FOREIGN DIRECT INVESTMENT AND FINANCIAL PERFORMANCE OF MANUFACTURING FIRMS REGISTERED BY THE KENYA ASSOCIATION OF MANUFACTURERS

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DECLARATION

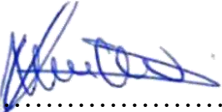This project is my original work and has not been presented in any degree in any other university.

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DEDICATION

This project is dedicated to my dear parents, who provided guidance and financial support during my studies.

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LIST OF ABREVIATIONS AND ACRONYMS

BOI	Board of Investment
DEA	Distance Function Approach
EAC	East Africa Community
EAT	After-Tax Earnings
EPZ	Export Processing Zones
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GVC	Global Value Chains
KAM	Kenya Association of Manufacturers
KEPSA	Kenya Private Sector Alliance
KIPRA	Kenya Institute of Public Policy and Analysis
KNBS	Kenya National Bureau of Statistics
MMR	Moderated multiple regression
MNCs	Multinational Corporations
MNE	Multinational Enterprises
NSE	Nairobi Securities Exchange
OLS	Ordinary Least Squares
ROA	Return on Assets
ROE	Return on Equity
ROS	Return on Sales
SPSS	Statistical Package for Social Sciences
TFP	Total Factor of Production
UNCTAD	United Nations Committee on Trade and Development
USA	United States of America

ABSTRACT

The manufacturing industry is considered as among the primary drivers for achieving a steady annual economic Growth rate of 10% in Kenya Vision 2030. The manufacturing industry in Kenya can have a future potential to contribute to employment and economic growth. Kenya's manufacturing sector accounts for 70% of the industrial sector's share in Gross domestic production. Total Factor Productivity (TFP) in manufacturing grew about 20percent from 2003 to 2007. The manufacturing sector's growth rate fell to 3.3 percent in 2011 from 4.4 percent in 2010, indicating underperformance by manufacturing. The objective of the study was to establish the effect of foreign direct investment on financial performance of manufacturing firms registered by the Kenyan association of manufacturers. Both exploratory and cross-section survey methods were adopted targeting 38 KAM member manufacturing firms and census was used. Information was gathered from auxiliary sources and analyzed using SPSS covering means and standard deviations, correlation and regression analysis. The findings indicate that foreign board membership ($\beta=.373$, $p<0.05$ & $t>1.96$) had the greatest significant effect on financial performance of manufacturing firms in Kenya followed by Foreign equity shareholding ($\beta=.287$, $p<0.05$ & $t>1.96$) and lastly foreign technological flow ($\beta=.074$, $p<0.05$ & $t>1.96$). The study concludes that foreign direct investment significantly enhances financial performance of the manufacturing firms in Kenya. It was recommended that the government of Kenya has a major responsibility of establishing a conducive environment that supports and encourages an inflow of foreign investors within the sector. The Kenya Revenue Authority should provide more tax incentives that would motivate foreign investors to flow into the country and support the manufacturing sector. The policy makers in the government should formulate sound policies that would be used to foster good bilateral and multilateral relationships with other countries so that more foreign investors will flow in the country. The government has an obligation of putting in place measures to counter corruption and other negative vices that may otherwise hurt the publicity and reputation of the country slowing down an inflow of foreign investors.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

Manufacturing is a major driver of economic growth and technical acquisition in developing countries. This industry is seen as a source of advancement, skill development, and good spill over effects. However, as globalization and the demand for internationalization grow, many international corporations are diversifying their operations by shifting production to places where production costs are cheaper than in their home nations (Awino, 2015). This had led to the boom of FDI investments from abroad. According to Newman et al., (2015), the performance of the companies in the manufacturing sector has not met the expectation of investors and governments, particularly in emerging economies.

Times over the past decades, the merger of several economic, technical, and regulatory aspects has forced worldwide production to begin a phase of fast expansion. According to Selsah and Chaudhary, these aspects have had a significant influence on how businesses across sectors function, how they allocate value addition across geographically distant locations, and how they assign activities to actors along their value chains (2020). Domestic savings in emerging nations are low, and they will require foreign capital to bridge the savings-investment gap and reach the necessary level of investment. The above investments, in the type of "new wealth" or economic growth, are meant to be used to finance economic activity (Lekaram, 2014). In other cases, such inflows may take the shape of credit form parent businesses or branches, allowing local enterprises to strengthen their liquidity.

According to UNCTAD (2005), inflows of foreign direct investment (FDI) account for more than 40% of international development assistance to developing and transition economies. Agbonifob (2015) highlighted the numerous ways in which FDI benefits Nigeria's economic prospects. For example, foreign direct investment can significantly contribute to Nigeria's

industrialization and development goals by assisting with investment financing (Osman, 2010). Many economists argue that one of the goals of industrialization is to generate jobs for the population and make goods more widely accessible to consumers. FDI helps to address two primary difficulties that the majority of African countries face: a lack of technology and skills, as well as a savings gap, which decreases poverty and raises living standards (Muhuia, 2019).

The situation in Kenya seems to be the same. The government-sponsored foreign direct investment was triggered when the government offered foreign investors incentives. Economic rewards, according to Muhuia (2019), have caused a spike in the number of international firms that operate in Kenya's free trade zones. After the development of industrial estates in 1990, more foreign investors was welcomed. In 2003, developed economies formed the bulk of existing businesses, paying for 71% of total FDI commitment, comparing to 16% for Kenyan-foreign strategic alliances (UNCTAD, 2006).

Manufacturing is important potential economic sector in Kenyan vision 2030(Were, 2016). The government of Kenya created a 10 year plan to create 1 million jobs by strength the manufacturing sector. The plan intends to create fund for industrial development and infrastructure corridors and enhance agricultural production, textile industry and many other industries. This plan will increase the Kenyan economy by 300 billion in the next five years as well as increasing jobs in the manufacturing industry (Wafula, 2015)

1.1.1 Foreign Direct Investment

Foreign Direct Investment (FDI) is defined by Dawson (2017) as a firm's direct investment in its capacity to produce or sell goods abroad. Investments made by a privately owned company or people from one nation to another in order to gain business assets and partnerships in that nation are known as foreign direct investment (FDI) (Duce, 2003). FDI is

extensive investment that demonstrates a foreign direct investor's (or parent enterprise's) long-term interest in and ownership of an enterprise entity based in a country other than the foreign investor's country (Dawson, 2017). FDI is defined by Kovacs (2019) as a multinational firm's investment in the economic activities through the development of manufacturing, service, and production businesses in the form of subsidiaries in a nation other than the headquarters' home'.

The parent company must acquire a minimum 10% of the ordinary shares of its overseas subsidiaries to be considered an FDI, however an investing company can also be considered an FDI if it acquire voting power in a foreign company (Osano & Koine, 2016).

FDI can take a variety of forms. This one is a Greenfield investment, which entails launching a new company in a sovereign entity. Other options include mergers and acquisitions (M&A) with only a foreign firm, a start-up effort, a joint venture with a local agent, or a minority ownership through licenses (UNCTAD, 2009). The impact of FDI on company performance has been measured using a number of different factors. Value of the FDI, technology flow, foreign equity participation, foreign board membership, and size of the company, interest rates, degree of openness, exchange rates, and inflation are only a few examples. Because most prior research on the effects of FDI on manufacturing company performance have concentrated more on macro and micro economic aspects while giving less attention to technical flow, foreign equity shareholding, and foreign board membership, this study utilized those three factors.

1.1.2 Financial Performance

The method of evaluating the efficiency and effectiveness of an action is known as performance measurement (Neely, Gregory & Platts, 1995). Financial performance is an assessment of an institution's actual position as well as an accurate reflection of the areas

where it achieved its goal by analysing its business operations, assets, and liabilities (Farhan and Al-Mashhadani, 2011).

Financial performance is often a subjective measurement that assesses a company's ability to create revenue from its assets. It's also a broad assessment of a company's overall financial health over a set period of time. It can be used to compare/benchmark companies in similar industries in this regard. It can also be used to compare different industries/segments.

Previously, the success of a company was assessed by looking at its sales or profits at the end of the year, or by utilizing financial ratio analysis (2015, Parmenter). Tools that assess a company's current profitability include net income, rate of return, and payback period. These ratio is used to assess a business's financial health and wellbeing over time. They may also be used to compare firms within the same industry or across industries or sectors. The efficiency of assets in increasing revenues is measured by ROA, whereas is the profitability of the business in relation to shareholders equity is measured by ROE (Marshal, 1920). Accounting measure's disadvantages include the fact that it can only record historical aspects of a company's performance, as well as differences in accounting system and administrative controls (McGuire, Schneeweis & Hill, 1986).

1.1.3 Foreign Direct Investment and Financial Performance

Cooke and Huang (2011) discovered that multinational management not only conscience into a company's business valuation, but also plays a beneficial governance function that may dynamically affect a firm's profit value, especially in high-tech and exporting industries. Foreign investors are no longer limited to speculators as financial deregulation proceeds. They also carried out monitoring and disciplinary actions, which resulted in improved company efficiency and performance. Rojec (2000, 2001) conducted a comparative investigation in the Czech Republic, Hungary, Poland, and Slovenia. Equipment and

machinery, as well as other administration and labor experience and competence, made up the majority of FDI inflows. According to the author, foreign firms controlled by foreigners have significantly better performance levels than local industries.

Selsha and Chudhaury (2020) discovered that foreign ownership and involvement in enterprises are associated to greater performance than businesses that are solely owned by locals. The positive influence of FDI on corporate performance is more noticeable in various locations and for specific types of enterprises than in others, resulting in diverse outcomes. The biggest positive link with corporate performance was increased foreign ownership share, which had a substantial correlation with all three performance indicators.

