CHALLENGES OF FOREIGN DIRECT INVESTMENT FACED BY FIRMS IN THE APPAREL MANUFACTURING INDUSTRY IN THE KENYAN EXPORT PROCESSING ZONES

By
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Declaration

This research project is my own original work and has never been presented in any other University

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Dedication

I dedicate this project to my parents for supporting my ambitions in life.

Abstract

Foreign Direct Investment (FDI) is a complex foreign market entry mode which involves the ownership and control of assets in a foreign market or direct ownership of facilities in the target country. Foreign Direct Investment contributes to the growth of domestic firms through complementarities in production and productivity spillovers. With the ever-changing environment, entry mode decisions and how to cope with such changes are very challenging to International Business Managers as wrong decisions could be irreversible and costly on the long run. Kenya has been involved in Global trade for many years, but mainly in the agricultural sector and with the US Congress passing the African Growth and Opportunity Act (AGOA) in 2000, and enhanced by the formation of the Export Processing Zones (EPZ) in Kenya, there is renewed interest in the once declining apparel manufacturing industry with the inflow of Foreign Direct Investments into the apparel sector mainly within the Export zones in order to reap the incentives offered by the EPZ Scheme. With the window of opportunity presented by AGOA which provided the major market expected to close in September 2015 and compounded by other challenges like the deterioration of the Kenyan infrastructure, port congestion, poor supply and cost of electricity, and high cost of labor, this study attempted to investigate the challenges of Foreign Direct Investment faced by firms in the apparel manufacturing industry in the Kenyan export processing zones and the measures adopted by the firms in dealing with the challenges. Data for the study was collected from fourteen out of the fifteen FDI firms in the apparel manufacturing industry in the Kenya export processing zone using drop and pick method. Analysis of the data concluded that fiscal policy, state and cost of infrastructure, customs regulations and market and product are the major sources of challenges. The study highlighted that political, legal and social variables, human resource variables are not major challenges with land related challenges not a challenge.EPZ Authority generated measures were the most effective measure in dealing with the challenges faced by the FDI. However, others such as corporate social responsibility measures, in-house generated measures, parent company generated and globally outsourced measures equally play a pivotal role in helping deal with the effects of the challenges. Trade organization /affiliates, Non-governmental /lobby groups and other Kenya Government ministry /agency were providing the least assistance to overcome the challenges. A study on the factors that promote effective growth of foreign direct investment in apparel manufacturing industry in Kenya, a comparative study on challenges that affect locally owned and foreign direct investment in apparel manufacturing industry in Kenya and a study on the service levels, the strengths and effectiveness of the Export processing zones authority is recommended. The Government by strengthening the EPZ Authority, ministries and affiliates should facilitate more interaction with the foreign direct investors to overcome the challenges. The investors on their part should form lobby group to enable them to market their product more easily.

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Abbreviations and acronyms

FDI	:	Foreign Direct Investment
AGOA	:	African Growth Opportunity Act
EPZ	:	Export Processing Zones
EPZA	:	Export Processing Zones Authority
M&A	:	Mergers and Acquisition
MNC	:	Multi National Corporation
MNE	:	Multi National Enterprises

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Foreign Direct Investment (FDI) is a complex foreign market entry mode, which involves the ownership and control of assets in a foreign market or direct ownership of facilities in the target country. Basu and Srinivasan (2002) have identified three motives for Foreign Direct Investment as Natural-resource-seeking investment, Market-seeking investment, and Efficiency-seeking investments. Foreign Direct Investment contributes to the growth of domestic firms through complementarities in production and productivity spillovers (Borensztein et al., 1998). With the ever-changing environment, entry mode decisions and how to cope with such changes are very challenging to International Business Managers as wrong decisions could be irreversible and costly on the long run (Anderson and Coughlan, 1987).

Kenya has been involved in Global trade for many years, but mainly in the agricultural sector and with the US Congress passing the African Growth and Opportunity Act (AGOA) in 2000, and enhanced by the formation of the Export Processing Zones (EPZ) in Kenya, there is renewed interest in the once declining apparel manufacturing industry with the inflow of Foreign Direct Investments into the apparel sector mainly within the Export zones in order to reap the incentives offered by the EPZ Scheme.

Foreign Direct Investments not only being a source of Capital, provide other potential benefits to host countries which include technology transfer, new management skills, job creation and at the same time may face challenges like political uncertainty, corruption, macroeconomic uncertainty and social-cultural differences. With the window of opportunity presented by AGOA which provided the major market expected to close in September 2015 (agoa.gov) and compounded by other challenges like the deterioration of the Kenyan infrastructure, port congestion, poor supply and cost of electricity, and high cost of labour, this study aims to investigate the challenges faced by Foreign Direct Investment in the apparel manufacturing industry in the Kenyan export processing zones and the measures adopted by the firms in effectively addressing the investment challenges.

1.1.1 Foreign Direct Investment

One of the foreign market entry modes is through Foreign Direct Investment (FDI) which involves the transfer of resources including capital, technology and personnel. Foreign direct investment may be made through the acquisition of an existing entity or the establishment of a new enterprise, a green field strategy. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment.

Foreign Direct Investment is an important element of economic development in all countries especially the developing ones, as they are often regarded as generators of employment, high productivity, competitiveness, higher exports, access to international markets and international currencies (Caves, 1996). The advantage of technology transfer by technology spillover to local firms may assist the host country in its technological developments to further its industrialization (Borenstein, 1998).

Foreign Direct Investment provides positive net benefits to the host country therefore; many countries provide a range of incentives to entice FDI that include tax and duty concessions and guarantees against nationalization. Tax concessions include tax holidays, accelerated depreciation and exemption of investment income from corporate income tax. Foreign Direct Investment is one of the most important international resources in a developing country .The host country firms can utilize the worldwide network of FDI's in order to venture into the international market. Basu and Srinivasan (2002) have identified three motives for Foreign Direct Investment as Natural-resource-seeking, which aims to exploit the natural resource endowments of countries. Market-seeking, which aims to access new markets that are attractive as a result of their size and/or growth and Efficiency-seeking, which aim to take advantage of special features in a certain areas such as the costs of labor, the skills of the labor force, and the quality and efficiency of infrastructure.

Foreign investments provide towards economic advantages and therefore all developing countries want to attract foreign investments, and in Kenya the level of FDI has been low for the past few years (Kinaro, 2006) and very unstable and very unpredictable (Phillips et al., 2000) as this is explained by weak economic institutions and slow pace of political reforms during the period of 1980-1990s. Policy formulators in Kenya are concerned that insecurity, corruption, poor infrastructure, high utility costs, high real interest rates and limited legal recourse has contributed to low investor confidence and low Foreign Direct Investment inflows and account for the unstable inflows (Mwega and Ngugi, 2007).

For the international firms the challenges of international business environment are ever present. Social, Political and legal challenges such as, unfavorable legislation towards foreign firms, government intervention, political unrest, insecurity, bureaucracy, cultural differences, negotiation patterns, values and norms. Economic challenges like currency fluctuation, inflation, interest rates, capital repatriation and local competition are some of the threats that international firms face in host countries (Cavusgil el at, 2008).

1.1.2 Export Processing Zones

The ILO/UNCTC (1988) defines: "An EPZ as a clearly delineated industrial estate which constitutes a free trade enclave in the customs and trade regime of a country." The features of export processing zones include duty-free imports of raw materials, intermediate input and capital goods necessary for the production of exports with less governmental red-tape and are more flexibility with labour laws compared to firms in the domestic market. An export processing zone is any area that for the time being is designated by law as outside the national territory for the purpose of the operations of the customs laws (Wanyama, 2003).

In 1997, 93 countries had set-up export processing zones and employed 22.5 million people. By 2003, EPZ's were in 116 countries with employment in a tune of 43 million (Sargent and Matthews, 2009) and by 2008, World Bank has estimated approximately 3000 zones in 135 countries, accounting for over 68 million direct jobs and over $500 billion of direct trade related Value Added within the zones (World Bank, 2008) hence the need to give importance to the EPZ with reference to the employment it has created over the period of time.

