MULTINATIONAL ENTERPRISES AND HOST NATIONS: CONTRIBUTION BY COCA-COLA TO KENYA'S ECONOMY

BY:

ROSELYNE NZILANI MUTISO

A RESEARCH PROJECT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS OF THE DEGREE OF MASTERS IN BUSINESS ADMINISTRATION

SCHOOL OF BUSINESS
UNIVERSITY OF NAIROBI

APRIL, 2012

DECLARATION

This research project is my original work and has not been presented for examination in any other university.

Signature: ______________ Date : 13th November 2012

ROSELYNE NZILANI MUTISO
D61/70282/2009

This research project has been submitted for examination with my approval as university supervisor:

Signature: .... Date: 13-11-2012

DR. JOHN YABBS

LECTURER

SCHOOL OF BUSINESS

UNIVERSITY OF NAIROBI

ACKNOWLEDGEMENTS

I have the pleasure of thanking all those people who contributed in various ways to my study. I would like to register my sincere gratitude to my friends and family for their moral support. My deep felt gratitude also goes to my supervisor for his invaluable guidance in the course of carrying out this study. I would also like to thank the staff and management of The Coca-Cola Company for their cooperation and acceptance to participate in the study. God bless you

DEDICATION

This study is dedicated to my parents Dr. and Mrs. Mutiso.

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABSTRACT

The last two decades have seen a steady upsurge in the number of multinational corporations established in emerging economies, especially in Africa. International Business scholars have been comparatively uninterested in analyzing the role of MNEs in relation to emerging economies, and consequently, this area has not received due attention. As such the current study sought to establish the contribution of The Coca-Cola Company, a multinational corporation, to Kenya's economy. The study was guided by the following objectives, to determine the various factors favoring the establishment of Multinational enterprises like The Coca-Cola Company in host nations like Kenya, to establish the various contributions of Multinational enterprises like The Coca-Cola Company in the development of host economies specifically the Kenyan economy and to determine the challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like the Kenya.

Purposive sampling procedure was used to arrive at the sample of the heads of Marketing, Procurement, Quality Assurance and Logistics, as well as the Chief Executive Officer at The Coca-Cola Company. A semi -structured interview guide was used to collect data from the heads. The data was coded or broken down into manageable categories on a variety of levels and then examined using conceptual and relational analysis. The study established that: Establishment of Coca-Cola Company in Kenya is favored by an ideal investment climate, globalization pressure on Kenya and other emerging economies, economical human and natural resources as well as political stability; the Coca-Cola Company has contributed to the development Kenya's economy through introduction of modern technologies and superior taskforce training in the local context, as well as corporate transactions with local firms thereby boosting their productivity as well as overall national economic growth; challenges facing investment of the Coca-Cola Company in Kenya relate to tough regulatory powers by local authorities, high power and fuel costs, fluctuation of the Kenyan shilling, and pessimistic perception of the company.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

A Multinational Enterprise is a firm operating in several countries but managed from one (home) country (Leisinger, 1998). It is also defined as any firm or group that derives a quarter of its revenue from operations outside of its home country (Eussner, 2001). Basically a multinational enterprise is a firm that has productive capacity in a number of countries hence the profit and income flows that they generate are part of the foreign capital flows moving between countries.

Multinational Enterprises (MNE's) play a pivotal role in the global economy, linking rich and poor economies and transmitting capital, knowledge, ideas and value systems across borders. As countries adopt more open outward oriented approaches to economic growth and development, the role of multinational enterprises (MNE) becomes even more important. Local markets throughout the world are being deregulated and liberalized and foreign firms are looking to locate part of the production process in other countries where there are cost advantages in form of cheaper sources of labor, raw materials and components or have preferential government regulation.

The interaction of MNEs with institutions, organizations and individuals in their host nations generates both positive and negative spillovers for stakeholders in the host countries. Many development economists are concerned with role of the MNEs in low income countries and identify a number of problems associated with foreign direct investment. Equally others argue that MNE activity can drive growth and development. The true answer is that probably the arguments put by both sides are applicable in certain countries with certain MNEs at certain times. Coca-Cola is a Multinational Enterprise that operates in many nations or host countries one of them being Kenya.

1.1.1 Multinational Enterprises and host country economies

According to Lecraw (1996), Multinational Enterprises fall into four categories. Multinationals which are decentralized firms with strong home country presence, global enterprise which are centralized firms that acquire cost advantages through centralized production wherever cheaper resources are available, international which are firms that build on the parent firm's technology and transnational firms which combine approaches of the other three.

The perceived economic role of Multinational Enterprises (MNEs) is simply to channel physical and financial capital to countries with capital shortages. As a consequence, wealth is created, which yields new jobs directly and through "crowding-in" effects. In addition, new tax revenues arise from MNEs generated income, allowing emerging economies to improve their infrastructures and to strengthen their human capital (Razzaque, 2000).

For many years, multinational corporations have provided the world with an immense diversity of high-quality and low-priced products. Seidman (1999) observes that these corporations have also provided developing countries with much needed capital, jobs, and new technologies. Through free market initiatives, multinational corporations create wealth, which provides the income flow necessary for welfare improvements. The last two decades have seen a steady upsurge in the number of multinational corporations established in emerging economies, especially in Africa. Establishment of these multinational corporations has had notable significance in the socio-economic scenario of their host economies.

Kirkpatrick (1992) notes that Multinational firms play a pivotal role in global economy, linking rich and poor economies, and transmitting capital, knowledge, ideas and value systems across borders. Their interaction with institutions, organizations and individuals in emerging economies is generating positive and negative spillovers for stakeholders in the host countries.

in emerging economies is generating positive and negative spillovers for stakeholders in the host countries.

Foreign investment in African economies in the form of corporations such as The Coca-Cola Company is a potential source for knowledge at the technical and systemic level. Multinational enterprises contribute not only by transferring information, but also by stimulating directly or indirectly the generation of new knowledge in the host country, for instance by setting rules and institutions of the local organization. The generation of embedded knowledge depends on the specific rules and institutions in the firm and its environment, and follows evolutionary paths of development (Lane, et al 1994). The transferred knowledge contributes to the range of experimentation with new practices in the host economy. Investments from a variety of origins offer a particular wide array of experimentation, and thus foster the development of indigenous and locally adapted markets (Kogut 1996).

