direct Investments (FDI) Kenya

Statement	1(%)	2(%)	3(%)	4(%)	5(%)	Mean
FDI increases growth through productivity and efficiency gains by local firms	0.00	0.00	5.62	68.54	25.84	4.20
Kenya has a generally positive investment climate that has made it attractive to international firms seeking a location	1.12	2.25	5.62	55.06	35.96	4.22
Kenya has a strong telecommunications infrastructure, a robust financial sector, and solid aviation connections both within Africa and to Europe and Asia.	3.37	1.12	12.36	60.80	20.35	3.97
Flow of Foreign Direct Investment has an irregular trend in Kenya	3.37	1.12	12.36	61.80	21.35	3.98
Kenya has long benefited from significant inflows of foreign direct investment.	0.00	0.00	5.62	68.54	25.84	4.20
Change in Britain foreign policy has compelled the Kenyan government to focus on Asia, which resulted to decline in the number of Britain's FDIs.	0.00	1.12	8.99	57.30	32.58	4.21
UK has the largest decline in FDI flows to Kenya in recent years.	2.25	3.37	8.99	52.81	32.58	4.10
There have been changes in trends in the FDI's in Kenya with a major shift from the West (UK and US and other European Nations) to the East, specifically China	0.00	0.00	8.99	55.06	35.96	4.27
China has disrupted the workforces in Kenya which were highly influenced by Britain and but they have had little impact on human resource policies.	0.00	0.00	11.24	57.30	31.46	4.20
China has become the leading source of Kenya's foreign direct investment (FDI)	0.00	2.25	14.61	60.67	22.47	4.03

The study sought to find out the respondents' agreement level with statements on changing Patterns in Foreign Direct Investments (FDI) Kenya. From the study finding it was noted that majority (68%) of the respondents were of the view that FDI increases growth through productivity and efficiency gains by local firms by a mean of 4.20. a good number of respondents (55.06) also agreed to a great extent that Kenya has a generally positive investment climate that has made it attractive to international firms seeking a location for their regional offices by a mean of 4.22.

In addition, the majority (60.80%) of the respondents agreed to a great extent that Kenya has a strong telecommunications infrastructure, a robust financial sector, and solid aviation connections both within Africa and to Europe and Asia by a mean of 3.97. However, 61.80% Of the respondents agreed to great extent that the Flow of Foreign Direct Investment has an irregular trend in Kenya by a mean of 3.98. 68.54 % of the respondents agreed to a great extent that Kenya has long benefited from significant inflows of foreign direct investment with a mean of 4.20. 57.30% agreed to a great extent that change in Britain foreign policy has compelled the Kenyan government to focus on Asia, which resulted to decline in the number of Britain's FDIs (mean=4.21). The findings reveal that majority (52.81%) agreed to a great extent that UK has the largest decline in FDI flows to Kenya in recent years. (Mean=4.10). 55.06% agreed to a great extent that there have been changes in trends in the FDI's in Kenya with a major shift from the West (UK and US and other European Nations) to the East, specifically China (mean=4.27). Majority (57.30%) of the respondents agreed to a great extent that China has disrupted the workforces in Kenya which were highly influenced by Britain and but they have had little impact on human resource policies (m=4.20). 60.67% of the

respondents also agreed to a great extent that China has become the leading source of Kenya's foreign direct investment (FDI) (mean=4.03).

The findings concur with Abala²²⁵ findings that the FDI increases growth through productivity and efficiency gains by local firms through 80's and 90's, the decrease in the performance of the economy, together with the increasing problems related poor infrastructure, high cost of borrowing, corruption, crime and insecurity, and reduced investor confidence in reforms led to a long period of low FDI inflow. Kenya has a strong telecommunications infrastructure, a robust financial sector, and solid aviation connections both within Africa and to Europe and Asia therefore the net inflows increased more than fourteen fold between 2006 and 2007, from US\$51 million (0.2% of GDP) in 2006 to a record US\$729 million (2.7%) in 2007, World Bank's World Development Indicators also support the study finding that FDI inflows dropped off sharply in 2008, coming in at only US\$96 million (0.3%), and then increased to US\$116 million (0.4%) in 2009 and US\$186 million (0.6%) in 2010. Although patterns of inflow have been irregular in the number of FDIs in Kenya, a report by the KPMG Africa indicates that poor data collection in Kenya leads to underestimating actual inflows of FDI. The findings by Peter²²⁶ concur with the study findings that Change in Britain foreign policy has compelled the Kenyan government to focus on Asia, which resulted to decline in the number of Britain's FDIs hence UK, has the largest decline in FDI flows to Kenya in recent years. There have been various changes regarding trends in the FDI's in Kenya with a major shift from the West (UK and US and other European Nations) to the

²²⁵ Abala, D. O. (2014). Foreign Direct Investment And Economic Growth: An Empirical Analysis Of Kenyan Data. *DBA Africa Management Review*, Vol 4 No 1. Pp. 62-83

²²⁶ Peter M. (2011). *Foreign Investment, Transnationals and Developing Countries*. London: Macmillan.

East, specifically China and making China the leading source of Kenya's foreign direct investment (FDI).

4.8 Impact of Foreign Investors on Kenya's Human Resource (HR) Policies

Human resource policies are considered as the formal rules and guidelines that are put in place to hire, assess, train, and reward their workforce members. These policies, can serve to prevent many misunderstandings that can occur between employees and employers about their rights and obligations at work. This can only happen they are organized and disseminated in a smooth and easily used form. On Impact of Foreign Investors on Kenya's Human Resource respondents were asked to indicate extent to which they agreed with the listed statements on Impact of Foreign Investors on Kenya's Human Resource using a scale of 1 to 5. where 1- To a very low extent, 2- To a low extent, 3- To a moderate extent, 4- To a great extent and 5-To a very great extent.