The developments of EPZs are encouraged in order to attract FDIs which in turn are expected to promote non-traditional exports, provide employment and thus accompanied by technological transfer and knowledge spill-over. From a "product life cycle" point, as the migration of manufacturing process shifts to less developed countries, so does capital and labour which is motivated by the labour cost differential between the developing and developed countries (Warr, 1993).

Johansson and Nilsson (1997) believe that the enclave nature of EPZs and the low-skilled labour used in the production process does not promote technology transfer, however learning-by-doing and on-job-training are major technology transfer modes. The upgrading of skills through practical process accumulates as human capital investment.

Madani (1999) elaborated the four interlocking advantages of Export processing zones, namely the triggering of a process of industrial development in the wider economy reforms of a country, overcome unemployment, experiment for free market policies and attract foreign capital to bolster the economies' competitiveness.

1.1.3 Export Processing Zones in Kenya

Following the recommendation of a USAid financed study in 1989,Export Processing Zones (EPZ) Authority in Kenya was created in 1990 by an Act of Parliament (CAP 517 of the Law of Kenya) which provides for the institutional, legal and incentive framework for EPZ programs (Wanyama,2002). The EPZ scheme promotes export oriented industrial investment in manufacturing/ processing, commercial activities or export services within designated zones. EPZ investors enjoy attractive fiscal incentives coupled with simplified operating procedures and superior infrastructure. Fiscal Incentives include, ten-year Corporate Tax holiday and twenty five percent tax hereafter, ten-year Withholding Tax holiday on dividends, Duty and VAT exemption on raw materials, machinery and other inputs and Stamp Duty exemption. Procedural Incentives include, rapid project approval and licensing (EPZA Annual Report, 2009).As of March 2012, there were 22 apparel manufacturing firms operating under the EPZ regime (epzakenya.com).

1.2 Apparel Industry in Kenya

From the time of Kenya's Independence to the mid-1980's the apparel firms in Kenya benefited from the protectionist policies, however with the structural Adjustment programs and removal of the protectionist policy, the apparel industry collapsed (Sharpley and Lewis, 1988: McCormick, 1999). The Government through the Industrial and Commercial Development Corporation (ICDC) had invested heavily by holding significant shareholding in firms like KICOMI, Rivatex, Kenya Textile Mills and Mountex which eventually collapsed (Otieno, 2007). Some of the private holding firms like Yuken,Thika Cloth Mills, United Textile Mills,Sunflag ,Spinners and Spinners, and Raymond either closed down or diversified to other products(Otieno,2007).During the protectionist era, apparel manufacturing firms failed to create a strong vertical and horizontal linkage with other sectors, leaving them vulnerable (Sharply and Lewis,1988:McCormic,1999).The further liberalization of the Kenyan economy, introduced cheap second hand apparels "Mitumba" which was a final blow to the industry.

The enormous market prospects presented by the African Growth and Opportunity Act (AGOA) of 2000 and the African, Caribbean and Pacific - European Union (ACP-EU) Cotonou Agreement helped to rebuild the industry. Over half of the total firms in the EPZ have invested in the apparel industry (UNCTAD, 2005). Currently there are 22 apparel manufacturing firms under the EPZ program (epzakenya.com).Since Kenya's qualification for AGOA, its exports to the US have increased considerably and so has investment in this sector, but the expiry of the AGOA IV in 2015, in addition to the challenges of poor infrastructure, high cost of energy and high cost of doing business has brought in some sense of discontinuity in the sector and as a result, apparel manufacturing firms have been scaling down their operation and no fresh Foreign Direct Investment in the industry has been forth coming.

1.3 Research Problem

Foreign Direct Investment is investment of foreign assets into domestic structures, equipment and organizations, through strategies for example, green field investment, mergers and acquisitions, or joint ventures for motives such as natural-resource seeking, market seeking or efficiency –seeking investments. Entry mode decisions by Mangers of FDI is very critical (Agarwal and Ramaswami, 1992) as any wrong decision can be very costly to the organisation in terms of time and resources (Root, 1994) and at times the decisions can be irreversible once made and could instil a lasting impact on the operations of the firm and its existence (Anderson and Coughlan, 1987). Dupasquire and Osakwe (2005) have identified challenges such as political and macroeconomic instability, low growth, weak infrastructure, poor governance, inhospitable regulatory environments and ill-conceived investment promotion strategies as responsible for poor FDI records in Africa.

EPZ investors in Kenya enjoy attractive fiscal incentives coupled with simplified operating procedures under the EPZ Act and market opportunity under AGOA which closes on September 2015 (agoa.gov) and with other country issues like the deterioration of the Kenyan infrastructure, the road network, port congestion, poor supply and high cost of electricity. The increased cost of labor due to the strength of the labour union and new regulations have all compounded to the challenges of doing business.

Several studies have been done on Foreign Direct Investments in Kenya. The study by Mugambi (2011) brought out the knowledge on market entry strategy used by FDI in Kenya EPZ and identified the influencing factors. Mabruki (2005) investigated the determinants of FDI in Kenya, covering the whole country and not EPZ or apparel industry in particular and focused on the macro-economic determinants, which the government was directly in control of Wanyama (2002) analysed the factors which affect the operations of firms in the EPZ, which was a general analysis and not particular to the apparel manufacturing in the EPZ. Otieno (2007) studied factors influencing long term performance of EPZ-AGOA Textile Exporting firms within Nairobi. As it covered one particular geographical location, and only considered the factors, it recommends further research to cover other EPZ regions within Kenya. Hapisu (2003) studied the relationship between strategic planning and competitive advantage in the EPZ from a resource perspective. From the study (Hapisu, 2003) assumption that EPZ is a sub-sector in the manufacturing sector in Kenya is not full proof as certain firms in the EPZ are not involved in manufacturing. From the above, firms in Export processing zones has been studied in various aspects other than the focus of this study.

To the best of the researcher's knowledge, so far no studies have focused on the current study which seeks to investigate the challenges faced by FDI firms in the apparel manufacturing industry in Kenya export processing zones and the measures adopted by the firms in dealing with the challenges. The research questions being addressed are: What are the challenges FDI firms face in the apparel manufacturing industry in Kenya EPZ? What measures have these firms adopted in dealing with the challenges?

1.4 Research Objectives

The objectives of the research are the following:

i) To determine the challenges of Foreign Direct Investment faced by firms in the apparel manufacturing industry in the Kenyan Export Processing zones.

ii) To establish the measures adopted by Foreign Direct Investment firms in the apparel manufacturing industry in the Kenyan Export Processing Zones in dealing with the challenges.

1.5 Value of the Study

This study will contribute to the theory in the field of FDI, as it is hoped that the study will provide insights on how to effectively deal with specific challenges of FDI. Many scholars have suggested solutions to general challenges of FDI.This study presents ways of effectively dealing with specific challenges of FDI in the apparel manufacturing industry.

Research results can be of practical importance for those Kenyan manufacturing firms that wish to adopt international practices of strategic management. This study could be an eye opener to Kenya manufacturing firms to the various opportunities that they can pursue in the international business.

This study will be particularly useful to the policy makers in Kenya as it could present additional facts about the contribution of apparel manufacturing industry in Kenya and implement policies to ensure that the country benefits by attracting more FDI in the apparel manufacturing industry, provide additional pool of academic and research knowledge and also provide research gaps for future studies.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will review in details on the importance of Foreign Direct Investments, theories and strategies of Foreign Direct Investments and the challenges faced by the Foreign Direct Investment firms.

2.2 Foreign Direct Investment

The United Nations 1999 World Investment Report (UNCTAD, 1999) defines FDI as "an investment involving a long-term relationship and reflecting a lasting interest and control of a resident entity in one economy (foreign direct investor or parent enterprise) in an enterprise resident in an economy other than that of the foreign direct investor (FDI enterprise, affiliate enterprise or foreign affiliate)."

A multinational corporation (MNC) is a company that operates in different markets and has production operations in more than one country (Buckley & Casson, 1976). International business will refer to any cross border business transactions that involve parties in more than one country.