1.1.4 Manufacturing Firms in Kenya

Manufacturing is primary indicator of development in less developed countries, as the industrialization increase the employee's income and employment opportunities increase (Attiah, 2019) After agriculture, transportation and communication, and wholesale and retail trade, Kenya's manufacturing industry is the fourth biggest. Kenya's manufacturing sector represents for 10% of the industrial sector's contribution to GDP, spite of the fact that it is the most advanced in East Africa. The manufacturing sector is recognized as one of the primary drivers for achieving a yearly GDP growth rate of 10% in Kenya Vision 2030 (Wagana & Kabare, 2015).

Kenyan manufacturing is mainly focused on farming businesses, and the sector has weak ties with other sections of the economy, and has low contributions to the GDP, job creation, and output (Kenya Association of Manufacturers, 2016). Moreover, low end products including beverages, food, building materials, and basic materials account for 95 per cent of Kenya's manufactured commodities. Pharmaceuticals, which require highly skilled workforce, account for only 5% of all manufactured commodities. Agriculture (food and beverages),

textiles in Export Processing Zones (EPZs), pharmaceuticals, construction-related industries such as cement and metals, and skill intensive furniture manufacturing are the leading sub industries in manufacturing (Nduati, 2020).

The Kenya Association of Manufacturers (KAM) is in charge of registration and the regulation of the establishment of manufacturing companies in Kenya. It encourages the planning, effective implementation, and administration policies that facilitate a sound completive practice in business and decrease the cost of doing business (KAM, 2016).

1.2 Research Problem

The manufacturing industry is considered as among the primary drivers for achieving a steady annual economic Growth rate of 10% in Kenya Vision 2030 (Government of Kenya, 2007). The manufacturing industry in Kenya can have a future potential to contribute to employment and economic growth. Kenya's manufacturing sector accounts for 70% of the industrial sector's share in Gross domestic production. Total Factor Productivity (TFP) in manufacturing grew about 20percent from 2003 to 2007 (Farnandex et al, 2019). The manufacturing sector's growth rate fell to 3.3 per cent in 2011 from 4.4 per cent in 2010, indicating underperformance by manufacturing. The government undertook number of steps to encourage greater foreign direct investment (FDI). This is based on the popular notion that FDI acts as a stimulant for the growth of local businesses through positive economic effect. Manufacturing companies in Kenya operate in a market that is becoming extremely competitive, regulated, and complex (Yahaya, 2019).

Contextual, conceptual, and methodological research gaps were discovered in studies on the subject. The differences in the context in which the research are conducted cause contextual research gaps. The current study only focuses on companies registered by Kenyan association of manufacturers (KAM). In addition, a literature review revealed conceptual research gaps.

This is a research gap that exists when the variables in the studies are not identical. Only three variables will be examined in this study. There have also been some methodological gaps discovered. Unlike most prior studies, which included a moderating variable, this study will focus solely on dependent and independent variables. Phuang and Hoang (2013) utilized a fixed effect model in their research. A pooled data regression model was applied by Manawaduge and Zoysa (2013). An ordinary least square regression model will be applied in this study Furthermore; the methods used to assess performance in the studies reviewed differed significantly. The limitations that hinder econometric studies can be overcome by using surveys and case studies, and, more crucially, a more extensive and in-depth study of the mechanisms that cause direct and indirect effects can be achieved.

In the literature, there seems to be a plethora of testing on the internal and external consequences of international investment (Fatih et al, 2017; Ekienabor et al, 2017; Shima et al, 2020). On the conclusions of the empirical evidence, there is a divide of opinion. The following are the key causes for inconclusive results: The complexity of the leak over principle has made the project even more challenging. Multiple scholars used different methods; various researches varied in different locations; separate research has examined the contribution of different big businesses; and ultimately, the multifaceted nature of the pollution over theory has decided to make research that much more tough. Previous research on the influence of FDI on manufacturing business performance may no longer be relevant. It's difficult to draw broad generalizations based on earlier discoveries because of the present circumstances and the changing nature of the planet.

Many emerging economies have adopted foreign technology through inflows of foreign direct investment (FDI) and/or capital equipment imports, but these transfers have been less successful in terms of stimulating the expected increases in productivity. Because FDI is seen as a key pathway for technology transfer, transfer of skills and experience, and capital inflow

through shareholding, a study of the impact of FDI on manufacturing business performance in Kenya is critical. It shaded more light on one of the most important factors that could aid the manufacturing sector's development. Given the increasing impact of FDI in the manufacturing industry, and its poor performance, it is worthwhile to investigate the impact of FDI on manufacturing companies' financial performance in Kenya.

1.3 Research Objectives

The objective of the study was to establish the effect of foreign direct investment on financial performance of manufacturing firms registered by the Kenyan association of manufacturers.

1.4 Value of the Study

Policymakers may use the findings of this study when formulating legal measures to ensure Kenya's manufacturing sector remains competitive in the face of globalization and the entry of multinational firms into the local Kenyan markets. Legislators would have a better understanding of the impact of foreign direct investment on local manufacturing enterprises and would develop legislation to protect them from exploitative business practices.

The outcomes of this study would be useful to academia in terms of adding to the existing body of knowledge and bringing in new and fresh information. Scholars and researchers will appreciate the findings as a source of academic reference as well as the foundation and framework for future research.

This study would also provide insight into the impact of various FDI components on manufacturing enterprises in Kenya, such as foreign equity shareholding, corporate governance, foreign capital flow, and foreign technological flow. As a result, managers may focus on the FDI component that has the most impact on their company's performance. The findings would also provide guidance to stakeholders and management of local manufacturing enterprises on how to approach FDI when looking to expand internationally

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This chapter entails a review of the literature relevant to this study. This chapter also covers the theoretical review, empirical review, summary, research gaps, and the conceptual framework that was used in the study.

2.2 Theoretical Review

Two key theories guide this study: the endogenous theory and the resource-based theory

2.2.1 Endogenous Growth Theory

During his study between 1980 and 1990, Paul Romer suggested the Endogenous Growth Theory. In 1990, he published a paper called "Endogenous Technological Change" in which he outlined his views. According to the Endogenous Success Theory, electronic transfer of development and advanced machinery is a crucial generator of long-run economic growth, particularly for nations poor in homegrown product development. According to the hypothesis, FDI increases GDP by allowing technology to move from rich countries to developing/industrialized countries (Borensztein et al., 1998). This is especially important for Africa, which has a large technology gap. When foreigner enterprises' entrance or position in a new country enhances the performance of local firms, productive carryover events arise, although giant enterprises do not fully absorb the value of these benefits (Javorcik, 2004).

As a result, numerous African legislators have prioritized obtaining foreign direct investment (FDI) in the goal of profiting from technology spillovers (Woo, 2009).The five primary avenues of technical diffusion associated to FDI flows, according to Crespo and Fontoura (2007), are demonstration or imitation, labor mobility, exports, competition, and backward and forward integration with local enterprises. As a result, FDI can help the host economy not only bring new technology, but also raise skill levels, lower prices, and change the

competitive landscape. Variations in total factor productivity are the key predictor of growth rate variances among countries (Easterly and Levine 2001; Caselli 2005), which are caused by government decisions (Beck et al. 2000), on international trade and foreign direct investment (FDI).

Remittances of durable goods, unfinished goods, and final goods or services represent foreign innovative solutions, and trading and FDI are the key conduits for the diffusion of technical advancement across nations (de la Potterie and Lichtenberg, 2001). Through practical training and demonstrative impacts, these inflows may potentially produce positive technology spill overs (Javorcik 2004). The degree of these spill overs, on the other hand, is determined by how well such tacit information can be internalized (absorptive capacity by host country).

Even though many impoverished and undeveloped nations have benefited from foreign technology through trade and FDI, statistics show that this has not always resulted in the predicted gains in local productivity (Ajakaiye and Page 2012; Nwaogu and Ryan 2015; Koo and Perkins 2016). According to the Endogenous hypothesis, the gap is due to poor policy design and execution to promote the knowledge acquisition necessary for the adoption of more advanced technology.

Several premises are used in the theory. It is presumptively assumed that investing in human capital, creativity, and knowledge leads to GDP increase. It also argues that endogenous, rather than exogenous, forces drive GDP growth. The theory's fundamental flaw has been its inability to describe conditional convergence, which has been documented in numerous empirical studies. The theory, according to Paul Krugman, is virtually impossible to test with empirical facts. It was heavily reliant on assumptions about how incalculable things impacted other incalculable things (Ortigueira and Santos, 1997). The theory was used in the study to

help explain FDI relations with technical diffusion. The theory also directed the explanation of foreign technological flow, which is contingent on the degree to which such technology can be incorporated in Kenyan manufacturing enterprises.

2.2.2 Resource Based Theory

In the mid-1980s, resource-based theory was pioneered by Wernerfelt (1984), Rumelt and Lamb (1984), and Barney (1984). (1986). The Resource-Based View (RBV) has been one of the most prominent contemporary methods to the analysis of long-term significant advantage since then. Important business resources (which comprise both real and intangible aspects) are frequently limited, poorly imitable, or without comparable competitors, according to the resource-based approach (Brouthers & Hennart, 2007). According to the resource-based approach, companies produce distinctive resources that they may utilize in international markets, or use international market as either a source for gaining or constructing new resource-based possibilities (Luo, 2002). Organizations earn source of energy advantages, according to Luo (2002), by developing or acquiring a set of organization skills and resources that are valuable, limited, and imitability, with no readily available alternatives.