Table 4.4: Impact of Foreign Investors on Kenya's Human Resource (HR) policies

Statement	1	2	3	4	5	Mean
Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms	2.25	11.24	12.36	48.31	25.84	3.84
FDI by Chinese companies has led to development of quality human capital through diffusion of new technology and ideas	6.74	7.87	13.48	55.06	19.10	3.79
FDI by Chinese companies has brought transfer of foreign useful skills	0.00	3.37	7.87	57.30	31.46	4.17
Chinese firms after entering Kenyan market demonstrate their advanced technology and Kenyans afterward adapt or imitate them	4.49	5.62	12.36	53.93	23.60	3.87
FDI has brought competition, this increase in competition that occurs as a result of Chinese firms entry forces domestic firms to introduce new technology and/or work harder	0.00	0.00	6.74	69.66	23.60	4.17
Human Resource Development (HRD) and Foreign Direct Investment (FDI) are among the key drivers of economic growth in Kenya	3.37	3.37	7.87	49.44	35.96	4.11
HRD encourages the forces behind the FDI by making the investment climate attractive for foreign investors	2.25	3.37	8.99	52.81	32.58	4.10
FDI contributes to HRD since multinational enterprises (MNEs) themselves can be active providers of education and training, bringing new skills, information and technology to host developing countries	3.37	5.62	6.74	58.43	25.84	3.98
Investment in physical capital related to new technology link FDI with human capital development	1.12	3.37	11.24	55.06	29.21	4.08
FDI has a "crowding-in" effect on domestic investment thus facilitating the expansion of domestic firms.	0.00	10.11	16.85	39.33	33.71	3.97
FDI leads to more domestic investment	1.12	0.00	13.48	51.69	33.71	4.17

The study sought to find out the respondents' agreement level with statements on the Impact of Foreign Investors on Kenya's Human Resource (HR). According to the findings, the respondents (48.31%) agreed to a great extent that Chinese companies train domestic workers who later transfer skills and knowledge acquired to local firms as shown by a mean of 3.84. The respondents (55%) also agreed to a great extent that FDI by Chinese companies has led to development of quality human capital through diffusion of new technology and ideas as shown by a mean of 3.79. Majority (57%) of the respondents agreed to a great extent that FDI by Chinese companies has brought transfer of foreign useful skills as shown by a mean of 4.17. The respondents (54%) also agreed to a great extent that those Chinese firms after entering Kenyan market demonstrate their advanced technology and Kenyans afterward adapt or imitate them as shown by a mean of 3.87. Majority of the respondents (69%) agreed to a great extent that FDI has brought competition, this increase in competition that occurs as a result of Chinese firms entry forces domestic firms to introduce new technology and/or work harder as shown by a mean of 4.17.

In addition the findings revealed that close to 50% of the respondents agreed to a great extent that Human Resource Development (HRD) and Foreign Direct Investment (FDI) are among the key drivers of economic growth in Kenya (mean=4.11). From the findings a 52.81% of the respondents agreed to a great extent that HRD encourages the forces behind the FDI by making the investment climate attractive for foreign investors (m=4.10). Respondents (58%) also agreed that FDI contributes to HRD since multinational enterprises (MNEs) themselves can be active providers of education and training, bringing new skills, information and technology to host developing countries

(m=3.98). A great number (55%) of the respondents agreed to a great extent that Investment in physical capital related to new technology link FDI with human capital development (4.08). 39.33% of the respondents agreed to a great extent that FDI has a "crowding-in" effect on domestic investment thus facilitating the expansion of domestic firms (3.97) and 51.69% agreed to a great extent that FDI actually leads to more domestic investment (mean=4.17).

These findings are in line with Blomström and Kokko²²⁷ who state that workers already trained by or worked in foreign affiliates might be potentially available to work in domestic firms or start their own firms in the same industry. Blomström and Kokko add that training and human capital development are often more important in service industries because training in service sectors is more directly focused on strengthening the skills and know-how of employees, while training in manufacturing sectors is often to facilitate the introduction of new technologies embodied in machinery and equipment. Kumar and Pradhan²²⁸ indicated that FDI often flows in terms of bundles of resources, including managerial and organizational skills, marketing know-how and the access to market through the use of marketing networks of multinational enterprises (MNEs). According to Bengoa and Sanchez-Robles²²⁹ New growth theories, posit that that technological transfer through FDI in countries that are developing is especially important because most of the developing countries tend to lack the necessary infrastructure regarding educated population, economic and social stability and

²²⁷ Blomström and Kokko L. (2009) FDI; The New Competitive Advantage: The Renewal of American Industry, Oxford: Oxford University Press.

²²⁸ Kumar P. and Pradhan. (2012). Foreign Direct Investment and Its Impacts on the Kenyan Economy, unpublished MSc dissertation, Manchester: UMIST

²²⁹ Bengoa and Sanchez-Robles(2008). Globalization and Labour Standards', in J. Michie and J. Grieve Smith (eds), Managing the Global Economy, Oxford: Oxford University Press

liberalized markets that are significant for innovation to promote growth. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI.

4.9 Foreign Direct Investment

Respondents²³⁰ defined Foreign Direct Investment as investment in foreign assets, such as the foreign currency, rights, credits, benefits or property that are undertaken by a foreign national aimed the production of goods and services, that are to be supplied either within the domestic market or supplied overseas. Foreign direct investment (FDI) is the process whereby residents of one country particularly the source country acquires ownership of assets with the aim of controlling the production, distribution and other company activities in another county which is the host country. Moosa,²³¹ defined FDI in a broader sense can be referred to as an investment involving a long-term relationship and control or significant influence by a resident enterprise of one economy (direct investor) in another enterprise resident in an economy (direct investee) other than that of the investor. According to the key informants.²³² Foreign direct investment (FDI) is specifically a category of investment reflecting the objective of establishing a long-lasting interest by a residing enterprise in one economy considered as the direct investor, in an enterprise mainly the direct investment enterprise that is resident in an economy that is not that of the direct investor. The involved lasting interest means the existence of a relationship that is long-term between the direct investor and the

²³⁰ An interview with Moses and Munene from National Oil Corporation of Kenya (Kenyan company)

²³¹ Moosa from National Oil Corporation of Kenya (Kenyan company)

²³² An interview with respondents from Standard Chartered and China Jiangxi International

enterprise involved in direct investment and a significant degree of influence regarding the management of the enterprise.

In connection to the definition of FDI Kenya like most of other African countries has recently liberalized the investment environment. The Investment Promotion Act of 2004 is clear in spelling out the commitment by government in attracting FDI in Kenya. According to the key informants²³³ increased competition among African countries in the global FDI helps Kenya to tackle the domestic impediments involved in foreign investments. The foreign ownership has its restrictions only in the telecommunication industry, insurance industry and companies that are listed on the Nairobi Stock Exchange, to 77% and 75%, respectively. These stocks have experienced gradual increase over the years. However, the inflows of FDI have been main the issue of debate of fluctuations particularly in the last decade.

The findings also indicate that Kenya has lost its competitiveness regarding attraction of investment. It has also lost its power in retaining the stock of investment. The loss as a result of many inter-connected factors that includes negative opinion held by investors about political instability, corruption, poor governance, inadequate infrastructure, crime, insecurity, theft, and policy instability. Private investment which steadily growing at an average rate of 10% between 1985 and 1989, grew by 0.4% between 1997 and 2001. It has been revealed by the study that Chinese investment projects currently in Kenya number about 96 with a workforce estimated to be about 6,700 Kenyans and it is characterized by an investment capital totaling to 52.6 million US dollars. This is based on data obtained from Kenya Investment Authority (KIA). Between the year 2000 and 2005, the entire FDI was at US\$446 million, out of which

²³³ Ibid

only US\$ 32 million originated from China. It represents 7.2 per cent., and China had a total of fifty-seven projects during the period.