FDI is important to a country as it brings capital as financial resources, provides new technology and may enhance efficiency of existing technology. FDI may facility export markets, hence strengthen the export capability of the host country. It also enhances skills, management techniques and modern management systems. These positive inputs may justify the favorable treatment of FDI's (Hoekman and Saggi, 1999). FDI also has potential to enhance growth of domestic firms through complimentary in production and production spillovers (Borenztein et al, 1998).The macroeconomic policy instruments which might promote the flow of FDI to Africa include the growth rate of GDP, control of inflation, interest rates, openness of the economy, international reserves, external debt, taxes, political reform, infrastructures, and natural resource endowment (UNCTAD 1995).

While much of the literature on FDI in Africa focuses on short-term flows of investment, it is important to understand the bad side of FDI. FDI promotes social and economic dualism, as well as increasing income inequality between different regions and groups in a country.

2.3 Foreign Direct Investment Strategies

Strategy is the match between an organizations resource and skills and the environmental opportunities and risk it faces and it's purpose to accomplish (Schendel and Hofer, 1978). Strategies are developed essential to effectively perform the aims and objectives of the organization and greater understanding of the Strength and weakness of the firm in relation to the threats and opportunity from the ever-changing environment. The selection of alternative courses of action based on assessments of internal and external challenges are critical in the decision making process.

Firms interested in servicing foreign markets can select from different foreign market entry strategies. Foreign direct investment that involves the ownership and control of assets may take one of three forms: Greenfield investment, cross-border mergers and acquisitions (M&A) or joint ventures. Greenfield investment occurs when the investing firm establishes new production, distribution or other facilities in the host country. The host country because of the job-creating potential and value-added output normally welcomes this. Sometimes, the term `Brownfield investment' is used to describe a situation where investments that are formally an acquisition resemble Greenfield investment. This happens when the foreign investor acquires a firm but replaces almost completely the plant and equipment, labour and the product line. This concept has been used most to describe acquisitions in transition economies (Meyer el at, 2009).

FDI may occur via an acquisition of or a merger with, an established firm in the host country (the vast majority of M&A are indeed acquisitions rather than mergers). This mode of FDI has two advantages over Greenfield investment (i) it is cheaper, particularly if the acquired project is a loss-making operation that can be bought cheaply; and (ii) it allows the investor to gain a quick access to the market. Firms may be motivated to engage in cross-border acquisitions to bolster their competitive positions in the world market by acquiring special assets from other firms or by using their own assets on a larger scale.

Joint ventures is another FDI entry mode, whereby the FDI firm together with a host country enterprise can join forces to combine FDI's technical know-how and financial strength with local knowledge, labour and host country enterprise benefits, thus combining strengths from both the parties and overcoming each others weaknesses.

Vernon (1966) attempted to explain FDI on the effects of product life cycle on investment in foreign markets by US firms, while Johansson and Wiedersheim-Paul

(1975) and Johansson and Vahlne(1977) consider investments in foreign markets as incremental approach known as the "Uppsala school " or "stages". The firm's experimental knowledge about business partners and of committing resources is important in the detection of opportunities and risks (Kogut and Singh, 1988).Internalization theory (Buckley and Casson,1998) explains that when the net benefits of a firm's internalization outweigh its transactional costs,FDI activities may occur by maintaining its competitive position and sufficient strategic flexibility (Kogut and Singh,1988).Dunning(2000) through the "Eclectic Paradigm" also known as the OLI framework, stated that firms will choose the most appropriate foreign market entry strategy based on the extend of interdependent variables of Ownership(O) advantage, Location (L) advantage and Internalization(I) advantage.

2.4 The Challenges of Foreign Direct Investment

The international business environment is very dynamic and the challenges an FDI firm is likely to encounter can be different from their home country. The challenges can be classified under economic, political, legal, social cultural, technological as well as internal company systems, structure, skills and style (MacDonald, 2000). The FDI firm's ability to analyze the challenges and take appropriate measures in dealing with the challenges in order to take advantage of the opportunities in the host country is critical for the firm's success. For market-seeking FDIs, high dependency on a particular market, trends and growth in the market size, pricing, trends in purchase patterns, channels of distribution and global competition can result in market risk and can hinder new investments or increase in investment for existing FDIs (MacDonald, 2000).

Stoptra and Wells (1972) have described political uncertainty as the challenges that firms face as a result of some government action, or sometimes inaction. Forms of political uncertainty include wars and civil strife, change in government policy like nationalization agenda, change in procurement policies, health, safety and environmental regulations or consumer protection. Different legal frameworks by different countries for intellectual property rights have been considered a political risk (Hill, 2005).

Bureaucratic hurdles particularly in developing countries have encouraged corruption (Mudura, 2006). Macroeconomic uncertainty like currency crashes, high inflation, and excessive budget deficits limit the ability to attract foreign investments. Good infrastructure has a positive impact on FDI flows (Asiedu,2002).Social cultural aspects such as language, education levels,religion,material and artifacts, norms and traditions, gender equality or inequality, power distance and uncertainty avoidance can affect FDI firms(Hofstede,1983).

2.5 Dealing with the Challenges of Foreign Direct Investment

A study by Kinuthia (2010) revealed that most of the foreign firms in Kenya are market-seekers and under the Export processing zones regulations all EPZ enterprise are export oriented. The main concern of FDI was to satisfy the rule of origin to enjoy the preferential market (Ikiara and Ndirangu, 2003) and with the expected expiry of AGOA in 2015 (agoa.gov), such production capacity would then be used to serve the continent well when globalization has eroded all preferential arrangements (Ikiara and Ndirangu, 2003). The EPZA annual report of 2004, reports that the impediments faced by EPZ Enterprises stem from high cost of doing business in Kenya as a result of low labour productivity, depleted infrastructure, customs regulations and high cost of electricity and water. Kenyan firms pay more unofficial fees, provide more for their own infrastructure and face more regulations than competititors in countries such as China and India (Ikiara and Ndirangu, 2003). Due to unreliable electricity supply, Foreign Direct Investment firms have installed private power generators, which were unplanned expenditure (Wanyama, 2002).

UNCTAD (2005) argues that Kenya's inability to attract FDI is due to growing problems of corruption and governance, inconsistencies in economic policies and structural reforms. Himbara (1994) views that Kenya officially encourages and grants national treatment to foreigners but the political elites resent FDI perceiving it to lead to dependency. In order to attract foreign direct investments so as to assist in the Industrialisation process through the implementation of the Economic Recovery strategy paper 2002-2007, the government embanked on establishment of more EPZ areas, improvement of business climate, infrastructure and development incentives (Kinuthia, 2010).

The EPZ Authority has re-shaped itself as a 'one-stop' centre in order to facilitate faster government documentation, licences and work permit hence protecting the FDI firm from political interference and inhospitable regulatory environment. Mwega and Ngugi (2007) elaborated on the initiatives the government is keen to take on, for example review licensing agreements, provide information to Kenyan manufacturers, support in identification of new markets, reducing non-commercial risk, legal and regulatory reforms in the commercial sector, establishment of Anti-corruption and economic crime Act, and Public Officers Ethic Act.

Effective Corporate Social Responsibility refers to operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectation of stakeholders (Cavusgil el at, 2008). The responsibility includes complying with local and international laws, fair labour practice, human rights privileges, health and environmental considerations. Dynamic and effective Corporate Social Responsibility charters assist the firms to overcome many of the challenges. With the assistance of consultants like PRS Group (prsgroup.com) and Business Entrepreneurial Risk Intelligence (beri.com), the FDI firms can assess the political and legal environment prior to investing (Cavusgil el at, 2008).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter outlines the research methodologies used to achieve its objectives, including quantitative and qualitative methods, the target population for the study, the sampling and sample design and methods of data collection and analysis.

3.2 Research Design

The study adopted a descriptive survey method. The method enabled the researcher to obtain data from a wide number of study unit for comparison purpose. The purpose of a descriptive survey method seeks to obtain information that describes existing phenomena by asking individuals about their perceptions, attitudes, behaviours or values (Mugenda and Mugenda, 2003). Given that the objectives of the study were to determine the challenges of FDI firms in the apparel manufacturing industry in the Kenyan Export Processing zones and measures adopted by the firms in dealing with the challenges, a descriptive survey designed was found to be best placed to fulfil the objectives of the study.

3.3 Population of the Study

The target population of the study consisted of all the apparel manufacturers based in Export Processing Zones in Kenya. According to the EPZ (epza.co.ke) currently there are 22 apparel manufacturing firms operating within the Export processing zone spread between Athi River, Ruaraka, Nairobi Industrial area, Mombasa, Mazera, Mtwapa and Voi.