Markets in African economies are currently undergoing major liberalization, and therefore local industrialists in these economies may lack experience on how to act under the conditions of a competitive market economy (Uhlenbruck et al. 2003). Hence, firms in emerging markets need to be equipped with little prior knowledge that would allow them to adequately interpret the information acquired to make the optimal decisions on how to use the knowledge encountered in contact with multinational firms. In other words, insufficient absorptive capacity is basically the only impediment towards an effective interaction between multinational corporations and emerging economies' markets (Cohen and Levinthal, 1990; Fiol, 1996).

However the noble reputations of the Multinational Enterprises has given them a sense of monopoly power, which has further on resulted to gross economic and ethical excesses in the countries they encroach. Multinational Enterprises have also been chief culprits of international manipulations of markets, infringement of national sovereignties, imposition of initiatives to protect special interests under the guise of "level-field" trade agendas, and high world child labor rates (that is., the percentage of children working between the ages of 10 and 14) (Van del Bulke, 1994). All the shortcomings aside, markets in the emerging economies can benefit tremendously from Multinational Enterprises.

1.1.2 Overview of the Coca-Cola Company

The Coca-Cola Company is a beverage company, manufacturer, distributor, and marketer of non-alcoholic beverage concentrates and syrups. The company is best known for its flagship product Coca-Cola, invented by pharmacist John Stith Pemberton in 1886. The Coca-Cola formula and brand was bought in 1889 by Asa Candler who incorporated The Coca-Cola Company in 1892. Besides its namesake Coca-Cola beverage, Coca-Cola currently offers more than 400 brands in over 200 countries or territories and serves 1.6 billion servings each day. The company operates a franchised distribution system dating from 1889 where The Coca-Cola Company only produces syrup concentrate which is then sold to various bottlers throughout the world who hold an exclusive territory. The company is headquartered in Atlanta, Georgia (Coca-Cola Website, 2010).

Coca-Cola started operations in Kenya in 1948, on a Nairobi plot measuring just a quarter of an acre. The new beverage proved so popular that another production line was commissioned almost immediately in the coastal town of Mombasa. Coca-Cola Sabco's Kenyan plant in Embakasi, Nairobi, employs approximately 1 000 people. It is one of the biggest bottling plants in the group. This state-of- the-art facility was officially opened by Kenyan president Mwai Kibaki in 2005. The establishment of the Embakasi plant was made possible by the tremendous success of its predecessors, Nairobi Bottlers Ltd (NBL) and Flamingo Bottlers Ltd in Nakuru, which together contributed almost 50% of the country's total volume. The two joined forces with East Kenya Bottlers Limited (EKBL) in 2002 and, in 2003, entered an exciting joint venture – Beverage Services Kenya Ltd (BSK) – to boost their business further. Kenyans continue to enjoy a wide range of beverages from the coca cola company, including Coca-Cola, Coke Light, Sprite, Stoney, Dasani, Krest, Schweppes, and Sparletta among others (Coca-Cola Kenya, 2010).

The Coca-Cola Company is one of the corporations that have established itself in Kenya through Foreign Direct Investment (FDI). Foreign Direct Investment (FDI) as any form of investment that earns interest in enterprises which function outside of the domestic territory of the investor. FDIs require a business relationship between a parent company and its foreign subsidiary.

Foreign Direct Investment is guided by different motives. Koizumi and Kopecky (1980) assert that FDIs that are undertaken to strengthen the existing market structure or explore the opportunities of new markets can be called 'market-seeking FDIs.' 'Resource-seeking FDIs' are aimed at factors of production which have more operational efficiency than those available in the home country of the investor. Some foreign direct investments involve the transfer of strategic assets. FDI activities may also be carried out to ensure optimization of available opportunities and economies of scale. In this case, the foreign direct investment is termed as 'efficiency-seeking.'

1.2 Research Problem

The last two decades have seen a steady upsurge in the number of multinational corporations established in emerging economies, especially in Africa. The influence of Multinational Enterprises on these economies has become a source of controversy. The global profit maximization objective of these multinational corporations has brought them into direct conflict with the needs, aspirations and objectives of their host countries. The heavy capital-intensive technology of the multinationals contributes to a loss of employment opportunities and of real income. Further, the rapid rise of multinational corporations in Africa has been a topic of concern among industrialists, activists and scholars who have seen it as a threat to the continent's industrialization. More often, the Multinational Enterprises have found themselves in the midst of such accusations as creation of false needs in consumers to ascertain a constant market for their merchandise, interference in the policies of sovereign states and invasive advertising coupled with political lobbying.

A number of studies have also been conducted in reference to Multinational Enterprises. Ilunga (1997) carried out a study on 'Multinational Corporations in the Political Economy of Kenya'. Seidman (1999) fielded a research on 'African socialism and the world system: dependency, transnational corporations, and international debt in Socialism in Sub-Saharan Africa: a new assessment'. Kirkpatrick (1992) carried out a study entitled 'Multinational corporations and Africa's Economic Development'. Kaniki (1991) conducted a survey on 'Foreign capital, employment and accumulation in Kenya'. Friedland (1995) carried out a study on 'Western Transnational corporations and the Southern African Development Progress'

Interestingly, very few studies have been carried out to directly look into the role of multinational enterprises (MNE) in host nations. On this basis, the researcher sought to conduct a study to understand what is the contribution by The Coca-Cola Company to Kenya's economy.

Quite a good number of studies have been conducted with respect to the role of Multinational Enterprises (MNE) in the development of local markets in emerging economies.

The study conducted by Panibratov and Kalman (2001) sought to gain insights on Factors Stimulating Multinational Diffusion in Africa and other Developing Nations. The study aimed at establishing the various factors nurturing the rapid expansion of Multinational corporations in developing countries. Kiprotich (2005) fielded a study entitled Economic Development and Multinational Corporations: Lesson from Kenya. The study key intention was to explore into the various economic development factors that have triggered the growth of Multinational corporations across Kenya. A study fielded by Osoro (2006) sought to investigate into Multinational Corporations and Domestic Market Structure: The Case of Kenyan Manufacturing Industries. The study intended to look into the various implications that the MNCs have had on the Kenyan manufacturing industries. Ndamwe (2009) conducted a study investigating how Multinational triggered the growth of Multinational corporations across Kenya. A study fielded by Osoro (2006) sought to investigate into Multinational Corporations and Domestic Market Structure: The Case of Kenyan Manufacturing Industries. The study intended to look into the various implications that the MNCs have had on the Kenyan manufacturing industries. Ndamwe (2009) conducted a study investigating how Multinational corporations have affected Africa's industrialization, with specific reference to processing industries across Kenya.