4.10 Foreign Direct Investment (FDI) on HR Policies in Terms of Transfer of Technology in Kenya

According to the findings ²³⁴ foreign direct investment (FDI) influence Human Resource policies in terms of transfer of technology. Technological transfers have taken place mostly through transfers of managerial skills and processes and not so much through embodied technology. Formal research and development is very low and is confined to a few large enterprises. The operations of foreign enterprises in manufacturing are largely in the production of low-end consumer and agro processed goods for the local and regional market and cut-make-trim operations in garments for the United States. There are a few cases of more complex technology use or use of advanced processes in manufacturing, as with General Motors in vehicles, and Tetrapak in packaging. In the former case, though technology used is of an older vintage to operations in many other regions, efforts have been made to constantly upgrade automation in order to improve productivity. Tetrapak has applied World Class Manufacturing techniques to its Kenyan operations since 2001 as part of a global programme.

FDI has played an important role in introducing technology and knowledge in horticulture and floriculture. This has enabled the sector to become a leading exporter of high value products to the European market. Farms have invested the large amounts of capital required, estimated at \$50,000 per hectare, to set up world-class facilities. Basic

²³⁴ Central Bank of Kenya (2010). Annual Report 2010. Nairobi.

costs comprises of land preparation, irrigation systems set up , refrigerated storage, greenhouses and staff welfare facilities. Processes are becoming increasingly sophisticated. Steel or aluminum greenhouse structures are rapidly replacing wood and growers are paying more attention to the use and quality of inputs. For example Dutch-owned Oserian has installed one of the Investment Policy Review of Kenya world's biggest heated geothermal greenhouses aimed at reducing disease pressure and improve rose yield using a uniform temperatures.²³⁵

Communications technology is being improved by companies to ensure that produce can efficiently reach customers in Europe within 24 hours. Homegrown, the largest producer of flowers and vegetables, has recently introduced wireless data communication linking their production, cooling and packing facilities in Kenya with order information from their customers in Europe. There has been little resort to foreign technology contracts, with local firms in general purchasing technology embodied in used equipment. An exception is the local firm HACO Industries, which has extensive licensing relationships with foreign enterprises, resulting to inconsiderable technology transfer

FDI has been at the root of transfers of skills to local workers. This has been possible due to the good trainability of employees given the relatively high level of general education. The government imposes an understudy programme for each expatriate employee recruited by foreign investors, with the aim of replacing the expatriate with a Kenyan employee in the medium term. Foreign firms have often gone beyond the legal requirements and provided training to their employees on a wider basis.

²³⁵ Ikiara, Moses and Ndirangu, Lydia (2013). Prospects of Kenya's Clothing Exports under AGOA After 2004. KIPPRA Discussion Paper 24. Nairobi

Many give a high level of responsibility to local staff by providing ongoing training programmes in order to allow them to occupy top management positions. Multinationals in the country are characterized as having only a few posts, often managing director and finance director, staffed by expatriates. Colgate-Palmolive for instance sends staff for training to offices abroad where the “Colgate Curriculum” is taught. Some of such staff have in turn become “Master Instructors” for Colgate worldwide.

The findings reveal that Local skill levels are sufficiently well regarded to note an increasing trend for Kenya to be the regional headquarters or services hub of multinationals. Headquarters functions are sometimes maintained in Kenya for East African operations even when production lines are moved elsewhere.²³⁶ These include such operations as accounting and strategic planning. This is the case with the East African operations of Colgate-Palmolive, Old Mutual, and Deloitte. Old Mutual for example will be managing some back-office operations for Tanzania and Uganda from Nairobi, to result in a planned doubling of staff. Executives from Kenyan operations are also sent abroad to staff offices in the region due to the lack of candidates of equivalent calibre available there, as is the case with Deloitte. One is thus witnessing in some cases a movement of manufacturing away to the region in tandem with retention, and in some cases expansion, of headquarters services functions in Kenya.

The presence of foreign banks has had a positive effect on the local banking sector. Foreign banks as a group display greater efficiency than their national competitors. They have higher levels of assets, loans, and deposits per employee than both state-owned banks and private domestic banks. Foreign banks also have lower

²³⁶ Ibid

interest rate spreads than state-owned banks. Since these two groups constitute the only large banking institutions in the country, foreign banks have been important in lowering the financing costs faced by local corporate and retail borrowers.²³⁷

4.11 Trend of Inflow of Foreign Investors from the East (China)

According to the findings the FDI inflows from China have become important in recent years. The loss in Kenya's competitiveness to attract direct foreign investment has meant that any FDI flows from China have constituted an important proportion of the Net FDI flows in Kenya. China has adopted a new policy to Kenya, aimed at closer ties in economic cooperation. The key informants²³⁸ conclude that there is therefore increased presence of Chinese enterprises. But the importance of China's FDI flows to Kenya is much more in terms of capital investment rather than the quality of activities. This is because of the firms established having tended to engage in services such as trade with very few firms participating in manufacturing. The FDI flows from China have assumed significant proportions even though they remain low i.e. ranging from US\$ 1-3 million in the last 6 years.²³⁹

The findings reveal that the inflow of Chinese FDI in Kenya compared to inflow in neighboring countries may not be determined macro political and macroeconomic factors only, but by the quality involved in the underlying climate of the domestic business and institutional conditions that exist both Kenya and regionally. In addition, and equally important from the perspective of furthering economic development and

²³⁷ An interview with human resource managers national oil company Standard Chartered and China Jiangxi International

²³⁸ Ibid

²³⁹ An interview with employees from National Oil Corporation of Kenya

growth within Kenya, the links existing affirms cooperation among Chinese's companies' FDI and trade involved in Kenya create the possibility for positive "spillovers" through the attraction of investment of infrastructure and related services development and through the transfer of technology and managerial skills, which are often the intangible assets that accompany FDI. Greater diversification in FDI has been occurring increasingly falling into several investment sectors. Significant Chinese investments in Kenya have been made in retail ventures, tourism, transport, construction, power plants, and telecommunications, among others.²⁴⁰ To cite an example, Huawei, a major Chinese telecommunications firm, has won a huge contract to provide cell phone service in Kenya. Thus China is pursuing commercial strategies with Kenya that are about more than resources. In light of the significance of Kenya among Chinese FDI firms, it is expected to observe significant differences regarding the emergence of trade patterns taking place between Kenya and other regional states and to some extent with the rest of the world. Particularly increased presence of services such as exports and imports, might give a suggestion that China's main agenda is to use Kenya as the entry point to East Africa and The Sub-Sahara region as a trading platform

According to the key informants²⁴¹ worldwide, the presence of foreign firms usually has a profound effect on a host country's participation in international trade, because FDI is often associated with an increase in both exports and imports. An important potential by-product of this process in China-Kenya relations is that Kenyan firms might become exposed to transfer of advances in technology or enhanced skills.