This decision will only be warranted, per Foss (1998), if somehow the sources of secondary data are appropriately well though and conscience. If, on the other hand, there still are significant complements and specializations linkages across resources, the way they are organized and just how they engage and assimilate into in the system is important for understanding market advantage. The labels "functionalities" and "expertise," according to Foss (1998), are meant to express this classification and interactions. The conceptual framework addresses this issue by tying comparative advantage to approach instead than services provided.

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When compared to local businesses, multinational corporations have more resources. Because of their improved marketing techniques and better resources, these corporations have been able to reach international markets as a due to globalisation. According to Gimeno (1999), resource-based research "has stressed the incapacity of imitators or rivals to undermine a firm's position in the marketplace as a crucial condition for sustainability, completely assuming that any competitor capable of undermining the firms market share will undermine it, and cannot be deterred from undermine it."

Even though the resource-based view (RBV) has been one of the most influential theories of corporate strategy, it is said that it ignores the relevance of creative efforts and talents as a source of strategic advantage (Fink & Kraus, 2007). This is one of the drawbacks of the theory. Resource-based theory is found to be useful for the purposes of this study because it provides a theoretical foundation for describing how manufacturing businesses arrange resources (those received through FDI) to improve their processes and their impact on financial performance.

2.2.3 Stakeholder Theory

Freeman steadily created the stakeholder theory in 1984, encompassing corporate accountability to a broad spectrum of stakeholders. The theory's fundamental parts, according to Wheeler, Colbert, and Freeman (2003), are a mix of sociological and organizational disciplines. Apart from the firm owners, the theory assumes that managers in organizations have a vast groups that have interest in the organization to service those groups are called stakeholders. Stakeholders are a group of people who span from suppliers to community members, and their relationship with the organization is more important than the relationship between management and sharehoders/owners of the company (Addullah & Valentine, 2009). Two fundamental components of stakeholder theory can be defined. Stakeholders are individuals or association of individuals who have genuine interests in the corporation, and

all stakeholders' interests have inherent worth. This means that a company's management must equally consider the legitimate interests of all relevant stakeholders, when creating organizational structures and overall policies, as well as when making individual decisions.

Stakeholder theory is important because it examines ways innovation occurs and ways should be carried out (Lusweti, 2009). According to the hypothesis, the ever-growing speed of development and invention, as well as the increasing instability of the market and the economy, make it nearly impossible for companies to innovate on their own (Walker, 2004). As a result, businesses must see themselves as part of interconnected web of businesses that allows them to continuously develop. In this study, the management of enterprises must acknowledge the interests of all stakeholders, including shareholders and employees, in respect to FDI and firm success. When the company generate returns and the overall performance of the organization is good, stakeholder interests are maximized. It should be emphasized that a company's attitude toward stakeholders has a favourable or unfavourable effect on its financial performance (Miles, 2012).

2.3 Determinants of Financial Performance

2.3.1 Debt Leverage

The ratio of total debt to equity Total debt/Total equity is a measure of debt leverage. This ratio indicates the extent to which a company borrows money. It represents the ability of insurance firms to manage their financial exposure to unexpected losses. This ratio shows the possible impact of reserve deficits owing to financial claims on capital and surplus (Adams and Buckle, 2000). Financial leverage has a negative effect on firm performance and profit, but has no effect on business size or growth. This means that as financial leverage rises, the firm's performance and profitability declines, and as financial leverage falls, the firm's performance and profitability rises (Iqbal, 2018)

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2.3.2 Liquidity

The term "liquidity" refers to the ease with which an asset may be converted into cash. The most liquid asset is cash, which serves as a baseline against which all other assets' liquidity is measured. This is related to the fact that currency is immediately usable. Liquid assets are critical to have since they may easily be turned into cash in a crisis or emergency. If liquidity is not accessible, money might become stuck in systems that are difficult to pay out and much more difficult to appraise for actual monetary worth. During emergencies, large banks shut down, making it impossible for people to access the cash they need to buy food, gasoline, and other essential items (Chaplin, Emblow, & Michael, 2000).

Liquidity is among factors considered in working capital management, also liquidity a crucial component of revenue improvement and financial performance. Working capital management that is effective enhances the company's operations and helps it meet its solvency goals

Liquidity can also be used to assess the soundness of the finances of a company or even an individual's investment. The current ratio, quick ratio, and capital ratio are the liquidity ratios that are employed for this reason. Liquidity is a useful instrument for predicting the financial health of future investments, as well as ensuring that a person or firm always has a steady source of cash available immediately.

2.3.3 Firm size

The size of a firm is determined by the quantity of goods and services it can produce and the variety of goods and services it can provide to its customer base (Eyigege, 2018). Also (Eyigege, 2018) Found out that Firms size have negative effect on financial performance of Commercial bank that are publicly traded on the Nigerian stock exchange

2.3.4 Age of the Firm

Other consideration includes company's age. Mature companies have more experience, have reaped the rewards of learning, are less vulnerable to the risks of being new, and can thus achieve higher success (Shiu, 2004). Older companies may also benefit from recognizable brand, allowing them to have a bigger contribution margin compared to new firms. Older businesses, on the other hand, are prone to complacency and bureaucratic problems that comes when companies mature; older companies can also stuck with rigid routines that are not flexible thus preventing them from responding with market changes, and also cause decline of portability when companies mature (Demirgüç-Kunt and Maksimovic, 1998).

2.3.5 Ownership

Another aspect that affects a company's financial performance is its ownership. The ownership structure has two underlying properties: ownership concentration or the distribution of shares owned by majority shareholders, and identification of owners, particularly foreign and institutional investors. The firm's ownership model impacts the dividend policy which determines how much profit is distributed to shareholders and how much is retained.

2.4 Empirical Review

This part provides review of the impact of FDI on manufacturing firm performance. The section focuses on factors in the study objective: foreign equity shareholding, technological flow, foreign board membership, and firm size.

2.4.1 International Review

Subash (2006) looked into the spillover impacts of FDI in Indian manufacturing. He utilized a log linear model to see if foreign ownership of local manufacturers was linked to higher

productivity. A vector of inputs and a share of foreign ownership were used to regress the log of output. His research looked at whether FDI has beneficial spillovers on Indian manufacturing business using pooled Ordinary Least Square method (OLS). In order to evaluate the horizontal and vertical spillovers, company level data across Indian manufacturing industries from 1994 to 2002 was analyzed. Foreign ownership resulted in considerable beneficial vertical spill overs but not horizontal ones, according to the study.

Cooke and Huang (2011) did studies on foreign ownership and firm performance: using developing markets as case study. The study explored the investment allocation decisions of foreign investors, as well as the roles of foreign ownership and company efficiency in an developing country with greater financial deregulation, using a directional distance function approach (DEA). Foreign ownership had a beneficial governance role that might significantly influence company value, particularly in high-tech and exporting enterprises. as financial deregulation continues, international investors are no longer restricted to speculators. They also performed supervisory and disciplinary functions, resulting in increased corporate efficiency and performance.

A study on ownership structure and company performance of Vietnamese public traded enterprises was done by Phung and Mishira (2015). They made 2744 observations from 2007 to 2012 using firm year observation method to look at the impact of ownership structure on company performance for enterprises registered on Vietnamese securities exchange. They discovered that when foreign ownership percentage grows, business performance improves until it reaches 43%, beyond which it declines. In this light, My believe that legislators should favour foreign ownership and wide spread state ownership in enterprises, as these factors can assist in enhancing company performance.

Willmore (1986) used sales data and a four-digit manufacturing industry categorization to compare 282 sets of foreign and domestically owned Brazilian enterprises. Willmore discovered significant disparities between these organizations in a variety of performance metrics, such as a increased ratio of value added to outputs, increased exports, increased employee efficiency, and increased capital .

Jiang (2012) investigated the link between foreign ownership and the performance of Chinese publicly traded enterprises. The information was gathered from annual reports of China's publicly traded corporations from 2000 to 2004. On the Shanghai Security Exchange, a total of 50 companies with foreign ownership were picked. Descriptive statistics and multiple regressions were employed to analyse the data. The proportion of foreign ownership, how many years companies are public traded, sales revenue, deb/total asset , ROA ratio, and ROE ratio are used as benchmarks for each variable. For the moment, the research concluded that there is no major correlation between foreign ownership and the performance of publicly traded enterprises in china. Even though foreign owners have share in the assets of invested companies there are limited voting rights in strategic decision making matters.

In Romania Mihai and Mihai (2013) assessed the effects of foreign ownership on the performance of publicly traded manufacturing firms. The major goal their research was to look into the relationship between foreign ownership and the performance of manufacturing firms. The research was carried out on companies listed on the Romania security Exchange market, in regulated and unregulated areas. There were 261 firms in the final sample. The firms' economic and financial performance was measured using ROA & ROE and Earnings before interest and tax (EBIT). The % of shares owned by foreign investors was used to calculate foreign ownership.

For a selection of 263 Canadian enterprises, Klein, Shapiro, and Young (2005) analyse the relationship between company value as assessed by Tobin's Q and newly revealed measures of effective corporate governance Reports on Business (ROB). The ROB measure was created by adding together four sub- index: board structure, stockholder guidelines, investor protection policies, and transparency policies. ROB metric is limited to score of 100. Size, advantage, growth, and profit fluctuations were employed as control variables in the study. The findings revealed that in Canada, corporate governance matters, and that size was consistently negatively associated to performance, but advantage, growth, and performance were all positively associated with performance. They concluded that a total governance index did not improved firm performance since board independence had no positive effects on performance and was inversely correlated for family-run businesses.