All the studies reviewed only touched on contribution of multinational enterprises to emerging economies on certain restricted angles. None of the study that was reviewed tackled exhaustively the contribution of a particular multinational enterprise to one specific emerging economy. As such, the researcher intended to bridge this gap by understanding what is the contribution by The Coca Cola Company to Kenya's economy?

1.3 Research Objectives

The study was directed by the following objectives

i. To determine the various factors favoring the establishment of Multinational enterprises like The Coca-Cola Company in host nations like Kenya.
ii. To establish the various contributions of Multinational enterprises like The Coca-Cola Company in the development of host economies specifically the Kenyan economy.
iii. To determine the challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like the Kenya.

1.4 Value of the Study

The findings obtained from this study would be of benefit to a number of stakeholders. Among the chief beneficiaries of the study include: Domestic industrialists, local consumers and the government. The study will also add to the academic field.

Domestic industrialists would benefit from the findings of the study as they would be enlightened on various approaches that Multinational Enterprises like The Coca-Cola Company employ to achieve rapid and aggressive growth. This can help them to advance their strategies and gain a credible competitive edge in the local and regional markets.

Local consumers would gain through a wide range of choice in terms and more knowledgeable view point when regarding products and services offered by Multinational Enterprises like Coca-Cola.

The government, through the Ministry of Trade would have a clear view on how Multinational Enterprises influence development of local markets. The government will thereby formulate efficient strategies to oversee fair interactions between these two sectors.

This study is thus set to add to the knowledge base in the academic field by looking closely at Multinational Enterprises (MNE) in host economies with specific reference to The Coca-Cola Company in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter consists of literature relating Multinational Enterprises and host economies with specific reference to the contribution of The Coca-Cola Company to Kenya's economy. Sources of literature include books, journals and published and unpublished theses. It is divided into three sections namely: Introduction, Theoretical Review and empirical review.

This study is based on 2 theories which are the Eclectic Theory and Product life cycle Theory.

2.1.1 The Eclectic Theory

The Eclectic model (Dunning, 1993) seeks to offer a general framework for determining the extent and patterns of both foreign owned production undertaken by a country's own Enterprises and also that of domestic production owned by foreign Enterprises. Dunning argues that Eclectic paradigm is related to positive rather than normative issues. It intends to explain "what is" rather than "what should be" the level and structure of foreign value activities of enterprises. It accepts much of traditional trade theory in explaining the spatial distribution of some kinds of output. In denying certain assumptions held by the audience, the Eclectic theory relies on two kinds of market imperfections (failure). The first is that the structural market failure which discriminates between firms in their ability to gain and sustain control over property rights or to govern multiple geographically dispersed value-added activities. The second is that of the failure of intermediate product markets to transact goods and services at a lower net cost than those which a hierarchy might have to incur. Dunning states that the assumption of the existence of perfect markets contributes to the failure of the factor endowment approach to explain international production (completely or partially). In neo-classical trade theory, this leads to all sorts of restrictive assumptions, such as atomistic competition, equality of production functions, the absence of risk and uncertainty and implicitly at least, that technology is a free and instantaneously transferable good between firms and countries.

According to the Eclectic model, three reasons reflect the inability of the market to organize transaction in optimal way: the buyers and sellers do not enter the market with complete (or symmetrical) information or perfect certainty about the consequences of the transactions they are undertaking (Dunning, 2002). The market cannot take account of the benefits and costs that arise as a result of a particular transaction, but which are external to that transaction. The demand of a particular product, while infinitely elastic, is insufficiently large to enable the producing firm fully to capture the economies of size, scope and geographical diversification. There is an inevitable tradeoff between the overall costs of a set of value-added activities and the opportunity they offer for emerging economies (Galbraith and Kay, 1986). In Kenya, the outcome of the tradeoff between The Coca-Cola Company and the local economy is eminent through the intangible firm specific advantages transferred by the company at low cost. These firm specific advantages are namely, technology, brand name, benefits of economies of scale. This tradeoff, among other pertinent elements of Eclectic theory, is what makes it duly applicable in this study.

2.1.2 Product life cycle Theory

The product life cycle proposed by Vernom (1966) maintains that the foreign investment decisions of the firm are significantly influenced by the life cycle patterns of its main products. More specifically, the decision by Multinational enterprise as to where to locate production facilities is determined by the nature of firm products vis-à-vis the stage occupied by these products within the product life cycle. Vernom (1996) defines product life cycle as consisting three stages, namely-firstly, the new product stage, Secondly, the maturing product stage and lastly, the standardized product stage. The theory assumes that the firm in question is an innovation-based oligopolist from a developed country.

This theory finds its entry in the current study due to its argument pertaining to the first and third stages in product life cycle. In the first stage, the product that the Multinational Corporation in this case Coca-Cola Company specializes in meets tough competition in domestic markets due to the perceived unfamiliarity of the particular product. Further, there are also the uncertainties over the sustainability of the product in the market. These two aspects emerge due to the fact that the product brand in question is still very new. In the third stage, the Multinational corporation attempts to develop a market for the product in developing countries apparently because the product has lost its innovative value owing to the competitive pressures it receives from developed host country firms who begin to produce a substitute product. As a result of the emerging factors in those two stages, the Multinational corporations are constantly in hot pursuit of their products' recognition. In the quest for this recognition the corporations embrace strategies of securing goodwill from the local economies. These strategies, normally in terms of Intra-industry and Inter-industry spillovers- in the form of- advanced technologies, knowledge, and skills.

2.2 Factors Favoring the Establishment of Multinational Enterprises in host economies

The upsurge of Multinational Enterprises investment in emerging economies in the last two decades has largely been caused by unilateral liberalization of their Foreign Direct Investment (FDI) policies and regulatory regimes. According to Lankes and Venables (1996), Multinational Enterprises investment such as Coca-Cola in emerging economies is mainly attributed by the relentless solidarity between foreign investors and ruling regimes in these countries where most activities are opened to foreign investment on automatic route without any limit on the extent of foreign ownership.

A series of deals between host countries and foreign firms that involve input from the firm's home country take place during establishment of Multinational Enterprises. Therefore, so long as the foreign investor has alternative potential sites for its investment, it has bargaining power vis à vis the host country's government and may be able to negotiate terms that are more favorable than those available to domestic investors. These terms may take the form of exemptions from certain local laws, including tax laws, and of special subsidies and public services, such as new roads and upgraded port facilities.