²⁴⁰ Ibid

²⁴¹ An interview with employees from National Oil Corporation of Kenya and China Jiangxi International (Chinese Company).

Such exposure could engender positive spillover effects on the efficiency and competitiveness of Kenyan firms. The study findings revealed that Chinese investment projects currently in Kenya number about 96 and it has employed about 6,700 Kenyans. The projects has an investment capital of 52.6 million US dollars according to data from Kenya Investment Authority (KIA).

4.12 Impact of FDI on Economic Growth in Kenya

The findings revealed that Kenya boasts to be the most industrialized country within the East African region, and among the top performing countries within Sub-Saharan Africa region. This is because Kenya has various impressive factors that makes it good for investment. According to report by foreign investors, Kenya has a well-developed port system in the region.²⁴² Kenya is also a member EAC that has 93Million people. The EAC's trade is envisaged to flow freely across Uganda, Kenya and Tanzania by 2013. In addition to this, Kenya's membership in common Market for Eastern & Southern Africa, with nearly 385Million people, thereby encouraging a number of international companies to increase substantially in the recent years. In 2003, top exports included horticulture (26.7%) and tea (24%), followed by apparel, coffee, iron and steel, soda ash, fish and plastic.

The respondents stated that despite Kenya having one of the most diversified economies East Africa, Kenya's FDI flows have maintained a lower rate than those of the neighbouring countries in recent years. Particularly the year 2003 did see a sharp increase in FDI inflows, totalling USD 82Million, a considerable upturn from 2002, where FDI inflows totalled just USD 28Million. Inflows settled at 46Million in 2004. The main

²⁴² Ibid

sources of FDI in Kenya are India, China, UK and Germany. The government implemented reforms in the legal framework for FDI in order to encourage investment. Some of these incentives include abolishing exports and import licensing; reducing import tariffs, rationalizing and revoking all export duties, freeing Kenya shillings exchange with domestic banks and current account restrictions; and removing restrictions regarding borrowing by domestic and foreign companies.

According to the key informants²⁴³ restrictions on investment included changes stipulated in 2004, this was in the investment promotion Act requiring a minimum investment of USD500,000. The act also introduced requirements that the investment must create employment for Kenyans, general government revenues and bring new technology into the country. These are among various factors considered as key factors to growth measurement in a country. Among the key factors to growth are, Human resources and international transportation infrastructure, of which are two main aspects of Kenya's attractiveness when it comes to investment environment. Kenya boasts of the highest literacy rates resulting in a high level of qualified upper level staff and skilled labour. This large supply of labour also contributes to fairly low wage levels. Flexible employment regulations make workforce management comparatively easy for companies in Kenya. Kenyan firms also benefit from access to well-developed sea shipping and air freight services. Investors reported some of low prices in official rentals, and utility costs are at a competitive level. In part, it is due to the low cost of water at USD 0.42/ cubic meter. Kenya's EPZ's also strengthen the operating environment for zone based industries, as these areas have comparatively good electrical, water and

²⁴³ An interview with Human resources managers from Standard Chartered, National Oil Corporation of Kenya and China Jiangxi International (Chinese Company).

telecommunications and connections; conducive environments for foreign direct investment.

4.13 Chinese versus US Foreign Domestic Investment in Kenya

According to the finding Kenya has been a long beneficiary of significant inflows of FDI from China. It is estimated that over US\$16 billion of China's global portfolio regarding FDI is based in Africa. With increment in FDI from US\$392 million in the year 2005 to US\$2.5 billion in the year 2012 (Chinese Ministry of Commerce). Nevertheless, China still has heavy investment in Hong Kong, Singapore and Taiwan as well as in the US and other Western Europe countries by comparison. FDI is often dwarfed by bilateral trade that takes place between Africa and China. This is expected to have been more the US\$200 billion in 2014.²⁴⁴

African countries that have been trading with China has seen more than US\$1 billion in trade within the continent of Africa and it is estimated that more than 20 countries in Africa are China's trade partners. China has signed trade agreements with various African governments aimed at facilitating investment co-operation and also ensure that there is fast-tracking of the inflow of FDI into the continent. For instance, in May 2014, Nigeria and China signed a memorandum of understanding that is aimed at encouraging and supporting investment by Chinese enterprises in Nigeria. This is through investment promotion events and having the clients of China-Africa Development Fund introduced to investment opportunities in Nigeria.²⁴⁵ Similar agreements in Africa have already led to major FDI projects being launched in Africa by China. For instance,

²⁴⁴ Ministry for Planning and National Development (2013). Economic Recovery Strategy for Wealth and Employment Creation. Nairobi.

²⁴⁵ Ibid

Chinese FDI into Tanzania is projected to increase to US\$3 billion which is a 50% increase, and its mainly focusing on the energy and mining sectors within Tanzania. FDI from China in the country has also been directed on infrastructure and mining. Resulting from this investment, Tanzania is focused in becoming a net exporter of liquefied natural gas (LNG), minerals and industrial manufactured products and agricultural produce. China is also committed in building a new railway line in East Africa. It aims to achieve this by providing financial support approximated to be US\$3.8 billion for the first phase of this project. In 2014, China's largest railway corporation, China Railway Construction Corp signed an agreement to build a 1,400km railway in Nigeria. It amounts to the largest-ever FDI deal outside of the extractive industries that China has been involved in.

According to the key informants China has increasingly become a major economic and development partner in Kenya creating a paradigm shift from our former colonial masters, the west. Over the twentieth and twenty first century, Chinese influence in Kenya has grown to its peak in various sectors of the economy.²⁴⁶ Kenya has expanded its infrastructural development through major projects such as Thika Super Highway, Kisumu International Airport just to name but a few through the Asian Tigers' superior expertise, concessional loans and grants. Moreover, the setting up of the Chinese Confucius institute in various universities in Kenya and the commercial ventures have opened up the Chinese culture to the curious Kenyan people.

There has been a 20% decline in US FDI projects in Africa in the year 2014. However, the US has still remained the second largest investor in Africa behind the United Kingdom. President Obama launched the 'Power Africa' investment initiative at a cost of US\$7 billion that is aimed to double electricity access in six African countries.