Brown and Caylor (2004) investigated if companies with bad corporate governance perform worse than companies with good corporate governance. Firms with poor corporate governance did worse, according to Brown and Caylor. They also looked upon whether companies with poor corporate governance face more financial problems and pay out fewer dividends than those with better corporate governance. Lastly, they looked at which one of the four core governance variables Shareholders prioritize. Board structure, remuneration, hostile takeover resistance, and audit were the four criteria they looked into. They discovered that board structure is the most essential element in a company's success, whereas hostile takeover resistance are have the lowest importance.

Mirza, Giroud, and KOster (2003) performed a large survey to look into FDI technology inflow and how it affects domestic enterprises in Eat Asian countries such South Korea Hong Kong, Taiwan and Singapore and also southeast Asian countries such Malaysia, Indonesia, Thailand; and Viet Nam, online questionnaire were used to collect information from both the parent and subsidiary. The FDI inflow comes from developed countries in

Europe as well as japan. The strong performance of foreign subsidiaries was linked to expertise, technology, and skills inflow from the parent business, according to the findings. But, foreign technological inflow was not without strings attached and was contingent on a number of factors. Additionally, a wide variety and level of expertise were identified, implying that distinct strategies, methods, and levels of knowledge transfer are needed.

During the period 1993-1999, Elteto (2001) analyzed the competitiveness of locally owned and foreign-invested businesses in the manufacturing industry of Hungary. In terms output and investment, Research and development and economic liberalization, he discovered that international firms were more competitive than local firms, Despite international enterprises' greater levels of productivity, Elteto discovered that the majority of foreign owned subsidiaries did not accomplish high levels of profitability.

Dryel (1988) found a positive association between Q ratio and board member participation of the company ownership for 86 percent of companies analyzed in a study on the effects of board structure and ownership structure on the financial performance of quoted firms on the South African security Exchange. The research reveals that the level of concentrated ownership and profit of the company have an inverse curved correlation.

Ujunwa (2012) investigated the board of directors' features and financial performance of Nigerian publicly traded companies. The study picked 57 percent of population of 212 firms. To test the formulated hypothesis, the researchers used random effects and fixed effects generalized squares (GLS). Citizenship, race, non-board management duties , gender, size of the board, PHDs or technical knowledge, the age of the company were among the corporate governance factors proposed and tested in the research. The study's findings on citizenship were important, particularly when multinational companies were included.

2.4.2 Local Review

Foreign Direct Investment Spillovers on Local Companies: A Case of Kenyan Local Companies was researched by Ndegwa and Njuru (2016). The foreign ownership variable was a dummy variable in their research, with foreign companies having a value of 1 and domestic firms having a value of 0, with local companies acting as the control. The coefficient of foreign ownership was significantly positive at the 5% level, according to their findings. This indicated that foreign-owned businesses were 35.6 percent more productive than locally owned companies.

Njenga (2017) investigated the impact of corporate governance on financial performance of Nairobi stock exchange quoted firms and discovered that financial performance is significantly linked to the governance structures within the company.

Gachino (2007) conducted a detailed evaluation of previous spillover studies in Kenya's manufacturing industry. The study examined the importance of FDI and companies capacity in human capital development. He used survey to collect data from companies in the manufacturing sector. He conducted a detailed study on human capital and other company level capabilities generated by both international and domestic enterprises. The authors revealed that international enterprises had higher levels of human capital development and firm-level efficiency than domestic firms. The study also discovered that the technology gap coefficient was negative at significant level of 5%. According to the findings, just 1 unit rise in the technology gap between the foreign and local firms would reduce the firm's output by 0.096 units. Domestic enterprises that have a low technology gap compared to international enterprises were more productive. Firms with advanced technology were able to have high output. This backs up the economic idea that technology improves efficiency, resulting in increased business productivity.

2.5 Conceptual Framework

The conceptual framework for this study relates to the interrelationship between the dependent variable, the independent variables and the moderating variable. The dependent variable in the study is performance of manufacturing firms. The independent variables in the study are foreign equity shareholding, foreign board membership and technological flow from FDI. This interrelationship is illustrated in Figure 2.1
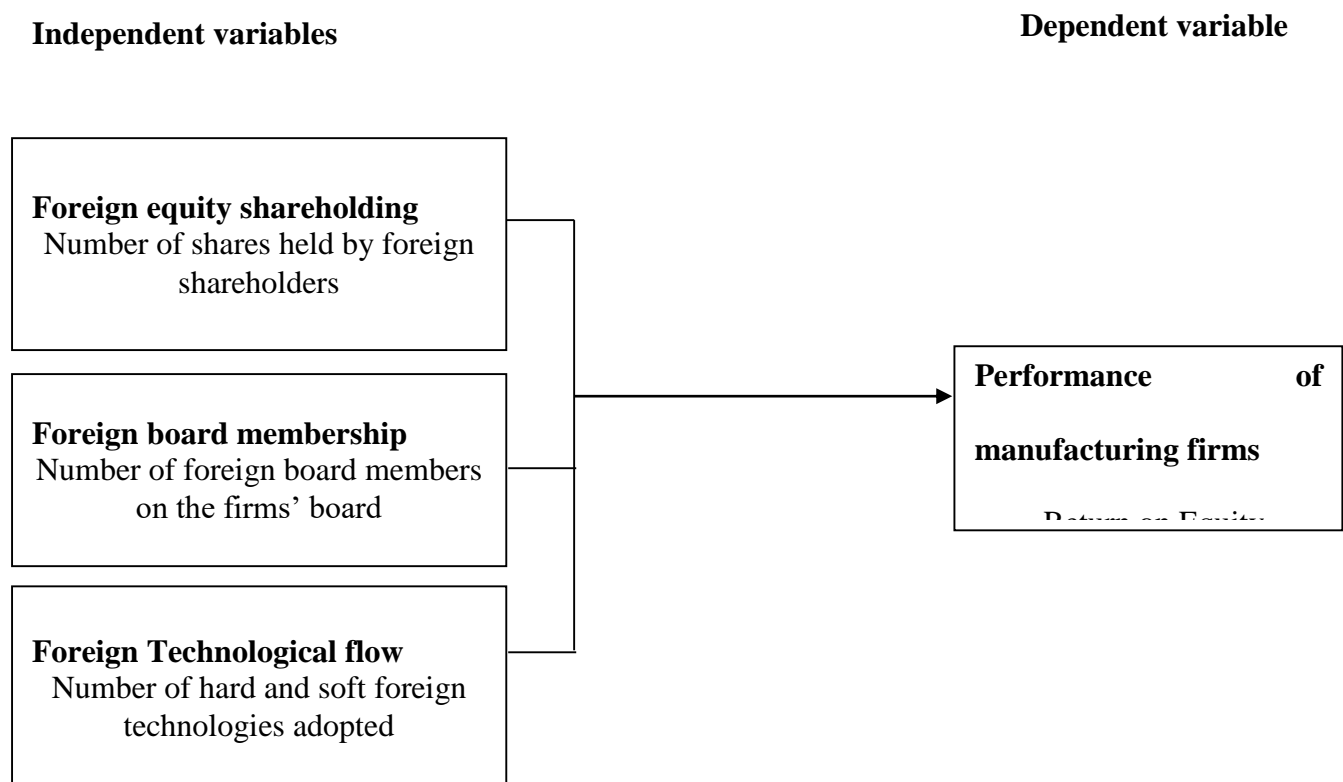
Figure 2.1: Conceptual Framework

Source: Researcher (2021)

2.6 Summary of Literature and Research Gaps

Foreign companies outperformed domestic companies in terms of output and efficiency. This supports the assumption that overseas enterprises have greater productivity than local enterprises because they spend heavily in capital, have better management, and have better technology. Foreign ownership at the business level was found to have a considerable impact on total TFP, implying that foreign owners provide productive benefits. Both vertical and horizontal spillovers were found to support this theory. As per the survey evidence, the majority of FDI projects in the advanced economies, emerging economies, and Central and Eastern European regions result in technology, knowledge, and skills transfers, as well as quality and productivity increases. As a result, it's no surprise that international affiliates outperform domestic companies (especially in the manufacturing, which are deeply studied).

The overwhelming consensus is that spillovers to local firms will be reflected in improved performance, notably output. The overarching theme that emerges from all of this research is that foreign capital is more profitable. Furthermore, the majority of the research was undertaken for publicly traded companies. Some research, however, disagrees with the idea that enterprises with foreign investment inflows are more profitable. As a result, we can state that our findings were mixed.

Contextual, conceptual, and methodological research gaps were discovered in studies on the subject. The differences in the context in which the research are conducted cause contextual research gaps. The current study only focuses on companies registered by Kenyan association of manufacturers (KAM). In addition, a literature review revealed conceptual research gaps. This is a research gap that exists when the variables in the studies are not identical. Only three variables will be examined in this study. There have also been some methodological gaps discovered. Unlike most prior studies, which included a moderating variable, this study will focus solely on dependent and independent variables. Phuang and Hoang (2013) applied a fixed effect model in their research. Pooled data regression was utilized by Manawaduge and Zoysa (2013). To ensure accuracy in the comparison of the findings, the current study used an ordinary least square regression model with one moderating variable. Additionally, the methods used to assess performance in the papers evaluated differed significantly.

Yigit (2014) used earnings before interest and tax (EBIT) to assess financial performance. On the other hand, Tran, Nonneman, and Jorissen (2014) used net income to measure performance. The current study used an accounting measure such as (ROE) to compare performance with earlier results.