A census method which is the procedure of systematically acquiring and recording information about the members of a given population when the target population is not large (See Appendix 11), to ensure complete information, was used in line with the objectives of this study.

3.4 Data Collection

Primary data was collected using a semi-structured questionnaire. The questionnaire consisted of three parts, part one focused on background information of the firm, part two was on challenges faced by foreign direct investment firms in the apparel manufacturing industry, and part three focused on the measures taken to deal with the challenges.

The questionnaires were administered through drop and pick letter method for firms within Mombasa County and e-mail communication for other geographical locations. Follow up telephone calls were made to motivate the respondents, to clarify and seek personal opinions where necessary. The senior executive targeted as respondent were the General Manager or whoever the manager directed the researcher to, because their role and position gives them the ability to respond to the questions.

3.5 Data Analysis and Reporting

The data was coded and summarized using frequency distribution tables. It was then presented in tabular form and analyzed using descriptive statistics which included measures of central tendency to explain the main characteristics of the population.

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSIONS

4.1 Introduction

The chapter presents an analysis of the data collected from a sample of fourteen firms with foreign direct investment (FDI) in apparel manufacturing industry in the Kenyan Export Processing Zones (EPZ). Data analysis and report of findings was done using descriptive statistics in the form of frequency tables, percentages, mean and standard deviation. The relationship of the elements was investigated using Wisconsin's mean ranking. The findings of the study were discussed under the following research objectives:

i) To determine the challenges of Foreign Direct Investment firms in the apparel manufacturing industry in the Kenyan Export Processing zones.

ii) To establish the measures adopted by Foreign Direct Investment firms in the apparel manufacturing industry in the Kenyan Export Processing Zones in dealing with the challenges.

4.2 Demographic Characteristics of the Respondents

Demographic characteristics of the respondents were analyzed based on the respondent's firm identity issues and designation of the officers answering the questionnaires.

4.2.1 Respondent Firms

The study comprised of fourteen foreign direct investment firms in the apparel manufacturing industry based at the Kenyan Export processing zones. While a total of twenty two firms as obtained from the EPZ website had been anticipated to take part in the study, three were found to have closed down or merged with others, one was found to be a plastic manufacturing firm and therefore were excused from the study since they were not involved with apparels as had been anticipated, three are locally owned and therefore did not fit in with the study focus of foreign direct investment leaving a total of fifteen firms, one of which did not return the questionnaire given out to them. The response rate was therefore 93.3%. The firms that took part in the study are listed in Appendix 3.

4.2.2 Year of registration

Results of the analysis show that the respondent firms were registered between 2001 and 2011, a summary of which is represented in Table 4.1.

Table 4.1 Year of registration

Year	Frequency	Percentage
2001	2	14.3
2002	4	28.6
2003	1	7.1
2009	1	7.1
2010	4	28.6
2011	2	14.3
Total	**14**	**100.0**

Source: Research data

According information contained in Table 4 1, two (14.3%) firms were registered in 2001, four (28.6%) were registered in 2002, one (7.1%) each in 2003 and 2009, four (28.6%) others in 2010 and the remaining two (14.3%) firms were registered in 2011. This means that a majority of the firms having been in business for three years or more had gained valuable insight in terms of business dynamics and therefore could offer valuable information required for this study

4.2.3 Firm ownership

The results show that the firms were either wholly owned subsidiary or a joint venture as is summarised in Table 4.2.

Table 4.2 Firm ownership

Type of owner	Frequency	Percentage
Wholly owned subsidiary	9	64.3
Joint venture	5	35.7
Total	**14**	**100**

Source: Research data

According to the results of the analysis shown in Table 4.2, a majority of the firms, nine (64.3%) were wholly owned subsidiary while the remaining five (35.7%) firms were joint ventures. The Pie-chart Figure 1 illustrates this information

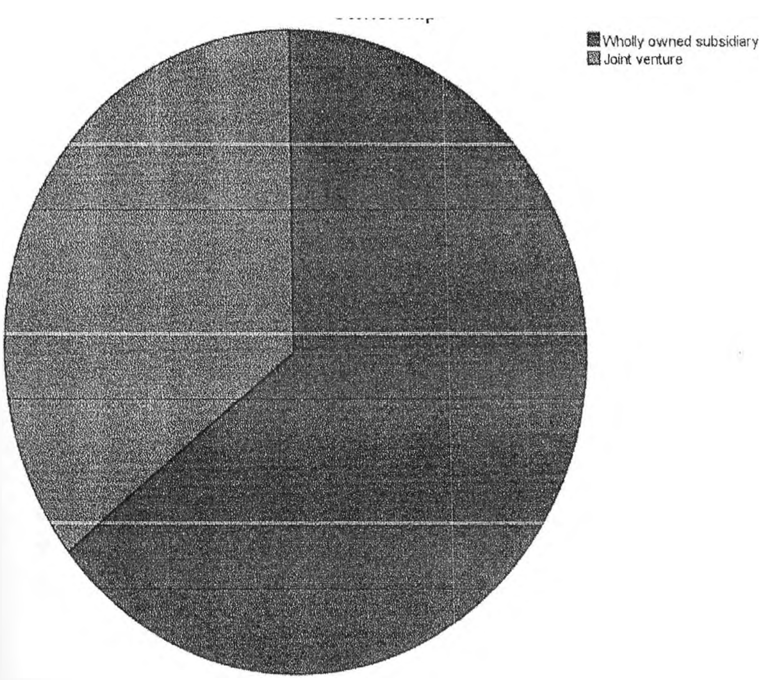

Figure 1 Ownership

4.2.4 Firm's Country of origin

The firms were found to have originated from various countries most predominantly from the Middle East as is shown in Table 4.3.

Table 4.3 Firm's Country of origin

Country of origin	Frequency	Percentage
China	1	7.1
India	4	28.6
Qatar	1	7.1
Taiwan	5	35.7
United Arabs Emirates	2	14.3
United States of America	1	7.1
Total	**14**	**100**

Source: Research data

The results in Table 4.3 shows that a majority of the firms, five (35.7%) were from Taiwan, followed by four (28.6%) from India, then two (14.3%) from United Arabs Emirates and lastly one (7.1%) each from China, Qatar, and United States of America. This information is illustrated by the Bar chart Figure 2

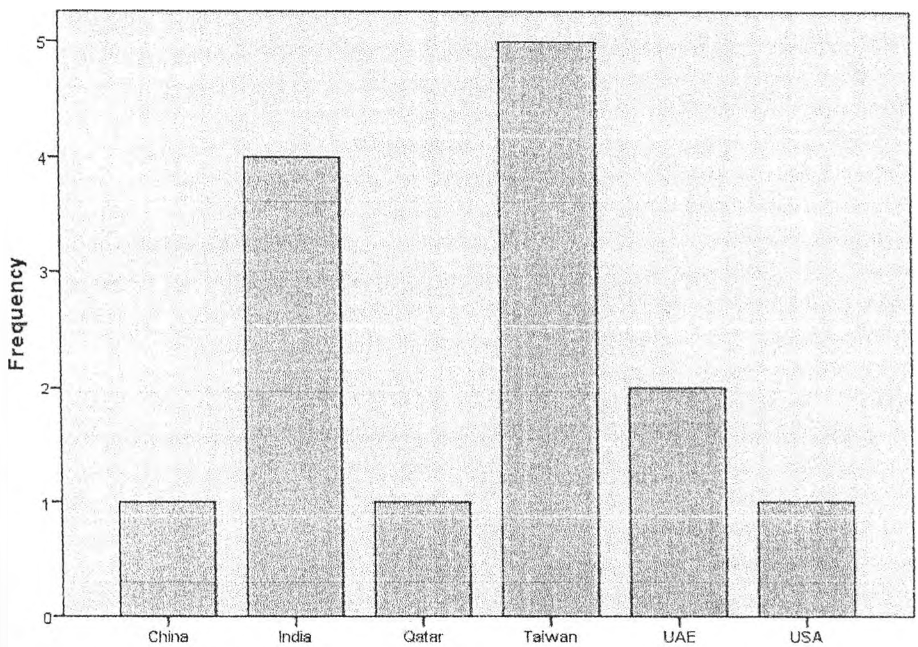

Figure 2 Country of origin

Further, it was established that a majority of the firms had affiliates in different countries that included China (two firms), United Arabs Emirates (three firms), Taiwan (four firms), India, Kuwait and Mozambique (one firm each) while five firms indicated that they do not have an affiliate.