²⁴⁶ Ibid

The project is to power 60 million homes and business through the use of a cleaner energy sources that will be mainly wind and solar sources. In August 2014, President Obama announced an additional US\$300 million investment aimed at helping in production of 30,000 megawatts of additional capacity to be provided to the initial set of countries it had partnered with that includes; Ethiopia, Kenya, Liberia Ghana, Tanzania and Nigeria. The US private companies have also in 2014 committed a further US\$12 billion aimed at supporting the Power Africa electrification project.²⁴⁷

As potentially increase in the significance of US interests in Africa, in August 2014, additional two of the largest equity firms that are private in the US namely The Blackstone Group and The Carlyle Group, have separately signed strategic partnership agreements with Dangote Industries and the African industrial conglomerate. The agreement is aimed at investing their business in sub-Saharan Africa region that has a good climate for investments.²⁴⁸ Both Blackstone and Dangote Industries will have a joint investment amounting to US\$5 billion in energy infrastructure projects. This is expected to take place within the next five years, and the particular focus will be on power, transmission and pipeline projects. The joint investment by Dangote Industries' and Carlyle will mainly focus on the gas and oil sector, as well as the financial services, consumer services, and agribusiness sectors, and this will take place, as Carlyle will use its sub-Saharan Africa fund amounting to US\$698 million vehicle that closed in April 2014.

²⁴⁷ OECD (2011). Corporate Tax Incentives for Foreign Direct Investment. Tax Policy Studies 4. Paris.

²⁴⁸ Ibid

4.14 Chinese Technology Transfer via FDI Contribute to Productivity and Economic Growth in Kenya

According to the key informants’²⁴⁹ among the enduring assumptions regarding economic growth is that the opinion the developing countries will “catch up” with rich countries. This is based on the process of technology transfer that happens through the movement of capital from developed to emerging economies.²⁵⁰ Through the FDI vehicle, the embodiments of more advanced technology in capital from developed countries tend to induce faster growth in developing countries. Specifically, an FDI spillover happens when the FDI increases the productivity levels of domestic firms and the value involved in the benefits is not internalized completely by the multinational corporation (MNC).²⁵¹ It results into technology transmission and productivity gains within the developing country. It also permits them to experience a faster growth and eventually “catching up.” This theory, though, has limited empirical support. The limitations are based on the difficulty of measuring the transfer of technology.

According to the study findings, emergence of China economically offers an opportunity to which measurement and examination of the mechanisms through by which developing countries can “catch up”. Has China’s decades-long policy involving management of technology transfer yielded the productivity gains that has hastened its remarkable economic growth? To Kenya, China is the leading destination for FDI and is some distance from the frontier of technology. China’s FDI policy is aimed at developing International Joint Ventures (IJVs). This is between a Chinese and a foreign firm and it also involves attraction of technology aimed at improving the productivity of domestic

²⁴⁹ Ibid

²⁵⁰ An interview with respondents from Standard Chartered and China Jiangxi International

²⁵¹ An interview with employees from National Oil Corporation of Kenya

firms. For instance, the location of foreign firms within Special Economic Zones (SEZs). The bulk of China's FDI is invested as joint ventures form, this form is thought to have a higher likelihood of inducing spillovers that are technology-related to domestic firms. Such productivity gains prospects are strong in China. Although, there is limited direct evidence from China as well as other economies. Hence, China provides an ideal testing ground is assessing whether formal IJV transfer of technology regarding agreements are effective and efficient mechanism for development.²⁵²

According to the key informants²⁵³ most of the Kenyan EPZ firms recruited people without experience in the garment industry who were then trained within the factory. In this case, the EPZ firms do not compete directly with the local firms. Equally, some of the people who were employees at EPZ have left formal employment to start their own garment firms at a small-scale level. They are using the training and experience they acquired while working in the EPZ garment firm. More importantly, some production expatriate workers left EPZ firms to team up with local investors to establish garment factories. There are some locally-owned (non-EPZ) firms specialized in high value activities such as embroidery, sand-blasting, stone-washing and printing, and that they get regular subcontracts from EPZ firms. In this way local firms are able to participate in the global apparel value chain indirectly. Local garment firms have increased their rate of purchasing machinery from EPZ firms. This is either when the EPZ firms undergo upgrading process of their machinery inventory or sometimes

²⁵² Ibid

²⁵³ An interview with Human resource managers

when they close down. The cheap and appropriate capital goods have resulted in local firms using relatively modern technology in their production activities.²⁵⁴

In Kenya, there appears to be the growth of small -scale entrepreneurial investment from China, often presaged by the construction of specialized shopping malls retailing Chinese goods. According to the findings prospects of technology transfer are real, but along with these emerging trends, here is displacement of existing and potential local producers; less spin -off to local economy than other foreign contractors; while increased Chinese FDI could lead to disinvestment and relocation by other foreign investors (for example, clothing and furniture).China labor conditions have generated intense interest among international policymakers, labor movement activists, and development agencies. The extent to which such labor conditions could be imported into Kenya through FDI is a cause for concern, especially in the EPZs w here already protests have been encountered due to poor working conditions.

4.15 Changing Patterns in Foreign Direct Investments Comparing Trends of FDI Inflows over the Years, Especially from Britain and from China

The study findings reveal that²⁵⁵ Kenya's step to take a sharp turn to the East mainly for financing of development and business under Kibaki's government has been able to topple European countries who had long-held the positions of being Kenya's leading sources of FDI. The latest data on FDI economic investments indicate that China, India, South Africa and South Korea have in the recent past risen to stand among the top five sources of FDI for Kenya. Hence, knocking off Germany, UK and the Netherlands

²⁵⁴ Ibid

²⁵⁵ Bengos, M., and Sanchez-Robles (2003), "FDI, Economic Freedom and Growth: New Evidence from Latin America", *European Journal of Political Economics*, 19: 529-545

who have been at the top since independence. According to the key informants²⁵⁶ change in FDI pecking order deepened in the past couple of years as the majority of developed countries under the shockwaves of debt crises had to cut back on FDI while the emerging economies increased their search for new opportunities in business in frontier markets.

The findings reveal that in 2013 South Africa, China, India and South Korea had invested a total of Sh4.4 billion. This made them to be top four out of five top FDI sources for Kenya. According data from Kenya Investment Authority, shows that most of the FDI went into specific sectors that includes energy, manufacturing, construction and tourism. China has become the leading source of FDI for Kenya after pumping Sh2.5 billion into the economy. This was aimed at consolidating its new-found economic influence in the country. China broke into Kenya's list of as among the leading FDI sources last year when it invested a total of Sh40.2 billion. Economies that are developed, including Israel, Germany, Canada and Italy have lost their influence after each invested less than Sh500 million FDI in Kenya last year.