The need of using panel data as the correct technique to discover spillovers has been underlined in the empirical literature on the subject. Experts have claimed a number of

explanations for the mixed outcomes. Among the most persuasive is that of Gorg and Strobl (2001), who pointed out that mixed findings on spillovers are due to the fact that different approaches and procedures, as well as different proxies for foreign presence, are used in these research. Furthermore, Smarzynska (2002) stressed the importance of the challenges of distinguishing diverse effects at play, as well as data limitations, in preventing researchers from giving conclusive evidence of positive externalities emerging from FDI. Other factors could include the variety of the host nations studied, and also the restriction of the production function.

According to Gachino (2007), an empirical review of human capital determinants found that FDI had a statistically significant effect in predicting human capital development in enterprises. Instead of estimating Total factor productivity from Solow residual, as the study suggested, value added was employed as a surrogate for Total factor productivity. This could have had an impact on the results' robustness, making them untrustworthy. Subash (2006) discovered positive vertical spillovers and no horizontal spillovers in his investigation. Aitken and Harrison were also in agreement (1999). The study, however, employed the log of output as a surrogate for Total factor productivity, which is not the same as calculating Total factor productivity from output. Furthermore, utilizing pooled OLS for estimating gives inefficient results, raising doubts about the findings' validity.

The limitations that hinder econometric studies can be overcome by using surveys and case studies, and, more crucially, a more extensive and in-depth study of the mechanisms that cause direct and indirect effects can be achieved. This is the thesis's key distinguishing feature, as well as the study's main goal, which is to give a full analysis of FDI technology effects and how they manifest in the setting of a developing country. Even though much empirical research have looked at the relationship between institutional investors and

performance, employing accounting measures as well as market measures of the company's performance, the relationship remains unknown.

CHAPTER THREE: METHODOLOGY

3.1 Introduction

This section describes the methodology that was used for this study. The research design, research philosophy, sampling, sample size, data collection method and procedures, validity and reliability, data analysis, and ethical considerations are all covered in this chapter.

3.2 Research Design

According to Cooper and Schindler (2011), research design is a strategy and methodology for obtaining answers to research questions. This research employed both exploratory and cross-section survey methods, i.e., it was carried out to gain a deeper insight of a condition (Stebbins, 2001). Exploratory research's main goal is to look at the link between variables and how they affect the dependent variable (Kothari, 2011). Additionally, the exploratory research method allows for the testing and validation of theories (Cooper and Schindler, 2011). The goal of exploratory research is to gain new insights into phenomena, pose questions, and reassess them. According to Zikmund, Babin, Carr, and Griffin (2010), exploratory research is carried out to explain uncertain circumstances or uncover ideas that could lead to new business prospects. The current research aims to shed light on the impact of foreign direct investment (FDI) on the performance of Kenyan manufacturing enterprises.

A cross-section survey is carried out only once and provides a picture of a given time period (Cooper & Schindler, 2011). This research design is used to obtain information from groups of the population in order to identify the present condition of the group in relation around one or more variables. The cross-sectional research design examines one variable in many groups that are otherwise identical (Hall, 2014). As a result, it's a self-report study that focuses on identifying special traits that exist within groups rather than establishing links, and it also

allows researchers to examine multiple variables at once. Cross-sectional studies are valuable because they assist researchers in formulating assumptions or hypotheses that can later be tested using other research methodologies (Winter, 2009, Hopkins, 2008, Mugenda, 2008). The application of both qualitative and quantitative data methodologies helped to take advantage of one method's strengths while compensating for the shortcomings of the other, hence improving the quality of the results (Cresswell & Clark, 2011).

3.3 Population

Since they have survived past the low survival stage of business growth, the study concentrated on manufacturing companies registered and represented by the Kenya Association of Manufacturers that are 10 years old as of December 2020. The study targeted 38 manufacturing firms registered by KAM and census was adopted. When the population is small, a census survey is proposed by Cooper and Schindler (2014) and Mugenda (2008) because it removes sampling error and enhances the confidence of applying the findings to the entire population.

3.4 Data Collection

Secondary data was gathered from public sources such as commonly accessible reports, journals, filed records, and pre-compiled statistics data, which are typically generated and kept by companies as well as Kenyan association of manufacturers. To identify possible non-response bias, the extrapolation approach was employed (Mahmood and Hanafi, 2013). Comparisons with established population values, subjective estimations, and extrapolation are three ways of estimation that Armstrong and Overton (1977) have noted. This study employed the extrapolation approach, which comprises comparing data from delayed responses with data from available responses, with the assumption that delayed responses share characteristics with non-responses. Secondary data was gathered on a period of 5 years (2016-2020).

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3.5 Diagnostic Tests

3.5.1 Multi-Collinearity

 Multicollinearity is an undesirable situation in which the independent variables have significant correlations (Belsley, Kuh & Welsch, 1980). To check for multicollinearity, the correlation with all pairs of predictor variables was computed. If the estimated value was close to +1 or -1, one of the two associated independent variables was eliminated from the model (Wijetunge 2012). Another approach is to employ the VIF method. This metric assesses the model's multi - collinearity. If the VIF for one of the variables is equal or more than five, then there is multicollinerity in the variable. One variable must be deleted from the regression model in this scenario. The fundamental concern is that even if the extent of multicollinearity increases, the factor loadings in the dependent variable becoming unstable, and the coefficient standard errors may become dramatically overstated. This means that under the collinear model, variables that are significant may appear inconsequential

3.5.2 Autocorrelation

Autocorrelation is the connection between a variable's past and future values (Box & Jenkins, 1976). The autocorrelation function may be used to detect non-randomness in non-random data and to select an appropriate time series model. Autocorrelation is a correlation coefficient between two values of the same variable at periods X and X+1, rather than a correlation coefficient between two independent variables. To check for autocorrelation in the data, the Durbin Watson Statistic was used.

3.5.3 Normality Test

Regression results can only be said to be reliable when the data used was in form of normal distribution. To test this assumption, the Shapiro Wilk test was utilized. The threshold was p>0.05 signified normality assumption.

3.6 Data Analysis

According to Zikmund, Babin, Carr, & Griffin (2010), data analysis is the use of logic to comprehend the data acquired with the goal of identifying regular patterns and presenting the essential facts disclosed in the research. The responses obtained from the respondents were carefully structured in a way that enabled evaluation once they have been delivered. The original data was structured and altered to allow for both quantitative and qualitative analysis.

Correlation was used to evaluate the relationship between variables. The IBM package for Statistical Package for Social Sciences (SPSS) version 20 was used to analyse the data. The following is the final multiple linear regression that was used to analyses the effects of FDI on manufacturing companies' financial performance:

$$Y = a + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where

Y = performance of firms

a= constant

X1 = technological flow

X2 = foreign shareholding

X3 = foreign board membership

ε=error term

Table 3.1: Operationalization and Measurement of Variables

Variable	Measurement
Performance of manufacturing firms	ROE (Ratio of Net income to Total Equity)
Foreign equity shareholding	Number/percentage of shares held by foreign investors
Foreign board membership	Number/percentage of foreign board members
Foreign technological flow	Number of new technologies adopted

Source: Researcher (2021)

CHAPTER FOUR: DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The analyzed findings are detailed in this section covering the descriptive and inferential statistics. Means and standard deviations and trend analysis were the descriptive statistics while correlation and regression were the inferential statistics.

4.2 Descriptive Statistics

Table 4.1 summarizes the findings of descriptive statistics.

Table 4.1: Descriptive Statistics

	N	Min	Max	Mean	Std. Dev
Financial Performance (ROE)	190	.00	.33	.06	.049
Foreign equity shareholding	190	.00	.10	.01	.017
Foreign board membership	190	.00	.44	.16	.098
Foreign Technological flow	190	.02	.62	.13	.117

Source: Research Data (2021)

Table 4.1 shows the average value of ROE as 0.06, foreign equity was 0.01, foreign board membership stood at .16 while foreign technological flow were at .13. The highest value of standard deviation of .117 was accounted for by foreign technological flow while 0.017 was the lowest standard deviation being represented by foreign equity shareholding. The minimum values of financial performance, foreign equity shareholding and foreign board membership were all equivalent to 0.00, an indication that at least one of the manufacturing exclusively leveraged on assets to generate income, had no foreign board members besides having foreign shareholders.

4.3 Trend Analysis

Trend analysis was conducted by use of graphs to provide a visual impression of the variables of the study as illustrated in subsequent sections.