4.2.5 Firm's Investments

A majority of the firms according to data obtained seemed to be well established in terms of capital investment, employees and estimated annual turnover. For instance, except for one (7.1%) firm who indicated it had about fifty employees, the rest i.e. thirteen (92.9%) said they had over five hundred employees as is illustrated by Table 4.4.

Table 4.4 Number of employees

No of Employees	Frequency	Percentage
1-49	1	7.1
Over 500	13	92.9
Total	**14**	**100.0**

Source: Research data

As regards the firms' total capital investments as at December 2011, summarized in Table 4.5.

Table 4.5 Capital investment

Total capital investment (KSh in Millions)	Frequency	Percentage
1-10	1	7.1
11-50	1	7.1
51-100	3	21.4
Over 100	9	64.3
Total	**14**	**100**

Source: Research data

The results shows that a majority of the firms, nine (64.3%) indicated that they had over Ksh.100 million capital investment signifying that a majority of the foreign direct investments are large investments which corroborate the need to have high population of employees earlier on seen. The rest included one (7.1%) firm, which indicated having between Ksh. 1 - 10 million, and Ksh.11 - 50 million total capital investment each and lastly three (21.4%) firms with between Ksh.51 - 100 million. This information is illustrated by the Pie-chart figure 3

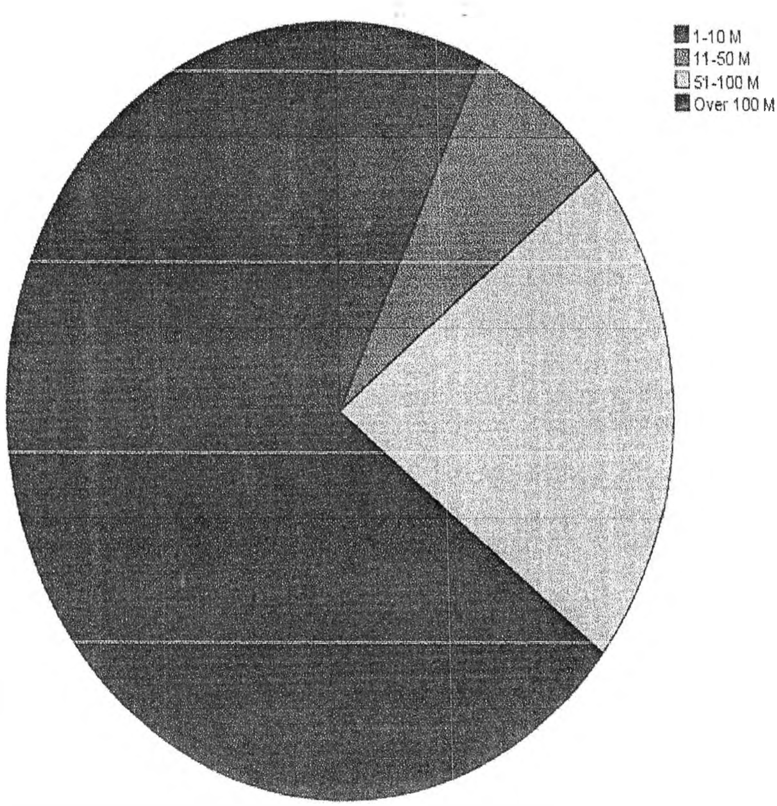

Figure 3 Total capital by December, 2011

Further, the firms were found to have an annual estimated turnover ranging from Ksh.10 to over 150 million. This information is summarized in Table 4.6.

Table 4.6 Estimated annual turnover

Annual turnover	Frequency	Percentage
10-50 M	2	14.3
51-100 M	2	14.3
101-150 M	1	7.1
Over 150 M	9	64.3
Total	**14**	**100.0**

Source: Research data

From Table 4.6 which contains a summary of estimated annual turnover of the FDI in apparel manufacturing firms at the Kenyan EPZ, two (14.3%) each indicated that they had an annual turnover of Ksh.10-50 million and Ksh.51-100 million respectively, one (7.1%) indicated that they had a turnover of Ksh. 101-150 million while a majority of the firms, nine (64.3%) indicated that they registered an annual turnover of over 150 million. This confirms an assertion that a majority of the firms had earlier indicated, that they had large capital investment base. The large capital base it could be presumed, ultimately translated into an equally large annual turnover for the majority.

Lastly, on why the firms chose to invest in Apparel manufacturing industry in the Kenya EPZ, several reasons were highlighted which include presence AGOA market which guaranteed tax holiday for a period of ten years, EPZ initiative, VAT exemption on locally purchased raw materials, availability of cheap skilled and semi skilled labour, presence of good infrastructure and prevalence of conducive business environment i.e. social-economic and political stability within the country. On further prompting, a majority of the firms (thirteen out of the fourteen sampled) isolated AGOA market as the single most important motivating factor for their investment in Apparel manufacturing industry in the Kenya EPZ.

4.2.6 Respondent Officers

Analysed data shows that a majority of the respondent who were selected to answer on behalf of their firms were a Director, General Manager, or Human resource manager each of who represented three firms. The remaining officer including export/import personnel, financial controller, managing director, purchasing officer and shipping manager each acted on behalf of one firm.

The respondents indicated that they had worked in their respective firms for a period ranging from one year to over ten years as is shown by Table 4.7

Table 4.7 Length of service

Length of service in years	Frequency	Percentage
Less than 1	1	7.1
1-5	6	42.9
6-10	6	42.9
Over 10	1	7.1
Total	**14**	**100.0**

Source: Research data

From Table 4.7 which contains information about the respondents' years of service, one (7.1%) respondent had worked for a period less than one year, six (42.9%) for between 1 - 5 years, another set of six (42.9%) respondents for a period between 6 - 10 years and the remaining one respondent for over 10 years. This means that a majority of the respondents having worked in their firms in senior management positions for a considerable period of time were in a better position to provide relevant and credible information required for this study.

4.3 Challenges of FDI faced by firms in the apparel manufacturing industry in the Kenyan export processing zones

The international business environment is very dynamic and the challenges an FDI firm is likely to encounter in a foreign country can be different from those they could face in their home country. The challenges are classified under economic, political, legal, social cultural, technological as well as internal company systems, structure, skills and style (MacDonald, 2000). Results analysis isolated numerous challenges that the FDI in apparel manufacturing industries in Kenya face. They are discussed under fiscal policy, state and cost of infrastructure, customs regulations, market related, production, political, legal and social related and human resource challenges.

4.3.1 Fiscal policy challenges

The impact of fiscal policy as a source of challenge to FDI in apparel industry was one of the intent of the study since it is one of the factors that can hinder new investments or increase in investment for existing FDI (MacDonald, 2000). Three issues; exchange rate, inflation rate and financial cost were used to determine the effect of Kenya's fiscal policy on FDI in apparel manufacturing industry.

Table 4.8 Fiscal policy challenges

Fiscal policy challenges	Mean	Standard Deviation
Erratic exchange rate	3.87	1.027
Unpredictable inflation rate	3.57	0.938
Financial cost	3.64	1.216
Grand Mean	**3.69**	

Source: Research data

Results of the mean contained in Table 4.8 shows that erratic exchange rate had the highest mean of 3.87 followed by financial cost mean of 3.64 and lastly unpredictable inflation rate mean of 3.57. Though all the three fiscal factors were considered to be a source of challenge by a majority of the respondents, some fiscal factors were considered more influential than others, based on mean as is illustrated by the Table 4.8. This means that erratic exchange rate was considered a greater source of challenge to the FDI firms by the respondents followed by financial cost and lastly unpredictable inflation rate. Overall, the fiscal policy had a grand mean of 3.69 therefore fiscal policy is a major challenge to the FDI firms in the apparel industry in the Kenya EPZ. These findings concur with Asiedu (2002) and EPZA annual report (2004).