According to the finding UK which is Kenya's former colonizer, recorded the largest decline in the recent years when it comes to FDI flows to Kenya. UK's FDI in Kenya was at Sh202 million in the first six months of the year. It was ranked sixth in the FDI table. The ranking represented a significant reduction from 2009 when it topped Kenya's FDI table. This is when it had investments worth Sh19.6 billion. The Kenyan government has recently made clear its intention to shift from West to East with an East-bound diplomatic charm offensive that was led by President Kibaki. Since 2003 when he come to power, Mr. Kibaki has made a visit to all the emerging economies that are now

²⁵⁶ Ibid

ranked top regarding FDI sources in Kenya. He did not travel to any of the industrialized economies that had topped the list in the past except for the US.²⁵⁷

The findings reveal that In Kenya, there is a view about the growing influence of the emerging economies. It has been viewed as a positive move, and it not only offers the easier management of the foreign policy by the government, but also helps in expanding the jobs market by establishing of new ventures. There is a tendency by developed economies to attach strings when it comes to their FDI. This is besides being overly risk-averse making and less reliance on them for investment critical. Challenges facing Kenya regarding development that includes poor infrastructure and unemployment should raise the country's interest in FDI flows to the labor-intensive sectors that includes manufacturing. Emerging economies investments' should translate into pricing that is affordable regarding the big-ticket public infrastructure projects as well as the consumer goods for Kenya. Companies from emerging markets have traditionally charged lower prices as compared to their rivals in developed countries' in instances where both are competing for frontier market contracts.

4.16 Conclusion

The phenomenon of China in the international arena is quite imperative. It is a representation of the opportunities and challenges that should be taken seriously by African policy makers. They should also respond to it intensively. Based on this, the African Economic Research Consortium has embarked on an in-depth research on Impact of China and India on Africa. This is more specific , including for the countries

²⁵⁷ An interview with Peter, Wafula and Cael National oil company

comprising of OECD, Asian and Latin American countries have been responding to this phenomenon.

According to the findings Kenya dramatically underperformed in attracting FDI over at least the past two decades. This was the consequence of rising corruption and insecurity, deteriorating infrastructure and poor economic policies, rather than of formal restrictions on FDI entry. Majority of the key informants concluded that in spite of the poor economic performance of the past decades, Kenya remains a regional business leader and retains regional advantages in FDI location, particularly as a result of the quality of its workforce and a central logistics position. In contrast, global shifts in manufacturing production, and to a lesser extent services, from the developed to the developing world are passing Kenya by, as illustrated by its failure to attract new and dynamic FDI. Far from benefiting from these FDI-led global shifts, the evidence is that Kenya is losing ground as potential foreign investors stay away from the country and existing investors relocate elsewhere.²⁵⁸

According to the findings ²⁵⁹ there have nevertheless been welcome bright spots, such as the rise of internationally competitive floriculture and horticulture, and the success of Kenya Airways in transport and logistics. In contrast, it is most uncertain whether the size and quality of current FDI in garments will ensure long-run competitiveness and sustainability.

Additionally, Kenya's position in the production of basic manufactured goods for the region has been eroding and is not being sufficiently supported to meet the

²⁵⁸ An interview with Phillips, Lucie, Obwona, Marios, McMillan, Margaret and Ayako, Aloys human resource managers

²⁵⁹ Communication Commission of Kenya (2009). The New Telecommunications Market Structure. Nairobi.

competitive threats or to grasp opportunities. Kenya does not currently have a genuine strategy to harness FDI to aid national development. To the contrary, the recent Investment Promotion Act imposes unnecessary new barriers to FDI that will more than offset the possible gains of new incentives offered under the Act. If Kenya were to succeed in attracting as much FDI per unit of GDP as developing countries on average in 2010, inflows would be sustained at \$400 million a year, over ten times the average in 2011. A strategy to attract such types and levels of FDI inflows and maximize their developmental benefits should contain four elements:- Improving the dynamic determinants of FDI, Providing a competitive and efficient investment framework, Targeting high potential investment opportunities for special regulatory attention and investor promotion and Gearing government agencies for effective investment promotion.²⁶⁰

²⁶⁰ Ibid

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This chapter presents summary of the findings, conclusions based on the findings and recommendations thereto changing patterns in foreign investments in Kenya and their impact on HR policies: Case studies of China and Britain. The chapter also presents recommendations for further studies.

5.2 Summary of Findings

The study aimed to assess changing patterns in foreign investments in Kenya and their impact on HR policies: case studies of China and Britain. it was guided by the following objectives : to investigate how foreign investors have impacted HR policies in Kenya, to analyse how China as a FDI investor has impacted HR policies, to investigate how different government regimes have handled, facilitated and implemented FDI change in Kenya, to analyse why Kenya has shifted its foreign policy on investment to the East (China) rather than the West (Britain) and to determine how foreign investors have impacted HR policies in terms of transfer of technology and how they differ by comparing policies for Britain and China.

The study established that Kenya has a positive investment climate that has enabled it attract international firms that are seeking a location for their regional hub or enhance their African operations. Kenya's investment climate is made up of stable fiscal, monetary and legal conditions that makes few distinctions regarding foreign and domestic investment. Kenya as a country has a strong telecommunications infrastructure,

financial sector that is robust, and strong aviation connections within Africa and to Asia and Europe. Its port at Mombasa is a significant trade gateway for the East African region. Kenya is characterised by a population that is well educated and a growing urban middle class. Enhancing integration among the member states of EAC as well as Kenya's membership within other regional trade blocks increases access to a large market within the region that is outside of Kenya. Main challenges for investors are Kenya's low rankings on international measures regarding the ease of doing business that has been consistent and issues related to corruption. Kenya also faces the threat of insecurity resulting from terrorism and crime.

The findings established that Foreign Direct Investment (FDI) impact Human Resource policies in terms of transfer of technology. Technological transfers have taken place mostly through transfers of managerial skills and processes and not so much through embodied technology. Formal research and development is very low and is confined to a few large enterprises. The operations of foreign enterprises in manufacturing are largely in the production of low-end consumer and agro processed goods for the local and regional market and cut-make-trim operations in garments for the United States. There are a few cases of more complex technology use or use of advanced processes in manufacturing, as with General Motors in vehicles, and Tetrapak in packaging.