4.3.1 Financial Performance

Figure 4.1 is the trend analysis of financial performance of the studied firms.
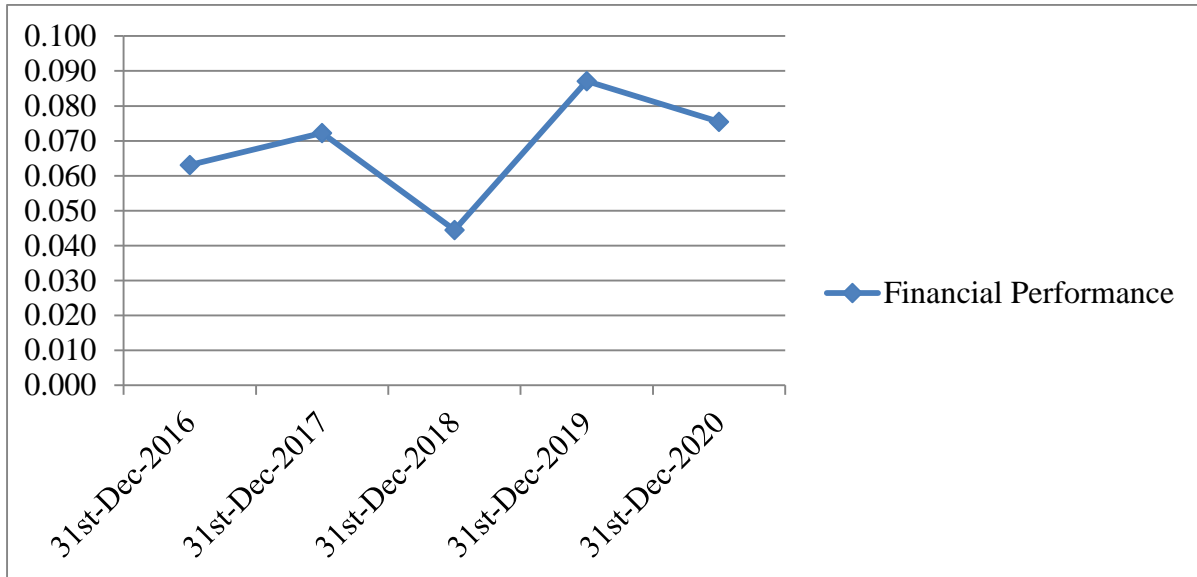
Figure 4.1: Trend of ROE
Source: Research Data (2021)

Figure 4.1 shows that there was instability in financial performance of the studied firms although characterized by an increase from 2018, 2019 and 2020.

4.3.2 Foreign Direct Investment

Figure 4.2 gives a breakdown of the trend analysis on FDI.

Figure 4.2: Trend in FDI

Figure 4.2 shows that the graph of foreign technological flow is above that of foreign board membership and foreign equity shareholding. This means that manufacturing firms have strong preference of modern or advanced technologies from foreign countries to support manufacturing processes. This in turn would yield high quality manufactured products.

4.4 Diagnostic Tests

This section details the findings of diagnostic tests that were conducted to validate the assumptions of regression analysis.

4.4.1 Normality Test

Table 4.2 gives the findings of normality test as determined in the present study.

Table 4.2: Normality Test

	Shapiro-Wilk		
	Statistic	df	Sig.
Financial Performance	.967	3	.650
Foreign equity shareholding	1.000	3	.985
Foreign board membership	.892	3	.360
Foreign Technological flow	.882	4	.349

Table 4.2 shows that the p-values of all the individual variables of the study were above .05, this means the normality assumptions were assumed in the data.

4.4.2 Autocorrelation Test

Table 4.3 gives a summary of the findings of diagnostic tests

Table 4.3: Autocorrelation

Model	Durbin-Watson
1	1.992

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The findings in Table 4.3 shows that the value of d as 1.992, which is approximately given as 2. This is a strong indication that there was no serial correlation in the data.

4.4.3 Multicollinearity

Table 4.4 shows the findings of VIF as used to test for multicollinearity in the data.

Table 4.4: Multicollinearity

	Collinearity Statistics	
	Tolerance	VIF
Foreign equity shareholding	.981	1.020
Foreign board membership	.995	1.005
Foreign Technological flow	.978	1.023
Mean VIF	**.985**	**1.016**

Source: Research Data (2021)

Table 4.4 shows the mean VIF as 1.016, which happens to fall within the range of 1-10. This means that on overall, there was no multicollinearity in the data.

4.5 Correlation Matrix

Table 4.5 shows the findings of correlation results.

Table 4.5: Correlation Results

		Financial Performance	Foreign equity shareholding	Foreign board membership	Foreign Technological flow
Financial Performance	Pearson Correlation	1			
Foreign equity shareholding	Pearson Correlation	.593	1		
Foreign board membership	Pearson Correlation	.856	.615	1	
Foreign Technological flow	Pearson Correlation	.507	.396	.411	1

Source: Research Data (2021)

Table 4.5 shows that foreign board membership (r=.856), foreign equity shareholding (r=.593) and foreign technological flow (r=.507) all have strong and positive relationship

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with financial performance of manufacturing firms in Kenya. This means that FDI is positively correlated with financial performance of the manufacturing firms.

4.6 Regression Results

Table 4.6 provides a summary of the findings of the model summary.

Table 4.6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.874[a]	.764	.761	.02432

Source: Research Data (2021)

R^2 value from Table 4.6 is given as 0.764, an indication that 76.4% change in financial performance of manufacturing firms is explained by FDI. Table 4.7 gives the ANOVA findings.

Table 4.7: ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.357	3	.119	201.129	.000[b]
Residual	.110	186	.001		
Total	**.467**	**189**			

Source: Research Data (2021)

Table 4.7 shows F=201.129, p<0.05, this implies that on overall, the model of the study was significant. Table 4.8 gives the findings of the beta coefficients and significance.

Table 4.8: Beta Coefficients and Significance

	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.007	.004		2.092	.038
Foreign equity shareholding	.287	.128	.067	2.219	.014
Foreign board membership	.373	.023	.743	16.009	.000
Foreign Technological flow	.074	.017	.175	4.401	.000

Source: Research Data (2021)

The findings in Table 4.8 indicate that foreign board membership (β=.373, $p<0.05$ & $t>1.96$) had the greatest significant effect on financial performance of manufacturing firms in Kenya followed by Foreign equity shareholding (β=.287, $p<0.05$ & $t>1.96$) and lastly foreign technological flow (β=.074, $p<0.05$ & $t>1.96$). This implies that FDI significantly enhances financial performance of the manufacturing firms in Kenya.

4.7 Discussion

Descriptive statistics indicated an average value of ROE as 0.06; this means that on average, manufacturing firms generated 6% of their net income by leveraging their equities. This infers that assets play an important role as far as financial performance of the manufacturing firms is concerned. Foreign equity had an average of .01, which implies that 1% of the equity shareholders in the manufacturing firms in Kenya are foreign investors. This is an indication that much of the equity shares among manufacturing firms are held by locals who are Kenyans. Foreign board membership averaged at .16, an indication that 16% of the board members on manufacturing firms in Kenya are foreigners. An inflow of foreigners on the board is expected to increase diversity with a range of experience and exposure that is needed to steer the strategic direction of the firm. Foreign technological flow averaged at .13, which infers that 13% of the technologies available among manufacturing firms were related to FDI.

The findings of trend analysis showed that there was instability in financial performance of these manufacturing firms in Kenya. However, the period 2018/2019 was marked with a significant improvement in ROE, before starting to drop from 2019 probably due to the COVID-19 pandemic that affected operations of most of these firms. The trend on FDI is that foreign technological flow is above foreign board membership and foreign equity shareholding. This means that manufacturing firms have strong appetite for new and latest technologies as compared to boards and shareholding structures.

Correlation results were that foreign board membership (r=.856), foreign equity shareholding (r=.593) and foreign technological flow (r=.507) all have a strong and positive relationship with financial performance of manufacturing firms in Kenya. This implies that FDI is a strong indicator of financial performance of the manufacturing firms. It then follows that any effort to increase FID will lead to an improvement in financial performance of the manufacturing firms.

From regression analysis, the study observed that 76.4% change in financial performance of manufacturing firms is explained by FDI. This means that a huge proportion of financial performance of the manufacturing firms in Kenya is due to FDI. These findings are echoed by Cooke and Huang (2011) who observed that foreign ownership had a beneficial governance role that might significantly influence company value, particularly in high-tech and exporting enterprises. Similarly, Phung and Mishira (2015) discovered that when foreign ownership percentage grows, business performance improves. However, the finding contradicts Jiang (2012) who established that there is no major correlation between foreign ownership and the performance of publicly traded enterprises in china

The study further noted that foreign board membership (β=.373, $p<0.05$ & $t>1.96$) had the greatest significant effect on financial performance of manufacturing firms in Kenya followed by foreign equity shareholding (β=.287, $p<0.05$ & $t>1.96$) and lastly foreign technological flow (β=.074, $p<0.05$ & $t>1.96$). This implies that although manufacturing firms in Kenya have a strong preference for new and advanced technologies from foreign investors, the membership of these foreigners and ownership of equity shares are what greatly enhances their financial performance. This requires a policy shift among the manufacturing firms if they are to remain competitive. These findings are supported by Ndegwa and Njuru (2016) who indicated that foreign-owned businesses were 35.6 percent more productive than locally owned companies.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The analyzed findings of the study are detailed in this chapter. The conclusion and recommendations re also noted. The limiting factors and areas that need further inquiries are also considered.

5.2 Summary of the Findings

Descriptive statistics indicated that on average, manufacturing firms generated their net income by leveraging their equities. However, assets play an important role as far as financial performance of the manufacturing firms is concerned. Some proportion of the equity shareholders in the manufacturing firms in Kenya are foreign investors. However, much of the equity shares among manufacturing firms are held by locals who are Kenyans. Some of the board members on manufacturing firms in Kenya are foreigners. Some of the technologies available among manufacturing firms were related to FDI. The findings of trend analysis showed that there was instability in financial performance of these manufacturing firms in Kenya. The trend on FDI is that foreign technological flow is above foreign board membership and foreign equity shareholding. This is a clear indication that manufacturing firms have strong appetite for new and latest technologies as compared to boards and shareholding structures.

Correlation results were that foreign board membership, foreign equity shareholding and foreign technological flow all have a strong and positive relationship with financial

performance of manufacturing firms in Kenya. This implies that FDI is a strong indicator of financial performance of the manufacturing firms. From regression analysis, the study observed that a significant proportionate change in financial performance of manufacturing firms is explained by FDI. The study further noted that foreign board membership had the greatest significant effect on financial performance of manufacturing firms in Kenya followed by foreign equity shareholding and lastly foreign technological flow. This implies that although manufacturing firms in Kenya have a strong preference for new and advanced technologies from foreign investors, the membership of these foreigners and ownership of equity shares are what greatly enhances their financial performance.