In addition, Multinational Enterprises investors may worry about being exploited by the host country after their investments are sunk and will seek assurances that the government will not treat them worse than domestic firms (Klein and Aaron, 2001).

2.3 Contribution by the Coca-Cola Company in Emerging Economies

The impact of multinational firms, such as The Coca-Cola Company, on their environment is, or should be, equally relevant to managers. Positive spillovers help build a company's reputation as an actor concerned for its stakeholders. Negative spillovers risk triggering adverse reactions from stakeholders such local politicians concerned about employment, and consumer NGOs concerned about ethics (Sauvant, 2009). Recognizing both complementary and conflicting interests helps during negotiation processes to identify strategies that benefit both MNEs and stakeholders in host economies. In fact, there are cases where MNEs have commissioned independent studies to document their spillovers, as this might enhance their bargaining position (Woodward et al., 1995).

In emerging economies, the interaction with MNEs may benefit or harm local firms and individuals, which create what is known as positive and negative spillovers. Spillovers arise from non-market transactions when resources, notably knowledge, are spread without a contractual relationship, so-called externalities (Panibratov and Kalman, 2001). MNEs are profit maximizing, and thus naturally not interested in creating benefits for others without being paid for it. Whether foreign investors allow positive externalities depends on their opportunity costs of sharing the knowledge, and the transaction costs of establishing barriers to knowledge flows (Newman, 2000). Moreover, spillovers may arise from market transactions if a buyer values a resource higher than the price paid, known in economics as the consumer surplus. Vice versa, sellers gain a producer surplus when they value a good less than the price they charge. Thus unless one side is able to apply perfect price discrimination, both parties will be better off as a result of the transaction (Seidman, 1999)

These issues are particularly relevant for emerging economies, that is, middle or low income economies with growth potential that makes them attractive for foreign investors.

2.3.1 Intra-industry spillovers

A large body of empirical literature has analyzed how MNEs influence local firms in the same industry. The main theoretical foundations of these studies are knowledge spillovers on the basis of demonstration effects and the movement of labor. According to O'Rourke (2003), Demonstration effects work through the direct contact between local agents and an MNE operating at different levels of technology. After observing a product innovation or a novel form of organization adapted to local conditions, local entrepreneurs may recognize their feasibility, and thus strive to imitate them.

A second channel of spillovers is the movement of employees. Ramamurti (2001) indicates that MNEs build local human capital through training of local employees, yet these highly skilled individuals may move to locally owned firms or start their own entrepreneurial businesses. If these employees then move to local firms, they can take some of this tacit knowledge with them, thus enhancing productivity throughout the economy (Peng, 2000).

2.3.2 Inter-industry spillovers

Inter-industry, also known as vertical spillovers do not rely on externalities but are in part of the consumer and producer surplus created by market transactions. Foreign firms often purchase intermediate goods from domestic suppliers, which can create spillovers through several mechanisms (Lall, 1978; Smarzynska 2002): MNEs improve the productivity of indigenous firms by providing technical assistance and training of employees to increase the quality of suppliers products', by helping in management and organization, and by assisting them in purchasing of raw materials. They may set higher requirements regarding product quality and service-aspects of the supply relationships, such as just in time delivery, thus providing incentives for improving product quality and production processes. At the same time, MNEs may increase demand for intermediate goods, and thus allow local suppliers to realize scale economies (Uhlenbruck, et al, 2003.

2.4 Challenges Plaguing Investment of Multinational Enterprises in Emerging Economies

National and international labor unions have expressed concern that Multinational corporations in economically developed countries can avoid labor negotiations by simply moving their jobs to developing countries where labor costs are markedly less (Whitman and Zald, 2006). Labor organizations in developing countries face the converse of the same problem, as they are usually obliged to negotiate with the national subsidiary of the Multinational Corporation in their country, which is usually willing to negotiate contract terms only on the basis of domestic wage standards, which may be well below those in the parent company's country (Cotula, 2009).

Social welfare organizations are similarly concerned about the actions of Multinationals, which are presumably less interested in social matters in countries in which they maintain subsidiary operations. According to Fletcher (1999), environmental protection agencies are equally concerned about the activities of Multinationals, which often maintain environmentally hazardous operations in countries with minimal environmental protection statutes.

Finally, government agencies fear the growing power of Multinationals, which once again can use the threat of removing their operations from a country to secure favorable regulation and legislation (Fletcher 1999).The mobility inherent in capital investment also means that some locations and local governments might compete with one another in attracting a Multinational corporation by creating favorable business conditions (UNCTAD, 2009i).

2.4 Empirical Review

Kiprotich (2005) fielded a study entitled Economic Development and Multinational Corporations: Lesson from Kenya. The study key intention was to explore into the various economic development factors that have triggered the growth of Multinational corporations across Kenya. Data collection instruments in the study included: Questionnaires, in-depth interview guides, document analysis guides, observation schedules and focus group discussion guides. The study used an amalgamation of two research designs namely survey design and naturalistic design. The study established that: various economic development factors that have triggered the growth of Multinational corporations across Botswana included: Prevalence of governmental policies designed to reduce market risks; relative political stability; considerable adequate infrastructure; and effectual regulatory environment for prospective investors.

A study conducted by Panibratov and Kalman (2001) sought to gain insights on Factors Stimulating Multinational Diffusion in Africa and other Developing Nations. The study aimed at establishing the various factors nurturing the rapid expansion of Multinational corporations in developing countries. The study also intended to expose the various impediments hindering the effective growth of the Multinational corporations in these countries. The study collected the required data from many sources and used both quantitative and qualitative data collection techniques. The study adopted a triangulation methodology whereby Focus Group Discussions (FGD) were used extensively to collect qualitative data from key stakeholders in 3 Multinational corporations in 5 developing countries. A total of 96 respondents were sampled to take part in the study. Findings of the study indicated that: the various factors nurturing the rapid expansion of Multinational corporations in developing countries are mainly: the opening of global markets require developing countries to adopt international Enterprises to remain economically viable; the significant attempts of the developing states to increase their capacity in controlling internal social and economic contradictions- these interventions ultimately work in favor of Multinational corporations; ability of Multinational corporations to search for more convenient factors of production in developing countries;

availability of cheap utilizable labor; prevalence of local natural resources; and the introduction of tax abatements. The various impediments hindering the effective growth of the Multinational corporations in these countries were found to be: social movements and political organizations' resistance; unpredictable consumption trends; anti-corporate movements organized by local firms; and a considerable rise in socio-economic polarization.