5.3 Discussion of the Findings

5.3.1 Changing Patterns in Foreign Direct Investments (FDI) Kenya

On Changing Patterns in Foreign Direct Investments (FDI) Kenya the finding established that the flow of Kenya's FDI has constantly maintained a lower rate than those of its neighbours in recent years. 2003 did experience a sharp rise in Kenya's FDI inflows, totalling USD 82 Million, a considerable upturn from 2002, where FDI inflows totalled just USD 28 Million. Inflows settled at USD 46 Million in 2004. The main sources of FDI in Kenya have been India, China, UK and Germany. The government implemented reforms in the legal framework for FDI in order to encourage investment. Some of these incentives include abolishing exports and import licensing; rationalizing and reduction of import tariffs; revocation of all export duties and restrictions of the current account, freeing Kenya shillings exchange with domestic banks, and elimination of restrictions on borrowing by both domestic and foreign companies.

According to the findings Kenya's sharp turn to the East for development financing and business under the Kibaki regime has been able to topple European countries who for long held top positions as Kenya's leading sources of FDI. The recent economic data indicates that China, India, South Korea and South Africa have risen to stand among leading top five sources of FDI for Kenya. Hence, knocking off the UK, Germany and the Netherlands who have dominated since independence. According to the key informants change in FDI pecking order deepened in the past couple of years as the majority of developed countries under the shockwaves of debt crises that has been able to make them cut back on their FDI while the economies that are emerging have scaled up their search for new opportunities for business in frontier markets.

The findings also indicates that Kenya has lost its attractiveness to competitive investment. Kenya has experience this loss in terms of retaining the investment stock. Kenya's loss in investment competitiveness is due results coming from many inter-connected factors that includes negative opinion that is held by investors regarding political instability, corruption, poor governance, inadequate infrastructure, crime, insecurity, policy instability and theft.. Private investment that was steadily growing at an average of 10% between 1985 and 1989 only grew by 0.4% between 1997 and 2001. The study findings revealed that China's investment projects in Kenya are about 96 currently and has a workforce of about 6,700 Kenyans. It also has an investment capital amounting to 52.6 million US dollars. This is based on data obtained from Kenya Investment Authority (KIA). Between the year 2000-2005, the total FDI was US\$446 million. From that US\$ 32 million came from China, hence representing 7.2 per cent. China as an investment partner had a total of 57 projects during the period. Although this measurement is crude due to the incompleteness of available data, on average, China's FDI is about US\$ 0.56 million when it comes to its projects. Most FDI from China is by companies that are based in China wholly or they are partially state owned even though they operate in Kenya they operate as private companies. Currently, the FDI from China has remained very high. The FDI flows from China has become remarkable in the last three years.

5.3.2 Impact of Foreign Investors on Kenya's Human Resource (HR) Policies

On Impact of Foreign Investors on Kenya's Human Resource (HR) policies, the findings established that workers already trained by or worked in foreign affiliates may

be potentially available to work in domestic firms or start their own firms in the same industry. training and human capital development are often more important in service industries because training in service sectors is more directly focused on strengthening the skills and know-how of employees, while training in manufacturing sectors is often to facilitate the introduction of new technologies embodied in machinery and equipment.

The findings further reveal that FDI usually flows in terms of bundle of resources, and it includes marketing know-how, organizational and managerial skills, and access to market through the networks of marketing used by multinational enterprises (MNEs). The study findings indicate that new growth theories claims that transfer of technology that happens through FDI in countries that are developing is significant since most developing countries do not have the necessary infrastructure in terms of population who are educated, markets that are liberalized, economic and social stability required innovation to promote growth. The preference for export-oriented FDI has led to intensive competition among developing countries seeking to attract such investment and to a convergence among policy and promotional environments of these countries in pursuit of FDI.

According to the findings, the coincidence regarding host country's affiliates capital deepening and the shift regarding relative employment towards the skilled workers indicates consistency with capital skills in complementing transfer of technology. The training requirements in preparation of the host affiliates' labour force in working with new technology indicates that there might be impacts of FDI regarding the accumulation of human capital. The findings reveal that that FDI has a "crowding-in" effect on domestic investment thus facilitating the expansion of domestic firms. FDI actually leads

to investment that is more domestic. MNEs often engage in lending support to local educational institutions in countries that are developing and in so doing impacts on human capital accumulation. MNEs offer training of workers in developing countries. However, it is highly likely to happen where there is a large work force, and highly educated, and where the MNEs invest in R&D and are export oriented. It is also noted that MNEs can improve the national supply of skilled labour in countries that are developing indirectly through its impact on the macro economy. He confirms that MNEs can ensure a steady stream of supply of income that can boost fiscal policy. Hence, providing a way that governments can use to increase their spending on education. In addition, the findings reveal that FDI provides capital investment stability which can inhibit brain drain (no evidence has been found on this) and contribute to the general equilibrium incentive of individuals in host countries to acquire skills through education and/or training.

5.4 Conclusion

From the data analysis the researcher concludes that FDI by Chinese companies has great effect on human resource development; mainly due to training and transfer of foreign useful skills. The study further concludes that FDI by Chinese companies lead to creation of employment in Kenya. Finally the study concludes that FDI by Chinese companies lead to high capital supply which in turn leads to economic development in Kenya. Economic theories claim that FDI has the ability of being a significant component of a nation's strategy of development. The study concludes that inflow of capital such as FDI has the capability of enabling countries to experience more import than the

export. Hence, enabling them to invest more than they save and thus accumulate capital faster, boosting labour productivity and wages.

The study further concludes that FDI has the potential to absorb some of the surplus literate labour in the rural and urban informal sectors. Employment creation in industries with good productivity growth prospects is an important aspect of poverty alleviation strategies, which is good for local entrepreneurs. FDI also can transfer technology and expertise, stimulating the productivity of locally owned firms.²⁶¹

This can happen through training, emulation and competition within industries especially where foreign firms are present. This can happen through the “forward and backward linkages” that happens with other industries (for example, the provision of both input and output by foreign firms to the domestic enterprises under terms that are more favourable terms than imports and exports). Country’s finding of a direct relationship that occurs between FDI and the economic growth. Government’s should strive in attracting more FDI but at the same time exercising strict rules and regulations that are involved in foreign investment and make all efforts in micromanaging FDI. Favouring it in some industries through the use of targeted subsidies while at the same time forestalling it in other industries through the use of legislation.