4.3.2 State and cost of infrastructure challenges

Effects of state and cost of infrastructure issues on the FDI in apparel manufacturing industries at the Kenya EPZ were investigated using a set of six challenges; effect of road,rail, telephone and internet, port efficiency, availability and cost of electricity and lastly availability and cost of water. Roads are a prerequisite for movement of raw materials, finished products and human resource. The quality of road network therefore affects cost of production. The same could be said of water, rail transport, port efficiency as well as availability of electricity. The effect of the state of infrastructure on FDI was indicated to be a challenge by a majority of respondents as shown by the results in Table 4.9

Table 4.9 State and cost of infrastructure challenges

Infrastructure challenges	Mean	Standard Deviation
Road	3.21	1.122
Rail	2.14	1.512
Telephone and internet	2.93	0.730
Port efficiency	3.57	1.016
Cost of electricity	3.57	0.938
Cost of water	3.14	1.231
Grand Mean	**3.093**	

Source: Research data

Analysis shows that the challenges affected the FDI in varying degrees as established through mean. The results of the mean contained in Table 4.9 shows that port efficiency and availability and cost of electricity had the highest mean (mean of 3.57) followed by roads (mean of 3.21), availability and cost of water (mean of 3.14), telephone and internet (mean of 2.93) and least of all rail transport (mean of 2.14). With the grand mean of 3.093, state and cost of infrastructure is a challenge and this finding concurs with that of Wanyama (2002).

4.3.3 Customs regulation challenges

An export processing zone is any area that for the time being is designated by law as outside the national territory for the purpose of the operations of the customs laws (Wanyama, 2003). Whether or not customs regulations were a source of challenge to the FDI in apparel manufacturing industry in Kenya was investigated using a set of four challenges which include visa application system, foreign trade regulation, custom regulation and cost of custom policy. Visa is required by the exporting firms to satisfy the rule of origin to enjoy the preferential market (Ikiara and Ndirangu, 2003).

To ascertain the challenge with the greatest influence, mean was used and the outcome which attested to the variability of the effect of the four challenges under custom regulations is found in Table 4.10.

Table 4.10 Customs regulation challenges

Customs challenge	Mean	Standard Deviation
Visa application system	3.21	1.051
Foreign trade regulation-Non AGOA	1.85	0.899
Customs regulations	3.14	1.099
Cost of customs policy	3.21	0.802

Grand Mean	2.853	

Source: Research data

The results show that visa application system (mean of 3.21) and cost of custom policy (mean of 3.21) were deemed to be more challenging to the FDI than customs regulations (mean of 3.14) and foreign trade regulations (mean of1.85). Overall, grand mean of 2.8525 confirmed the EPZA 2004 annual report that suggested that custom regulation was one of the impediments that resulted into increased cost of doing business in Kenya and hence a challenge.

4.3.4 Market and product challenges

For market-seeking FDIs, high dependency on a particular market, trends and growth in the market size, pricing, trends in purchase patterns, channels of distribution and global competition can result in market risk and can hinder new investments or increase in investment for existing FDIs (MacDonald, 2000). The effects of market challenges were investigated using a set of nine challenges and the results were as is seen in Table 4.11

Table 4.11 Market and product challenges

Market and product challenges	Mean	Standard Deviation
AGOA policies & Extension	3.79	1.424
Shortage of AGOA market orders	3.29	1.139
Penetration of European markets	3.00	1.359
Penetration of African markets	2.14	1.099
Competition from within Kenya	1.93	0.829
Global competition	3.00	1.301
Change in fashion/pattern/style	2.07	0.917
Change in production technology	2.93	1.141
Availability of raw materials	2.36	1.216
Grand Mean	**2.723**	

Source: Research data

The results of the mean contained in Table 4.11 shows that AGOA policies and extension with highest mean of 3.79 followed by shortage of AGOA market orders mean of 3.29 then penetration of European markets and global competition mean of 3.00. However, competition from within Kenya (mean of 1.93), change in fashion/pattern/style (mean of 2.07) and penetration of African markets (mean of 2.14) had lower mean. This means that while majority of the respondents consider AGOA policies & extension and shortage of AGOA market orders as the major market and product challenges, these findings concurs with Basu and Srinivasan(2002) which identified Market-seeking as one of the three motives of FDIs.Competition from within Kenya and change of fashion/pattern/style are not a major challenge. Overall, with the grand mean of 2.723, market and product concur with MacDonald(2000) as challenges.

4.3.5 Political, legal and social challenges

The researcher attempted to determine whether or not the FDI found the political, legal and social environment of the country as challenges for their firms. The effects of the political, legal and social challenges were investigated using a set of thirteen challenges and the results were as tabulated in table 4.12

Table 4.12 Political, legal and social challenges

Political, legal and social challenges	Mean	Standard Deviation
Political risks within Kenya	2.79	1.188
Political risks from neighboring countries	2.43	1.284
Policy instability/implementation	2.57	1.089
Terrorism	1.93	1.439
Corruption	3.07	1.072
Government bureaucracy	2.86	1.099

Safety and environmental regulations	2.50	0.941
Crime and theft	2.93	1.141
Delay in licenses and work permits	2.29	0.914
Tax regulations: PAYE	2.21	0.893
Tax regulations: NHIF	2.07	0.997
Tax regulations: NSSF	2.14	0.949
Tax regulations: DTL	2.00	0.961
Grand Mean	**2.445**	

Source: Research data

The results of the mean ranking of political, legal and social challenges contained in Table 4.12 shows that corruption had the highest mean of 3.07, crime and theft with mean of 2.93 and Government bureaucracy with mean of 2.86 were challenges to the FDI. While terrorism (mean of 1.93) and delay in licenses and work permits (mean of 2.29) were not challenges to the FDI. Even as EPZ firms are exempt from corporate taxation (EPZA Annual report, 2009), being employers, if their obligation as tax agents was a challenge was assessed under the tax deduction regulations of statutory taxation. Pay as you earn (PAYE) with a mean of 2.21,National Hospital Insurance Fund(NHIF) with a mean of 2.07,National Social Security Fund with a mean of 2 14 and the Director of Training Levy (DIT) with a mean of 2.00 indicate that as tax agents, these were not a challenges. The findings with the grand mean of 2.597, concurs with Stoptra and Wells (1972) and Mudura (2006) that political, legal and social factors are a challenge.

4.3.6 Human resource challenges

To determine the effects of human resource challenges on FDI in apparel manufacturing industry, the respondents were required to score against a set of seven challenges which included availability of skilled and semi-skilled labour, labour regulations, labour unrests, labour union interference and difference of management style between expatriates and the locals.

Table 4.13 Human resource related challenges

Human Resource challenges	Mean	Standard Deviation
Cost and availability of semi-skilled labour	2.71	1.204
Cost and availability of skilled labour	3.07	1.207
Labour regulations	3.07	0.730
Labour unrests	2.79	0.975
Labour union interference	2.71	0.994
Difference of management style- Expatriate	2.07	1.141
Difference of management style- local	2.00	0.784
Grand Mean	**2.631**	

Source: Research data

The results of the mean contained in Table 4.13 shows that labour regulations had the highest mean (mean of 3.07) followed by labour unrests (mean of 2.79) and lastly labour union interference (mean of 2.71). This means that majority of the respondents consider labour regulations are the major human resource related challenge followed by labour unrests and lastly labour union interference in that order. On the other hand, difference in management styles between expatriates (mean of 2.07) and the locals (mean of 2.0) were classified by the respondents as non-challenges. With the grand mean of 2.631, human resource was a challenge to the FDIs and concurs with Hofstede (1983) and MacDonald (2000).

4.3.7 Land related challenges

An EPZ is a clearly delineated industrial estate, which constitutes a free trade enclave in the customs and trade regime of a country (ILO/UNCTC, 1988). The process of delineation requires land and with it could emerge attendant challenges. Land related challenges were investigated using a set of three challenges and the results were as is seen in Table 4.14

Table 4.14 Land related challenges

Land related challenges	Mean	Standard Deviation
Availability of land	2.36	1.393
Cost of land	2.36	1.216
Regulations in land transactions	2.50	1.454
Grand Mean	**2.407**	

Source: Research data

The results of the mean contained in Table 4.14 shows that availability of the land (mean of 2.36), cost of land (mean of 2.36),and regulations in land transaction (mean of 2.50) and with the grand mean of 2.407, the findings do not consider land related factors as a challenge.