A study fielded by Osoro (2006) sought to investigate into Multinational Corporations and Domestic Market Structure: The Case of Kenyan Manufacturing Industries. The study intended to look into the various implications that the MNCs have had on the Kenyan manufacturing industries. Interviews were used as the main data collection instruments. Interviews were semi-structured and typically between 1 hour and 2 hours' duration. This paper also used the results of both a 3 year longitudinal study and research conducted on extensive Multinational Corporations investments in Kenya and its consequences on domestic industrialization. The study established the main implications of Multinational Corporations in the Kenya manufacturing industries to be: MNCs have directly affected the market structure of the Ghanaian economy by increasing both the relative inequalities in the size distributions of firms; MNCs tend to populate capital intensive sectors and may also account for a potential indirect stimulation on the concentration process through their effects on domestic barriers to entry; and MNCs in the manufacturing sector are likely to be able to earn and maintain supra-normal profits in the domestic market.

Ndamwe (2009) conducted a study investigating how Multinational corporations have affected Africa's industrialization, with specific reference to processing industries across Kenya. This study used survey design. This design was used in this study since it involves the procedures of collection and analysis of data from the members of a sample. A mixture of two sampling techniques was used, namely simple random and purposive sampling technique. The simple random sampling procedure was used to arrive at the sample of workers, while purposive sampling was used to select the CEOs. The sample consisted of 80 workers and 10 CEOs. The study established that: Socio-economically

Multinational corporations have generated employment, launched new technologies and introduced more products and services in Kenya; though unfair competition, self-centered manipulation of the political policies and the consumer are the notable implications of Multinational corporations on development of domestic processing industries in the country.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the procedures and the methods the researcher employed to carry out the study. The section comprises of 3 sections which are the research design, data collection and methods of data analysis.

3.2 Research Design

This study used a case study design. Case study research excels at bringing us to an understanding of a complex issue or object. Case studies emphasize detailed contextual analysis of a limited number of events or conditions and their relationships. It is an in depth study of a particular situation. Case study design was appropriate to this study as it enabled us to do an intensive analysis of the object of study which in this case is Multinational Enterprises in host economies. This in turn translated to a sharpened understanding of the contributions made by The Coca-Cola Company to Kenya's economy.

3.3 Data Collection

Interview guides were used as the major research instruments in this study. This was applied to the top 5 managers at The Coca-Cola Company. These were the 4 department heads (Marketing, Procurement, Quality Assurance and Logistics) and the Chief Executive Officer.

The interview guide or schedule was semi-structured nature containing mainly open-ended items. As noted by Mwiria and Wamahiu (1995) the interview method was suitable for the current study because it was more like a guided discussion among participating members with the researcher acting as the facilitator.

Interview guides were used for the study for three main reasons. First, they were used to collect data on those variables that did not easily lend themselves to the use of a questionnaire. This was particularly so for those variables relating to the contribution of The Coca-Cola Company to Kenya's economy. Such variables were best suited for interviews with a selected number of respondents. Second, there were another set of variables that required more intellectual skills than most respondents have.

The interview guide consisted of two main sections. Section A covered the demographic characteristics of the participants. Such characteristics included education level, and administration experience. Section B addresses the main research questions on the contribution of The Coca-Cola Company to Kenya's economy.

Prior to data collection, various documents that were deemed vital in carrying out the research were also obtained from the relevant bodies. Having obtained all the documents required the researcher progressed with data collection. First point was to establish contacts with the management of Coca-Cola Sabco Bottlers Limited in Nairobi. Once this was done, the researcher was able to use the Interview guides to collect information from the top management.

3.4 Data Analysis Procedures

The collected data was organized and prepared for analysis using content analysis. The data was coded or broken down into manageable categories on a variety of levels and then examined using conceptual and relational analysis. The results were then be used to make inferences and qualitative data was presented.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data and discussion of the findings, which is presented in tables and figures. The first section presents the response rate, and respondent profile. The chapter is divided thematically as following: factors favoring the establishment of Multinational enterprises like The Coca-Cola Company in host nations like Kenya, contributions of Multinational enterprises like The Coca-Cola Company in the development of host economies (Kenyan economy) and challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like Kenya

4.2 Response Rate

The researcher had dispatched a total of 5 interview guides to the sampled respondents. All the 5 participants responded to the items in the interviews. This gives a 100% response rate.

4.3 Respondents' Demographic Profile

The respondents were asked to indicate their designation, and work experience in the company. The results are presented in Table 4.1

Table 4.1: Respondents' Demographic Profile

Designation	Working Experience
Chief Executive Officer	7- 9 Years
Logistics	4- 6 Years
Marketing	4- 6 Years
Quality Assurance	1- 3 Years
Procurement	1- 3 Years

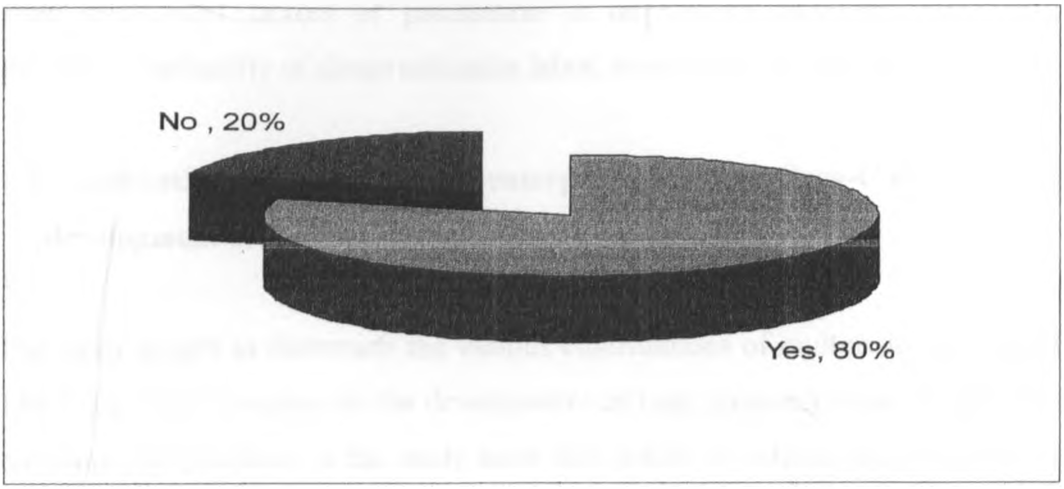
According to table 4.1, the Chief Executive Officer had worked in the company for 7 to 9 years, the heads of logistics and marketing departments had each worked in the company for 4 to 6 years. Again, the heads of quality assurance and procurement departments had each worked in the company for 1 to 3 years.