From the findings, it is imperative that policies that promote economic growth to should be given enough attention for the purposes of increasing economic growth and in turn to attract FDI. It is also observed from the study that FDI tends to attract higher FDI than others. Kenya is characterized by a comparatively low levels that when it comes to FDI and thus it needs to improve its business environment. This can be done through ensuring that the administrative procedure, judiciary and the legal systems are improved

²⁶¹ Ibid

so as to promote property right, mitigate corruption and enhance respect for the rule of law and all the due processes. If implemented, all of this will lead to higher levels of much needed FDI that is channelled into the country. It simply means that FDI that is channelled into the country must be well utilized in the targeted projects and this is in consideration of the recent negative stories about mismanagement of funds that were meant for free primary and secondary education. Hence, relevant bodies and authorities should be vigilant in the prosecution of those in positions of leadership who break the law.

5.5 Recommendations of the Study

The researcher recommends that Foreign Direct Investments (FDI) by Chinese companies in Kenya should be encouraged and the right investment environment ought to be provided for them as it results to economic growth through human capital development, employment and capital supply.

5.5.1 Policy Recommendations

Going by the findings and conclusions drawn from this study, the following recommendations are suggested; Policies that includes opening up of the economy through engagement in more bilateral and multilateral agreements involving trade. Improving infrastructure quality by channelling more resources and developing it especially in marginalized regions of Kenya. Also regarding the backdrop of oil and water discovery in Turkana, the government should demonstrating the political goodwill regarding the fight against corruption hence instilling more confidence on foreign

investors. Implantation of these policies may increase attraction of FDI into Kenya thereby increasing the economic growth. MNCs play significant role in attracting FDI into the Kenyan market, and this especially in the construction sector. One of the direct impacts of this is the fear that is held by locally owned businesses in terms of losing control over the industries and markets to the expanding MNCs. In order to provide answer to the question on how national companies can survive and also compete with the MNCs. The government must be able to revisit their policies regarding FDI and MNCs. Besides, due to the effects of FDI that is positive on the Kenyan economy, the Kenyan government should strive to keep its open door policy to MNCs and FDI in the future.

Nevertheless, feasible measures should be carried out to limit the demerits on domestic businesses. The Kenyan foreign investment policy should be taken into consideration as a supplemental part of the development policy used domestically. The opening to MNC and FDI investment should be conducted simultaneously. Special treatment should not be rendered to MNCs. Instead, the local companies should be given equal treatment and the constraints related to administration of the domestic state owned enterprises should be eliminated gradually. The government also take more steps in attracting FDI, and this can be done through marketing the economy and finally setting up agencies tasked in national investment promotion.

Regarding policies on investment promotion, Kenya should take a proactive approach towards FDI promotion. It should also look explicitly for ways in which it can be able to increase its benefits regarding technology, market access, and skills. Under these types of policies, the foreign investors are often targeted at the industry level for the purposes of meeting Kenya's specific needs that are in line with its development.

5.6 Suggestions for Further Studies

The researcher suggests that further studies should focus on analysing specific cases within various sectors and counties in Kenya. This is aimed at allowing for specific policy recommendations and the employment more robust econometric models. Hence, the impact of FDI on the economy can be made that more successful.

The Kenyan economy is largely agricultural based. Studies should be carried out into the feasibility of directing FDI towards the small scale agricultural industry, and it should be with the aim of countering poverty. In the wake of the vibrant mining sector in the recent past wherein foreign companies having superior knowhow and equipment being on the forefront in the exploration of natural resources in Turkana. Studies should therefore be conducted before breaking the ground to allow appropriate policies to be put in place to prevent negative impacts on the local economy. In addition, a study should be conducted on investor responses regarding the effects of various institutional variables that related to their businesses. This shall provide information about other the side of the coin as FDI is viewed from the MNCs perspective.

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APPENDICES

Appendix 1: Questionnaire

Instructions

(Please read the instructions given and answer the questions as appropriately as possible). It is advisable that you answer or fill in each section as provided. Make an attempt to answer every question fully and honestly.

Section A; Background Information

1. What is your gender?

Male ☐ Female ☐

2. Indicate your age group (years)

21-30 ☐ 31-40 ☐ 41-50 ☐ above 50 ☐

3. Indicate your level of education

O level ☐ Diploma ☐

Degree ☐ Masters and above ☐

Section B: Changing Patterns in Foreign Direct Investments (FDI) Kenya

4. To what extent do you agree? Use a scale where 1- To a very low extent, 2- To a low extent, 3- To a moderate extent, 4- To a great extent and 5-To a very great extent (please tick appropriately).

Statement	1	2	3	4	5
FDI increases growth through productivity and efficiency gains by local firms					
Kenya has a generally positive investment climate that has					

made it attractive to international firms seeking a location for their regional					
Kenya has a strong telecommunications infrastructure, a robust financial sector, and solid aviation connections both within Africa and to Europe and Asia.					
Kenya has a well-educated population and a growing urban middle class					
Kenya has long benefited from significant inflows of foreign direct investment.					
Change in Britain foreign policy has compelled the Kenyan government to focus on Asia, which resulted to decline in the number of Britain's FDIs.					
UK, has the largest decline in FDI flows to Kenya in recent years.					
There have been changes in trends in the FDI's in Kenya with a major shift from the West (UK and US and other European Nations) to the East, specifically China					
China has disrupted the workforces in Kenya which were highly influenced by Britain and but they have had little impact on human resource policies.					
China has become the leading source of Kenya's foreign direct investment (FDI)					

Section C: Impact of Foreign Investors on Kenya's Human Resource (Hr)

5. To what extent do you agree? Use a scale where 1- To a very low extent, 2- To a low extent, 3- To a moderate extent, 4- To a great extent and 5-To a very great extent (please tick appropriately).

Statement	1	2	3	4	5
Human Resource Development (HRD) and Foreign Direct Investment (FDI) are among the key drivers of economic growth in Kenya					
HRD encourages the forces behind the FDI by making the investment climate attractive for foreign investors					
FDI contributes to HRD since multinational enterprises (MNEs) themselves can be active providers of education and training, bringing new skills, information and technology to host developing countries					
Investment in physical capital related to new technology link FDI with human capital development					
FDI actually leads to more domestic investment					

Appendix 2: Interview Guide

1. What's your understanding of Foreign Direct Investment (FDI)?
2. What is the trend of foreign investor's inflow in Kenya from the East, especially China?
3. What is the trend of foreign investor's inflow in Kenya from Europe, especially Britain?
4. In your own opinion does Chinese technology transfer via FDI contribute to productivity and economic growth in Kenya?
5. What is impacts foreign direct investment (FDI) on human resource development?
6. What is impacts foreign direct investment (FDI) on domestic investment?
7. Does changing patterns in foreign investment in Kenya impact on HR policies?
8. How do you compare trend of FDI inflows over the years, especially from Britain and from China?
9. How do you compare Britain and China foreign direct investment (FDI) on HR policies in terms of transfer of technology in Kenya?
10. What's your concluding remark?