5.3 Conclusion

Foreign direct investment is a strong predictor of financial performance of the manufacturing firms in Kenya. Foreign direct investment allows manufacturing firms to access new and advanced technologies, diverse expertise on the board as well as equity ownership which directly enhances financial performance. Creating a conducive environment to attract foreign investors' in the manufacturing sector is one of the important ways of significantly contributing towards financial performance of these firms.

It emerged that foreign board membership had the greatest significant effect on financial performance of manufacturing firms in Kenya. Having foreign directors on the board is one way of enhancing diversity and independence of the board. In fact, it a way of strengthening corporate governance practices in an organization. Borrowing from the stakeholder theory, this foreign board of directors will be part of the stakeholders of the firm and will work to enhance financial performance of the firm.

Allowing foreigners on the board will definitely encourage them to hold proportion of the shares in the firm hence foreign equity shareholding. Fortunately, the study has shown that

this foreign equity shareholding is an important predictor of financial performance of the manufacturing firms. This is because the foreign directors having a stake in the firm will always put management on toes to maximize their wealth. Of course, enhancing financial performance will be advantageous to these foreign equity shareholders now that they will stand to receive greater returns from their investments.

Being motivated to work in the best interest as directors so as to enhance financial performance and earn greater returns, the foreign directors will advocate for the need to invest in modern and state of art technologies in the production processes. This will see an increase in inflow of foreign technologies in this firm. In doing so, financial performance of the manufacturing firms would record a significant improvement and the owners including foreign shareholders will stand to earn more returns.

5.4 Recommendations of the Study

Having appraised the critical role played by FDI in financial performance of the manufacturing firms, the government of Kenya has a major responsibility of establishing a conducive environment that supports and encourages an inflow of foreign investors within the sector. Legislators including Members of Parliaments (MPs) and Members of County Assemblies (MCAs) in Kenya should formulate relevant rules that support FDI activities in the country. The Kenya Revenue Authority should provide more tax incentives that would motivate foreign investors to flow into the country and support the manufacturing sector.

The lobby groups including the branding agencies in Kenya like Brank Kenya should play a critical role in marketing the country abroad so as to attract foreign investors. The policy makers in the government should formulate sound policies that would be used to foster good bilateral and multilateral relationships with other countries so that more foreign investors will flow in the country. The government has an obligation of putting in place measures to counter

corruption and other negative vices that may otherwise hurt the publicity and reputation of the country slowing down an inflow of foreign investors.

5.5 Limitations of the Study

The focus of the study was FDI and financial performance. The specific emphasis of the study was on foreign equity ownership, foreign board membership and foreign technological flow in relation to performance. ROE was the only proxy of financial performance. This limits the findings had ROA been utilized as a proxy of financial performance.

The study focused on 38 manufacturing firms which were members of KAM. There are other different manufacturing firms in Kenya that have not been registered with KAM. This is a small sample that limits generalization of the findings to all the manufacturing firms in Kenya.

The study considered the period of 2016-2020. This meant a five year period and it was selected because it was most current and data could easily be obtained. However, focusing on this period limits generalization of the findings to the year 2021 or 2015 and below.

5.6 Suggestions for Further Research

The study documented an R-square of 76.4%, an indication that aside from FDI, there are still other factors with an effect on financial performance. Hence, the focus of further studies should be on bringing out these other factors. Furthermore, a combination of both ROA and ROE can be used to represent financial performance in future studies.

There are so many manufacturing firms operating in Kenya, some of which are not members of KAM. Hence, to have a robust generalization of the findings to the entire manufacturing sector, all these firms should be targeted and an appropriate method of sampling that is

representative should be adopted. This will increase the sample size that will give room for robust generalization of the findings.

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APPENDICES

Appendix V: List of Manufacturing Firms

1. Baumann Company Limited

2. B.O.C Kenya Ltd

3. British American Tobacco Kenya

4. Carbacid Investment Ltd

5. East Africa Breweries Limited

6. Eveready East Africa Limited

7. Kenya Orchards Limited

8. Mumias Sugar Company

9. Marshalls (E.A.) Ltd

10. Unga Group Limited

11. British American Tobacco

12. Unilever Kenya

13. Brooke Bond Kenya

14. EA Portland Cement Company France

15. Carnaud Metalbox

16. George Williamson

17. Rhone Poulenc Kenya

18. Cadbury

19. Nestle Foods

20. Elida Ponds Kenya

21. Teita Estate

22. Kapchorua Tea Company

23. Henkel Polymer Co

24. PZ Cussons

25. GlaxoSmithKline beecham

26. Birch Investments

27. Indigo Garments

28. Jar Kenya

29. California Link EPZ

30. Kenya Knit Garments

31. Golden Light

32. Indu Farm

33. Ivee Aqua

34. Nor brook Africa

35. East-African Breweries

36. Coca-Cola US

37. Bamburi Cement

38. Johnsons & Johnsons

Source: KAM (2020)

Appendix II: Data Collection Sheet

Year	Number of shares held by foreign shareholders	Number of foreign board members on the firms' board	Number of hard and soft foreign technologies adopted	Net Income	Total Equity	Total shares outstanding	Total board members	Total hard and soft technologies adopted
2016								
2017								
2018								
2019								
2020								

Appendix IIIl: Raw Data Collected

Firm	Year	Financial Performance	Foreign equity shareholding	Foreign board membership	Foreign Technological flow
Baumann Company Limited	2016	0.118	0.033	0.200	0.597
B.O.C Kenya Ltd	2016	0.121	0.006	0.167	0.075
British American Tobacco Kenya	2016	0.042	0.002	0.125	0.578
Carbacid Investment Ltd	2016	0.061	0.007	0.100	0.615
East Africa Breweries Limited	2016	0.057	0.011	0.250	0.573
Eveready East Africa Limited	2016	0.031	0.009	0.100	0.079
Kenya Orchards Limited	2016	0.101	0.004	0.200	0.103
Mumias Sugar Company	2016	0.040	0.005	0.000	0.591
Marshalls (E.A.) Ltd	2016	0.031	0.002	0.222	0.491
Unga Group Limited	2016	0.030	0.002	0.083	0.501
British American Tobacco	2016	0.051	0.007	0.300	0.530
Unilever Kenya	2016	0.095	0.006	0.167	0.164
Brooke Bond Kenya	2016	0.005	0.031	0.182	0.070
EA Portland Cement Company France	2016	0.004	0.070	0.000	0.094
Carnaud Metalbox	2016	0.039	0.027	0.200	0.073
George Williamson	2016	0.064	0.047	0.200	0.095
Rhone Poulenc Kenya	2016	0.015	0.020	0.273	0.100
Cadbury	2016	0.026	0.033	0.273	0.085
Nestle Foods	2016	0.046	0.025	0.300	0.125
Elida Ponds Kenya	2016	0.015	0.022	0.250	0.145
Teita Estate	2016	0.016	0.038	0.083	0.118
Kapchorua Tea Company	2016	0.021	0.096	0.100	0.110
Henkel Polymer Co	2016	0.022	0.075	0.200	0.123
PZ Cussons	2016	0.024	0.020	0.250	0.208
GlaxoSmithKline beecham	2016	0.134	0.016	0.300	0.172
Birch Investments	2016	0.099	0.009	0.111	0.042
Indigo Garments	2016	0.031	0.007	0.100	0.020
Jar Kenya	2016	0.125	0.008	0.000	0.035
California Link EPZ	2016	0.083	0.012	0.167	0.173
Kenya Knit Garments	2016	0.080	0.013	0.000	0.219

Golden Light	2016	0.091	0.012	0.182	0.130
Indu Farm	2016	0.112	0.014	0.100	0.210
Ivee Aqua	2016	0.228	0.008	0.167	0.118
Nor brook Africa	2016	0.137	0.017	0.167	0.163
East-African Breweries	2016	0.089	0.016	0.273	0.161
Coca-Cola US	2016	0.061	0.019	0.300	0.291
Bamburi Cement	2016	0.041	0.002	0.000	0.238
Johnsons & Johnsons	2016	0.011	0.002	0.308	0.263
Baumann Company Limited	2017	0.120	0.000	0.200	0.201
B.O.C Kenya Ltd	2017	0.093	0.000	0.167	0.231
British American Tobacco Kenya	2017	0.067	0.002	0.125	0.329
Carbacid Investment Ltd	2017	0.033	0.010	0.100	0.428
East Africa Breweries Limited	2017	0.029	0.019	0.273	0.352
Eveready East Africa Limited	2017	0.064	0.002	0.083	0.342
Kenya Orchards Limited	2017	0.074	0.004	0.200	0.240
Mumias Sugar Company	2017	0.064	0.006	0.000	0.220
Marshalls (E.A.) Ltd	2017	0.023	0.001	0.167	0.084
Unga Group Limited	2017	0.044	0.013	0.083	0.052
British American Tobacco	2017	0.066	0.019	0.300	0.124
Unilever Kenya	2017	0.084	0.010	0.167	0.073
Brooke Bond Kenya	2017	0.074	0.063	0.182	0.067
EA Portland Cement Company France	2017	0.077	0.021	0.000	0.047
Carnaud Metalbox	2017	0.067	0.049	0.182	0.076
George Williamson	2017	0.065	0.023	0.200	0.044
Rhone Poulenc Kenya	2017	0.062	0.096	0.273	0.058
Cadbury	2017	0.064	0.072	0.250	0.036
Nestle Foods	2017	0.072	0.039	0.300	0.030
Elida Ponds Kenya	2017	0.066	0.017	0.250	0.077
Teita Estate	2017	0.067	0.023	0.083	0.058
Kapchorua Tea Company	2017	0.065	0.047	0.100	0.072
Henkel Polymer Co	2017	0.045	0.026	0.167	0.116
PZ Cussons	2017	0.043	0.033	0.200	0.113
GlaxoSmithKline beecham	2017	0.053	0.033	0.300	0.106
Birch Investments	2017	0.132	0.025	0.111	0.098