The work experience shows that majority of the respondents were well seasoned and experienced in their field of work and hence were capable of providing reliable and objective data pertinent to this study.

4.4 Factors Favoring the Establishment of Multinational Enterprises like The Coca-Cola Company in host nations like Kenya

The study was interested in finding out factors favoring the establishment of Multinational enterprises like The Coca-Cola Company in host nations like Kenya. To achieve this objective, the respondents in the study were first asked to point out whether there were factors that favored the establishment of Coca-Cola Company in Kenya. Their response is shown in figure 4.1

Figure 4.1: Whether there were factors that favored the establishment of Coca-Cola Company in Kenya



According to figure 4.1, majority of the heads of department in the study (80%) pointed out that there were factors that favored the establishment of Coca-Cola Company in Kenya, 20% indicated that there weren't any factors.

Those heads of department who indicated that were factors that favored the establishment of Coca-Cola Company in Kenya were asked to specify these factors. They reported the following to be the factors:

i. Rational regulatory atmosphere for foreign direct investment in Kenya
ii. Rapid globalization leading to intensification of international enterprises adoption by developing countries
iii. Cheap, available and utilizable labor in Kenya, as well as rich natural resources
iv. Comparative political calmness in Kenya at the time of establishment

From the study, it emerges that factors favoring the establishment of Coca-Cola Company in Kenya pertain to an ideal investment climate, globalization pressure on Kenya and other emerging economies, economical human and natural resources as well as political stability. These findings are in tune with the outcomes of a study by Alessandro (2000) that established that the significant attempts of the developing states to increase their capacity in controlling internal social and economic contradictions- these interventions ultimately work in favor of multinational enterprises (Coca-Cola Company is one of them). They include: ability of multinational enterprises investors to search for more convenient factors of production in developing countries (such as political stability); availability of cheap utilizable labor; prevalence of local natural resources

4.5 Contributions of Multinational enterprises like The Coca-Cola Company in the development of host economies (Kenyan economy)

The study sought to determine the various contributions of multinational enterprises like The Coca-Cola Company in the development of host economies specifically the Kenyan economy. Respondents in the study were first asked to indicate the extent to which the Coca-Cola Company played a role in the development Kenya's economy since its inception. Table 4.2 shows their responses.

Table 4.2: Extent to which the Coca-Cola Company played a role in the development Kenya's economy

Extent	Frequency	Percent
To a greater extent	3	60
To some extent	2	40
Not at all	-	-

According to Table 4.2, a majority of the heads of departments in the study, 3 (60%) were of the view that the Coca-Cola Company played a role in the development Kenya's economy since its inception, to a greater extent, the rest 2 (40) observed that it had, to some extent.

The heads of departments were further asked to outline the specific contributions of the company the development Kenya's economy. They observed out the following as the specific contributions:

i. Introduction of new technologies to local firms enabling them to increase the quality of their products
ii. The company improves the productivity of local human capital through training of Kenyan employees who further move to locally owned firms or start their own entrepreneurial businesses
iii. Creation of economic growth through business transactions with local suppliers
iv. Empowerment of local investors on benefits of new production methods
v. The Coca-Cola Company use local firms as marketing outlets thus generating more to the economy

Findings of the study imply that the Coca-Cola Company has contributed to the development Kenya's economy through introduction of modern technologies and superior taskforce training in the local context, as well as corporate transactions with local firms thereby boosting their productivity as well as economic growth. These findings coincide with findings by an observation by Seidman (1999) outlining that these multinational enterprises (Coca-Cola Company being one of them) have provided developing countries with much needed capital, jobs, and new technologies. Ramamurti (2001) also indicates that MNEs build local human capital through training of local employees. Foreign firms through such transactions as purchase of intermediate goods from domestic suppliers create spillovers through several mechanisms (Lall, 1978; Smarzynska 2002).

4.6 Challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like Kenya

The study was also determined to examine the challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like Kenya.

The heads of departments who took part in the study were first asked whether they agreed that there were challenges facing investment of the Coca-Cola Company in Kenya. Their response is shown in figure 4.2

Figure 4.2: Whether there were challenges facing investment of the Coca-Cola Company in Kenya