4.4 Measures adopted in dealing with the challenges

In order to attract foreign direct investments so as to assist in the industrialisation process through the implementation of the Economic Recovery strategy paper 2002-2007, the government embanked on establishment of more EPZ areas, improvement of business climate, infrastructure and development incentives (Kinuthia, 2010). The researcher used nine measures to determine the effects of measures adopted by FDI firms in the apparel manufacturing industry on the challenges they face.

Table 4.15 Measures adopted

Measures adopted	Mean	Standard Deviation
EPZ Authority assisted	3.71	0.994
Parent Company assisted	3.00	1.569
Outsource-Locally	2.29	1.326
Outsource-Globally	2.64	1.277
In-House Capability	3.07	1.328
Other Kenya Government Ministry/Agency assisted	2.00	0.679
Trade Organizations/Affiliates assisted	2.14	0.663
Effective Corporate Social Responsibility	3.21	1.188
Non-Governmental/Lobby Group assisted	2.07	1.207
Grand Mean	**2.68**	

Source: Research data

The results of the mean contained in Table 4.15 shows that EPZA generated measures had the highest mean of 3.71 followed by corporate social responsibility measures (mean of 3.21) then in-house generated measures (mean of 3.07) followed by parent company generated measures (mean of 3.00). Trade organisation/affiliates (mean of 2.14), Non- governmental /lobby groups (mean of 2.07) and other Kenya Government ministry /agency (mean of 2.00) were providing the least assistance to overcome the challenges. The a majority of the respondents consider EPZA generated measures as the most effective in solving the challenges faced by FDI, which concurs with Mwega and Ngugi (2007) followed by the corporate social responsibility measures, which concurs with Cavusgil el at (2008), in-house generated measures followed by parent company generated measures and measures outsourced globally in that order.

4.5 Discussions of the findings

In this chapter, an attempt has been made to synthesize the information gathered from respondents drawn from various management positions of the fourteen FDI firms involved in apparel manufacturing industry at the Kenya EPZ. The results of the analysis of data obtained from questionnaires administered through drop and pick method isolated various challenges. The challenges were found to have variable effects on the operations of FDI as is shown in Table 4.16

Table 4.16 challenges

Challenges	Mean	Standard Deviation
Fiscal policy	3.690	1.060
State and cost of infrastructure	3.093	1.092
Customs regulations	2.853	0.963
Market and production	2.723	1.158
Political, legal and social factors	2.445	1.074
Human resource factors	2.631	1.005
Land related factors	2.407	1.354

Source: Research data

Results of the mean of the various types of challenges showed fiscal factors (mean of 3.69) as the greatest source of challenge to the FDI followed by state and cost of infrastructure (mean of 3.093) customs regulations (mean of 2.853) and market and production (mean of 2.723). This could be attributed to the importance with which these challenges are to the FDI in apparel industry. The study highlighted that political,legal and social variables(mean of 2.454),human resource variables (mean of 2.631) are not a major challenge to the operations of the FDI in the apparel industry in the Kenya EPZ. Land related challenges (mean of 2.407) were not considered a challenge by the FDI firms.

For the measures put in place to counteract the effects of the challenges, EPZA generated measures were singled out as the most effective in alleviating the effects of the challenges. This study finding recognizes the importance of the Export processing zones authority to the operations of FDI. These results are consistent with the findings of Mwega and Ngugi (2007) and Wanyama (2002).The measures through corporate social responsibity , inhouse measures and parent company assisted measures have also been effective in overcoming the challenges faced by the FDI firms in the apparel industry in the Kenya EPZ. From the low mean, global outsourcing,locally outsourcing, Trade organisation/affiliates, Non- governmental /lobby groups and other Kenya Government ministry /agency were providing the least assistance to overcome the challenges.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The objectives of this study were to determine the challenges of FDI faced by firms in the apparel manufacturing industry in the Kenya export processing zones and establish measures adopted by the FDI firms in dealing with the challenges. This chapter gives a summary of findings, conclusions of the study, limitations as well as recommendations for further research, policy and practice.

5.2 Summary of findings

The study sought to find out the challenges faced by foreign direct investment in apparel manufacturing industry in the Kenyan export processing zone and the measures adopted in dealing with the challenges. The sample consisted of fourteen FDI firms out of fifteen FDI firms involved in apparel manufacturing at the Kenya export processing zones. To answer the study questions adequately, the researcher considered it necessary to look at the demographic characteristics of the respondents. Majority of the firms have been in business for three years or more therefore able to offer valuable information as required. Majority of the firms were wholly owned subsidiaries and the rest are joint ventures with FDI's from the Taiwan, India, United Arab Emirates, China, Qatar and the United States of America. Majority of the respondents had over 500 workers, a capital investment of over shilling five million, and an estimated turnover of over shilling one hundred and fifty million. Having worked in their firms in senior management position for considerable period of time, the respondents were in a position to provide with relevant and credible information required for this study.

With respect to the first objective of the study, numerous challenges were clustered, classified and discussed. It was established that under Fiscal policy challenges, erratic exchange was the major challenge, followed by financial costs and unpredictable inflation rate. Under the state and cost of infrastructure, cost of electricity, port efficiency, road and water were the major challenges with rail the least. Visa application, cost of customs policy, and customs regulations were the major challenges under the Customs regulation challenges. AGOA Policies and extension together with shortage of AGOA orders, global competition and penetration of European market were highlighted as major challenges. Corruption, crime and theft, political risk within Kenya were isolated as major challenged under the political, legal and social challenges, with terrorism being the least challenge. The respondents identified labour regulation, cost and availability of skilled labour as the biggest challenges under human resource challenges with difference of management style by expatriate and local as the least of the human resource challenge. Availibity of land, cost of land and regulations in land transaction were not considered by the respondents as a challenge. In summary to the first objective, the researcher established fiscal factors as the greatest source of challenge to the FDI followed by state and cost of infrastructure, customs regulations and market and production. The study highlighted that political, legal and social variables, human resource variables are not major challenges with land not a challenge to the FDI firms.

With respect to the second objective, the researcher established that the measures advanced for dealing with the challenges were found to manifest variable impacts on the challenges with the greatest being from EPZA generated measures followed by corporate social responsibility measures, in-house generated, parent company generated, globally outsourced measures, locally outsourced measures, trade organization /affiliate assisted, non- governmental/lobby assisted, and other government ministry/agency assisted in a decreasing degree of effect.

5.3 Conclusions of the study

Conclusions of the study findings are based on the different research objectives. From the foregoing summary, it can be concluded that fiscal policy, state cost of infrastructure, customs regulations and market and product are the major sources of challenges that foreign direct investment in apparel manufacturing industry at the Kenya export processing zone face. However, Human resource, political, legal and social challenges can be considered as minor challenges with land related not considered as a challenge by the respondents.

The respondents consider EPZA generated measures as the most effective measure in dealing with the challenges faced by the FDI. However, others such as corporate social responsibility measures, in-house generated measures, parent company generated and globally outsourced measures equally play a pivotal role in helping deal with the effects of the challenges on the FDI in apparel manufacturing industry at the Kenya EPZ. Trade organisation/affiliates, Non- governmental /lobby groups and other Kenya Government ministry /agency were providing the least assistance to overcome the challenges.

5.4 Limitations of the study

The major limitation of the study was as regards lack of accurate information to guide the research particular due to inaccurate information on the EPZ website about the number of firms registered with EPZA and the type of products they offer. This could be attributed to the authority taking too long to update their website. Some of the respondents were requesting for more time in order to respond to the questionnaire, but due to time constrains the researcher had to make many follow-up thus arising into financial constrains.

5.5 Recommendations for further research

It is suggested that a study on the perceptions of the employees in the apparel industry on the operations of foreign direct investments firms in apparel manufacturing industry in the Kenya export promotion zones be undertaken to help strengthen the countries labour policies related to this sector. A study on the factors that promote effective growth of foreign direct investment in apparel manufacturing industry in Kenya is also worth investing in. Equally significant is a comparative study on challenges that affect locally owned and foreign direct investment in apparel manufacturing industry in Kenya. Lastly, a study on the service levels, the strengths and effectiveness of the EPZA needs to be undertaken to help come up with policies that could strengthen the organization and by extension assist the foreign direct investment flow into Kenya.