Indigo Garments	2017	0.076	0.021	0.100	0.172
Jar Kenya	2017	0.111	0.062	0.000	0.241
California Link EPZ	2017	0.058	0.034	0.182	0.134
Kenya Knit Garments	2017	0.087	0.056	0.000	0.164
Golden Light	2017	0.108	0.042	0.182	0.077
Indu Farm	2017	0.137	0.039	0.100	0.070
Ivee Aqua	2017	0.092	0.048	0.167	0.069
Nor brook Africa	2017	0.073	0.006	0.182	0.064
East-African Breweries	2017	0.076	0.010	0.273	0.099
Coca-Cola US	2017	0.097	0.011	0.300	0.098
Bamburi Cement	2017	0.067	0.021	0.000	0.066
Johnsons & Johnsons	2017	0.050	0.010	0.444	0.038
Baumann Company Limited	2018	0.103	0.002	0.167	0.040
B.O.C Kenya Ltd	2018	0.109	0.013	0.167	0.088
British American Tobacco Kenya	2018	0.048	0.019	0.125	0.073
Carbacid Investment Ltd	2018	0.067	0.035	0.100	0.186
East Africa Breweries Limited	2018	0.091	0.012	0.250	0.167
Eveready East Africa Limited	2018	0.076	0.003	0.083	0.084
Kenya Orchards Limited	2018	0.041	0.030	0.222	0.069
Mumias Sugar Company	2018	0.032	0.037	0.000	0.116
Marshalls (E.A.) Ltd	2018	0.014	0.007	0.222	0.035
Unga Group Limited	2018	0.019	0.056	0.083	0.054
British American Tobacco	2018	0.013	0.012	0.300	0.057
Unilever Kenya	2018	0.023	0.007	0.200	0.150
Brooke Bond Kenya	2018	0.036	0.025	0.182	0.086
EA Portland Cement Company France	2018	0.049	0.016	0.000	0.044
Carnaud Metalbox	2018	0.025	0.006	0.200	0.041
George Williamson	2018	0.035	0.007	0.200	0.034
Rhone Poulenc Kenya	2018	0.026	0.011	0.273	0.083
Cadbury	2018	0.032	0.017	0.250	0.080
Nestle Foods	2018	0.025	0.007	0.300	0.186
Elida Ponds Kenya	2018	0.073	0.009	0.250	0.141
Teita Estate	2018	0.036	0.007	0.083	0.035
Kapchorua Tea Company	2018	0.015	0.008	0.100	0.061

Henkel Polymer Co	2018	0.018	0.015	0.182	0.112
PZ Cussons	2018	0.039	0.014	0.250	0.179
GlaxoSmithKline beecham	2018	0.041	0.011	0.300	0.221
Birch Investments	2018	0.041	0.013	0.111	0.163
Indigo Garments	2018	0.027	0.012	0.111	0.200
Jar Kenya	2018	0.037	0.008	0.000	0.254
California Link EPZ	2018	0.028	0.012	0.167	0.233
Kenya Knit Garments	2018	0.013	0.015	0.000	0.398
Golden Light	2018	0.021	0.022	0.182	0.162
Indu Farm	2018	0.024	0.021	0.100	0.312
Ivee Aqua	2018	0.089	0.014	0.167	0.316
Nor brook Africa	2018	0.090	0.015	0.222	0.189
East-African Breweries	2018	0.074	0.024	0.273	0.167
Coca-Cola US	2018	0.047	0.022	0.273	0.082
Bamburi Cement	2018	0.041	0.021	0.000	0.028
Johnsons & Johnsons	2018	0.072	0.024	0.400	0.034
Baumann Company Limited	2019	0.028	0.018	0.154	0.068
B.O.C Kenya Ltd	2019	0.025	0.035	0.167	0.039
British American Tobacco Kenya	2019	0.045	0.015	0.083	0.023
Carbacid Investment Ltd	2019	0.070	0.022	0.100	0.111
East Africa Breweries Limited	2019	0.125	0.027	0.250	0.031
Eveready East Africa Limited	2019	0.168	0.033	0.083	0.058
Kenya Orchards Limited	2019	0.094	0.032	0.167	0.046
Mumias Sugar Company	2019	0.133	0.035	0.000	0.040
Marshalls (E.A.) Ltd	2019	0.306	0.028	0.105	0.037
Unga Group Limited	2019	0.113	0.036	0.083	0.078
British American Tobacco	2019	0.125	0.036	0.300	0.073
Unilever Kenya	2019	0.071	0.027	0.167	0.060
Brooke Bond Kenya	2019	0.155	0.041	0.222	0.096
EA Portland Cement Company France	2019	0.115	0.028	0.000	0.102
Carnaud Metalbox	2019	0.153	0.035	0.200	0.118
George Williamson	2019	0.073	0.025	0.167	0.072
Rhone Poulenc Kenya	2019	0.150	0.026	0.273	0.097
Cadbury	2019	0.049	0.010	0.250	0.067

Nestle Foods	2019	0.041	0.001	0.300	0.145
Elida Ponds Kenya	2019	0.045	0.002	0.250	0.106
Teita Estate	2019	0.030	0.003	0.091	0.086
Kapchorua Tea Company	2019	0.029	0.005	0.100	0.118
Henkel Polymer Co	2019	0.045	0.004	0.167	0.073
PZ Cussons	2019	0.049	0.005	0.250	0.065
GlaxoSmithKline beecham	2019	0.087	0.005	0.300	0.077
Birch Investments	2019	0.105	0.003	0.083	0.111
Indigo Garments	2019	0.283	0.002	0.100	0.129
Jar Kenya	2019	0.089	0.002	0.000	0.072
California Link EPZ	2019	0.050	0.005	0.167	0.070
Kenya Knit Garments	2019	0.070	0.003	0.000	0.040
Golden Light	2019	0.014	0.001	0.182	0.072
Indu Farm	2019	0.055	0.003	0.100	0.047
Ivee Aqua	2019	0.072	0.002	0.182	0.040
Nor brook Africa	2019	0.045	0.004	0.200	0.143
East-African Breweries	2019	0.058	0.006	0.273	0.149
Coca-Cola US	2019	0.053	0.005	0.300	0.119
Bamburi Cement	2019	0.029	0.007	0.000	0.122
Johnsons & Johnsons	2019	0.062	0.005	0.444	0.087
Baumann Company Limited	2020	0.018	0.005	0.200	0.114
B.O.C Kenya Ltd	2020	0.046	0.011	0.167	0.227
British American Tobacco Kenya	2020	0.041	0.006	0.125	0.051
Carbacid Investment Ltd	2020	0.043	0.026	0.100	0.071
East Africa Breweries Limited	2020	0.010	0.025	0.250	0.057
Eveready East Africa Limited	2020	0.007	0.032	0.083	0.070
Kenya Orchards Limited	2020	0.039	0.007	0.200	0.055
Mumias Sugar Company	2020	0.021	0.001	0.000	0.077
Marshalls (E.A.) Ltd	2020	0.009	0.015	0.222	0.070
Unga Group Limited	2020	0.013	0.019	0.083	0.079
British American Tobacco	2020	0.013	0.015	0.300	0.080
Unilever Kenya	2020	0.027	0.030	0.167	0.085
Brooke Bond Kenya	2020	0.039	0.015	0.182	0.069
EA Portland Cement Company France	2020	0.018	0.012	0.000	0.128

Carnaud Metalbox	2020	0.006	0.028	0.200	0.049
George Williamson	2020	0.054	0.016	0.200	0.030
Rhone Poulenc Kenya	2020	0.098	0.004	0.273	0.051
Cadbury	2020	0.051	0.004	0.250	0.026
Nestle Foods	2020	0.081	0.001	0.300	0.027
Elida Ponds Kenya	2020	0.092	0.001	0.250	0.025
Teita Estate	2020	0.108	0.001	0.083	0.034
Kapchorua Tea Company	2020	0.087	0.001	0.100	0.037
Henkel Polymer Co	2020	0.102	0.001	0.167	0.029
PZ Cussons	2020	0.093	0.004	0.250	0.039
GlaxoSmithKline beecham	2020	0.105	0.001	0.300	0.032
Birch Investments	2020	0.107	0.003	0.111	0.030
Indigo Garments	2020	0.183	0.001	0.100	0.078
Jar Kenya	2020	0.334	0.001	0.000	0.132
California Link EPZ	2020	0.110	0.005	0.167	0.088
Kenya Knit Garments	2020	0.131	0.005	0.000	0.163
Golden Light	2020	0.077	0.046	0.182	0.117
Indu Farm	2020	0.091	0.023	0.100	0.123
Ivee Aqua	2020	0.102	0.026	0.167	0.176
Nor brook Africa	2020	0.094	0.083	0.182	0.156
East-African Breweries	2020	0.089	0.039	0.273	0.065
Coca-Cola US	2020	0.087	0.017	0.300	0.242
Bamburi Cement	2020	0.124	0.018	0.000	0.124
Johnsons & Johnsons	2020	0.115	0.014	0.400	0.139