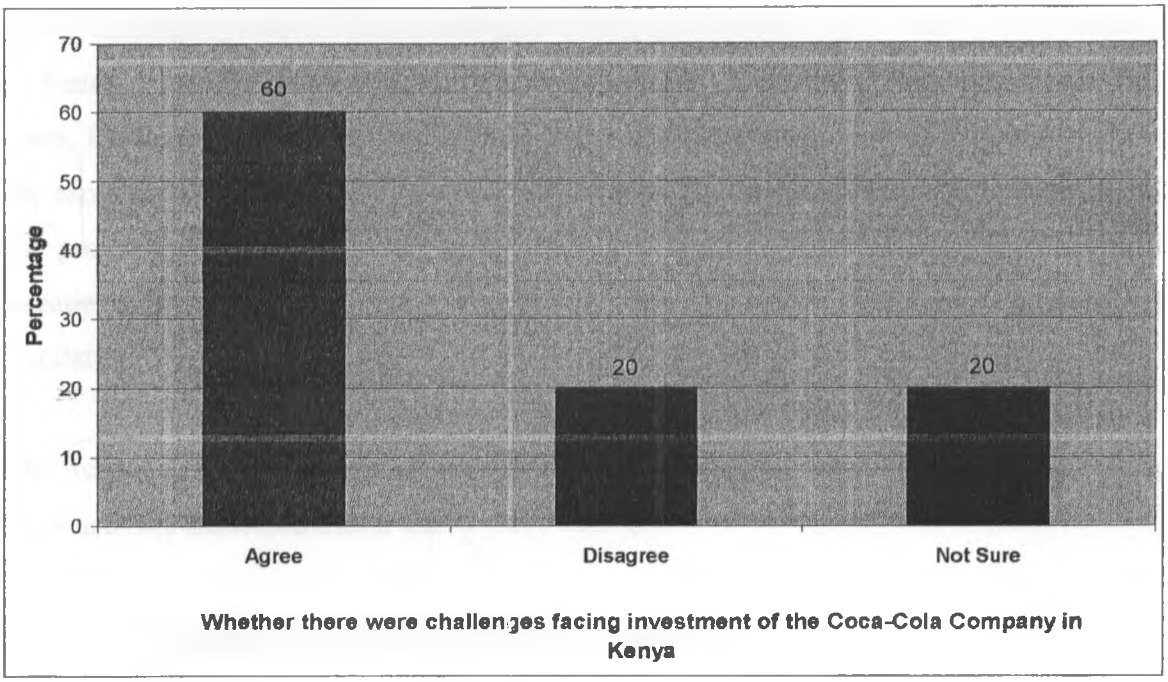


Figure 4.6 shows that majority of the heads of departments in the study (60%) agreed that there were challenges facing investment of the Coca-Cola Company in Kenya. Those who disagreed and those who were unsure were presented by 20% each.

Those heads of departments who agreed that there were challenges facing investment of the Coca-Cola Company in Kenya were further asked to point out these specific challenges. They outlined the following as the key impediments:

i. Implementation of stringent regulatory controls by the Kenyan government
ii. Escalating fuel and electricity prices in Kenya
iii. Economic inequalities leading to poor performance of the Kenyan Shilling against key foreign currencies
iv. Negative perception of the Coca-Cola Company as thriving through exploiting economic differences in Kenya
v. Overprotection of local firms by the Kenyan government thus stifling an environment for healthy competition

These findings symbolize that challenges facing investment of the Coca-Cola Company in Kenya relate to tough regulatory powers by local authorities, high power and fuel costs, fluctuation of the Kenyan shilling, and pessimistic perception of the company. On the same note, Eussner (2001) points out that foreign firms are looking to locate part of the production process in other countries where there are cost advantages in form of cheaper production resources, low inflation rates and have preferential government regulation.

The respondents were then asked whether the challenges had been resolved. Their responses are shown on Table 4.3

Table 4.3: Whether the challenges had been resolved

Extent	Frequency	Percent
No	3	60
Not Sure	1	20
Yes	1	20

Table 4.3 shows that a majority of the heads of departments in the study, 3 (60%) were of the view that challenges facing investment of the Coca-Cola Company in Kenya had not been resolved. Those who indicated that the challenges had been resolved, and those who were not sure were presented by 1 (20%) each.

The heads of departments were further asked to point out how these challenges can be resolved or how they have been resolved. They reported the following as the main ways to resolve these challenges:

i. Adoption of less regulatory controls by the Kenyan government
ii. Tax cutback on key elements of production like electricity and petroleum
iii. Implementation of stimulus strategies to curb the freefall of the Kenyan Shilling
iv. Attitude change by industrialists, activists and scholars concerning the Coca-Cola Company as a threat to the Kenyan economy

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Summary

The main purpose of this study was to examine contribution of The Coca-Cola Company to Kenya's economy. The study was guided by the following research objectives:

1. To determine the various factors favoring the establishment of Multinational enterprises like The Coca-Cola Company in host nations like Kenya.
2. To establish the various contributions of Multinational enterprises like The Coca-Cola Company in the development of host economies specifically the Kenyan economy.
3. To determine the challenges plaguing investment of Multinational enterprises specifically The Coca-Cola Company in host economies like the Kenya.

This study used case study design since it excels at bringing the researcher to an understanding of a complex issue or object. Purposive sampling procedure was used to arrive at the sample of the heads of Marketing, Procurement, Quality Assurance and Logistics, as well as the Chief Executive Officer at The Coca-Cola Company. The analysis of the data enabled the researcher to come up with the following major findings:

a) The study found out that there were indeed factors that favored the establishment of Coca-Cola Company in Kenya as indicated by 80% of the respondents. The specific factors emerged to be: Rational regulatory atmosphere for foreign direct investment in Kenya; rapid globalization leading to intensification of international enterprises adoption by developing countries; cheap, available and utilizable labor in Kenya, as well as rich natural resources; and comparative political calmness in Kenya at the time of establishment.

b) Multinational enterprises like The Coca-Cola Company, according to 60% of the respondents, contributed a greater extent in the development of host economies specifically the Kenyan economy. This contribution was found to be in terms of: introduction of new technologies to local firms enabling them to increase the quality of their products, and improvement of the productivity of local human capital through training of Kenyan employees; creation of economic growth through business transactions with local suppliers; empowerment of local investors on benefits of new production methods; use of local firms as marketing outlets thus generating more to the economy

c) There were challenges facing investment of the Coca-Cola Company in Kenya as indicated by 60% of the respondents who expressed agreement with this observation. They outlined the following to be the key challenges facing this company: stringent regulatory controls by the Kenyan governments; escalating fuel and electricity prices in Kenya, and economic inequalities leading to poor performance of the Kenyan Shilling against key foreign currencies; and negative perception of the Coca-Cola Company as thriving through exploiting economic differences in Kenya.

d) The challenges had not been resolved, as observed again by 60% of the respondents, as such, they reported the following as the main ways to resolve these challenges: Adoption of less regulatory controls by the Kenyan government; tax cutback on key elements of production like electricity and petroleum; implementation of stimulus strategies to curb the freefall of the Kenyan Shilling; and attitude change by industrialists, activists and scholars concerning the Coca-Cola Company as a threat to the Kenyan economy.

5.2 Conclusions

The following are the researcher's conclusions of the study derived from the major findings based on the research objectives:

i. Establishment of Coca-Cola Company in Kenya is favored by an ideal investment climate, globalization pressure on Kenya and other emerging economies, economical human and natural resources as well as political stability

ii. The Coca-Cola Company has contributed to the development Kenya's economy through introduction of modern technologies and superior taskforce training in the local context, as well as corporate transactions with local firms thereby boosting their productivity as well as overall national economic growth.

iii. Challenges facing investment of the Coca-Cola Company in Kenya relate to tough regulatory powers by local authorities, high power and fuel costs, fluctuation of the Kenyan shilling, and a negative perception of the company.

5.3 Recommendations

The following recommendations were made to various relevant stakeholders concerning contribution of The Coca-Cola Company to Kenya's economy.