5.6 Recommendations for policy and practice

From the observations made in the course of this study it is recommended that the Government through the Export Processing Zones Authority should provide more incentives to attract more FDI to the apparel manufacturing industry. Secondly, the Central bank of Kenya should strengthen the country's fiscal policy to make the nation's currency stronger and stable against global currencies thus enabling the country have a stronger fiscal policy. The Government through relevant ministries of roads and public works, ministry of water and sanitation and ministry of energy among other sectors should further improve the country's infrastructures to reduce the cost of doing business thereby reducing challenges due to infrastructure. The EPZA should lobby the Government to facilitate enactment of customs regulations and other legal & social framework that are more FDI friendly. The EPZA also should strengthen the measures for dealing with challenges faced by FDI thus making them more effective in dealing with the challenges. Investors in the FDI should form a lobby to enable them market their products more easily in the international markets. Lastly, it is recommended that the Government Ministry/agency to interaction with the FDIs in order to facilitate international agreements and practices that create increased markets and related opportunity for FDI products. At the same time, it should concerted effort in reducing the political tension that is giving the wrong impression to the investors about this country.

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APPENDICES

Appendix I: Questionnaire

PART ONE: GENERAL INFORMATION

1. Name of the textile firm……………………………………………………

2. Year of registration in Kenya…………………………………………

3. Position of the respondent in the firm…………………………………

4. Year of service in the organisation…………………………………

5. Other countries with affiliates?...

6. What is the ownership structure of the firm?

   a. Wholly owned subsidiary
   b. Joint venture
   c. Contractual/franchise arrangement/Assembly
   d. Locally owned

7. What is the (home) country of origin of the firm……………………

8. How many employees are there in your firm?

   (a) 1-49 (b) 50-100 (c) 101-500 (d) Over 500

9. What is the total capitalization/Total net asset of your firm in Kshs? (as at Dec 2011)

   (a) 1-10 million (b) 11-50 million (c) 51-100million (d) over 100 million

10. Why did you firm choose to invest in apparel manufacturing industry in Kenya EPZ ?

    ____

    ____

    ____

    ____

11. What is the estimated annual turnover of your business in Kenya?

(a) 10-50 million (b) 51-100 million (c) 101-150 million (d) Over 150 million

2. What is the greatest motivation for your firm investment in the apparel manufacturing industry?

   a) Size of the market:

   b) AGOA

   c) Availability of raw material and cheap labour

PART TWO: CHALLENGES IDENTIFICATION

Part Two (i): Foreign Direct investment type.

1. Which of the following mode of investment describes your nature of investment?

   a) Green field –New investment started from the scratch
   b) Brown field-acquisition of existing companies
   c) Merger - combination with other companies

Part Two (ii): Challenges faced by Foreign Direct Investment in the Apparel Manufacturing Industry in Kenya Export Processing Zones.

To what extent do you face each of the following challenges?

Rate the challenges using a 5-Point Scale: where 1=Not at all, 2=little extent, 3=moderate extent, 4=Great extent, 5=Very great extent. Please tick appropriately in the box below.

Challenges	1	2	3	4	5
Erratic Exchange rate ksh/Dollar					
Unpredictable Inflation rate					
Financing costs					
State and cost of Infrastructure-road					
State and cost of infrastructure-Rail					
State and cost of Infrastructure-Telephone and Internet					
State and cost of infrastructure-Port Efficiency					
Cost and Availability of Electricity supply					

Cost and Availability of Water					
AGOA policies and extensions					
Application of VISA system					
Foreign Trade Regulations-Non AGOA					
Shortage of AGOA Market-orders					
Penetrating other Markets- European					
Penetrating other Markets- African					
Change in Fashion/pattern/style					
Change in Production technology					
Competition :From Within Kenya					
Competition: Global					
Availability of raw material-Local					
Corruption					
Political risks/stability: within Kenya					
Political Risks/Stability-from Neighbouring countries					
Government Bureaucracy					
Policy instability/Implementation					
Safety and Environment Regulations					
Crime and theft					
Terrorism					
Delay in licences and work permits					
Customs regulations					
Cost of custom policy.					
Tax Regulations-PAYE					
Tax Regulations-NHIF					
Tax Regulations- NSSF					
Tax Regulations-DTL					
Cost and Availability of Human Resource-semi Skilled					
Cost and availability of Human Resources-Skilled.					
Labour regulations					
Labour Unrest					
Labour Union Interference					
Management Style difference-Expatriate staff					
Management Style difference-Local staff					
Availability of Land					
Cost of Land					
Regulations in Land Transactions					
Other challenges in your option which have been left out; Please specify below with the rating..					

PART THREE: MEASURES TO DEAL WITH THE CHALLENGES

To what extent do you apply each of the following measures to deal with the challenges faced in the apparel manufacturing industry?

Rate the challenges using a 5-Point Scale: where 1=Not at all, 2=little extent, 3=moderate extent, 4=Great extent, 5=Very great extent. Please tick appropriately in the box below.

Measures to Deal with the Challenges	1	2	3	4	5
:PZ Authority assisted					
'arent Company assisted					
)utsource-Locally					
)utsource-Globally					
n-House Capability					
)ther Kenya Government Ministry/Agency assisted					
'rade Organizations/Affiliates assisted					
:ffective Corporate Social Responsibility					
Ion-Governmental/Lobby Group assisted					
)ther measures which in your option have been left ut; Please specify below with the rating					

Appendix II: List of apparel manufacturing firms in the EPZ in Kenya.

COMPANY NAME	LOCATION
Africa Apparel EPZ Ltd	Industrial Area-Nairobi
Alltex EPZ ltd	Athi River EPZ-Athi River
Ashton Apparel EPZ Ltd.	Mombasa
Balaji EPZ Ltd	Ruaraka-Nairobi
Celebrity Fashions K.EPZ Ltd	Athi River EPZ-Athi River
Future Garments EPZ Ltd	Athi River EPZ-Athi River
Global Apparel(K) Ltd	Athi River EPZ-Athi River
Hantex Garments EPZ Ltd	Mazeras EPZ-Mombasa
Kapric Apparel EPZ Ltd	Changamwe-Mombasa
Kenya Knit Garments EPZ Ltd	Mazeras EPZ-Mombasa
Kenya Trading EPZ	Sameer Industrial Park-Nairobi
Mombasa Apparel EPZ Ltd	Emirates-Mombasa
New Wide Garments (K) EPZ Ltd	Transfleet-Athi River Zone
Protex Kenya EPZ Ltd	Athi River EPZ-Athi River
Ricardo EPZ International Co.Ltd	Athi River EPZ-Athi River
Royal Garments EPZ ltd	Athi River EPZ-Athi River
Senior Best Garments K.EPZ Ltd	Kwa Jomvu-Changamwe-Mombasa
Shin Ace Garments K. EPZ Ltd	Zois(ii) EPZ-Mtwapa,Kilifi
Sino Link EPZ ltd	Kingorani EPZ-Changamwe,Mombasa
TailorMade Jeans(EPZ) ltd	Athi River EPZ-Incubator-Athi River
United Aryan EPZ ltd	Indigo EPZ-Ruaraka,Nairobi
Wild Life Works EPZ ltd	Maungu-Voi

Source:EPZA,March 14,2012

Appendix III: List of respondent firms

1. Alltex EPZ Ltd.
2. Ashton Apparel EPZ Ltd.
3. Balaji EPZ Ltd.
4. Future Garments EPZ Ltd.
5. Global Apparel (K) Ltd.
6. Hantex Garments EPZ Ltd.
7. Mombasa Apparel EPZ Ltd.
8. New Wide garments (K) EPZ Ltd.
9. Protex Kenya EPZ Ltd.
10. Royal Garments EPZ Ltd.
11. Senior Best garments (K) EPZ Ltd.
12. Shin-Ace Garments K. EPZ Ltd.
13. Tailormade Jeans wear EPZ Ltd.
14. United Aryan EPZ Ltd.