Local Industries Management: The managers of various industries should find ways and means of overcoming the implication of multinational corporations on their development. To facilitate this, they should come together and establish an alliance. This alliance can play a vital role in regards to enabling access to the latest technological updates and adoption of most proficient strategies.

The Government: Multinational enterprises like The Coca-Cola Company have a tremendous socio-economic impact on the livelihoods of the people across Kenya.

Activists: Activists in various sectors all over Kenya should adopt a positive perception of multinational enterprises by striving to understand the underlying benefits of their operations in the development of the economy. They should observe these enterprises as agents stimulating positive economic development and not as thriving through exploiting economic differences. They can work with the major stakeholders from these companies to alleviate the negative connotations that may arise due to their operations.

Further research into the area of multinational corporations and their contributions to host economies should be conducted to enhance knowledge in this area of study.

REFERENCES

About the Coca-Cola Company. Retrieved August 31, 2010 from www.thecocacolacompany.com.

Cohen, W. M. and Levinthal, D. A. (1990). 'Absorptive capacity: A new perspective on learning and innovation'. *Administrative Science Quarterly*, 35, 1: 128-52.

Cotula, L (2009). 'Land grab or development opportunity? International farmland deals in Africa', *Columbia FDI Perspectives,* No.8, June 22

Dunning, J. H., (1993) Multinational Enterprises and the Global Economy. Wokingham: Addison-Wesley

Eussner, J. (2001) Multinational Corporation and development: Decades of illusion. *Development and peace* 4 (1)

Friedland, E. A (1995) Western Transnational corporations and the Southern African Development Progress. *Scandinavian journal of development alternatives,* 4 (1)

Galbraith C. S. & Kay N. W. (1986). "*Towards a theory of multinational enterprise.*" Journal Economic Behavior and Organization, 19, 3-19.

Ilunga, H. (1997) Multinational Corporations in the Political Economy of Kenya. *Journal of development economics 22(2)*

Kaniki, S. (1991) Foreign capital, employment and accumulation in Kenya. *Journal of development studies 3(1/2)*

Kiprotich, H. (2005) Economic Development and Multinational Corporations: Lesson from Kenya. *GeoJournal* 62: 163–179 DOI 10.1007/s10708-005-7915-1

Kirkpatrick, C. H. (1992). " Multinational corporations and Africa's Economic Development", *Journal of modern African Bi-.ndj.efi* 19 (3)

Kogut, B. (1996): Direct Investment, Experimentation, and Corporate Governance in Transition Economies, in: R. Frydman, C. W. Gray and A. Rapazynski (eds.): *Corporate Governance in Central Europe and Russia*, vol. 1, London and Budapest: Central European University Press, p. 293-332

Lane, P., Salk, J., and Lyles, M. (1994). Absorptive capacity, learning and performance in international joint ventures. *Strategic Managament Journal*

Lall, S. (1996). *Learning from the Asian tigers: Studies in technology and industrial policy*, London: MacMillan

Leisinger, M., (1998). The Re-Emergence of Multinational Enterprise Cambridge, Mass: Harvard University Press.

Newman, K. (2000). Organizational transformation during institutional upheaval. *Academy of Management Review*, 25: 602-619

Nwankwo, D and Akiweme, J. (1996) Foreign Direct Investment in Africa: Performance Responsibilities. *African Trade Policy* 19 (3)

O'Rourke, D. (2003). Outsourcing regulation: analyzing nongovernmental systems of labor standards and monitoring, *Policy Studies Journal* 31: 1-29.

Osoro. D. R. (2006) Multinational corporations and domestic market structure: The case of Kenyan manufacturing industries. Journal of management, business and economics. Volume 123, Number 4 / December.

Panibratov, A and Kalman K. (2001) Factors Stimulating Multinational Diffusion in Africa and other Developing Nations. *International Journal of Sociology.* 13(6)

Ramamurti, R.(2001). The obsolescing 'bargaining model'? MNC-host developing country relations revisited, *Journal of International Business Studies* 32: 23-39

Razzaque, M. A. (2000) Culture, technological change and development: an exploratory study of three countries. *Journal of management, business and economics* 12(3)

Sauvant, K. P. (2009), 'Driving and countervailing forces: a rebalancing of national FDI policies?', in Karl P. Sauvant, ed., *Yearbook on International Investment Law &Policy 2008-2009* (New York: Oxford University Press), pp. 215-272

Smarzynska, B. (2002). Does foreign direct investment increase the productivity of domestic firms: In search of spillovers through backward linkages? World Bank: Policy Research Working Paper no. 2924, October.

UNCTAD (2009i). *World Investment Prospects Survey 2009-2011* (Geneva and New York: United Nations)

Vernon, R. (1966). International investment and international trade cycle. Quarterly Journal of Economics, 86, 190-207

Xu, B. (2000). Multinational enterprises, technology diffusion, and host country Productivity. *Journal of Development Economics* 62, p. 477-492.

Yusuf (2003) Bridging the Social-economic Gap in Sub-Saharan Africa: Optimism of Multinational corporations. Africa Finance Journal 5, 36-67

APPENDICES

APPENDIX 1: INTERVIEW GUIDE FOR THE MANAGERS.

University of Nairobi

Section A: Background Information

Please respond to each item by putting a tick (√) next to the response you prefer.

1. Designation

a) Chief Executive Officer ☐
b) Marketing ☐
c) Procurement ☐
d) Quality Assurance ☐
e) Logistics ☐

2. Working experience in The Coca-Cola Company

a) 1-3yrs ☐
b) 4-6 yrs ☐
c) 7-9yrs ☐
d) 10yrs and above ☐

Section B: Contribution of the Coca-Cola Company to Kenya's Economy

3. Are there factors that favored the establishment of Coca-Cola Company in Kenya?

a) Yes ☐

b) No ☐

b. If YES, please specify these factors

....

....

....

....

....

4. The Coca-Cola Company played a role in the development Kenya's economy since its inception

a) To a greater extent ☐

b) To some extent ☐

c) Not at all ☐

b. Please outline the specific contributions of the company the development Kenya's economy

....

....

....

....

....

5. There are challenges facing investment of the Coca-Cola Company in Kenya?

a) Agree ☐

b) Disagree ☐

c) Not Sure ☐

b. If you agree, please identify these challenges

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

6. Have these challenges been resolved

a) Yes ☐

b) No ☐

c) Not Sure ☐

b. Please point out how these challenges can be resolved or how they have been resolved?

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………

…………………………………………………………………………………………