FACTORS INFLUENCING INVESTMENT IN KENYA BY MULTINATIONAL CORPORATIONS (MNCs) IN TRANSPORT SECTOR: THE CASE OF RIFT VALLEY RAILWAYS (K) LIMITED

BY

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DECLARATION

This Research Project is my original work and has never been presented in any other University or College for the award of degree or diploma or certificate.

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TABLE OF CONTENTS page

CHAPTER 5: SUMMARY, DISCUSIONS, CONCLUSIONS AND RECOMMENDATIONS

DEDICATION

To my late Father, Ezekiel K. Chirchir, who strongly believed that education, is the key to a bright and prosperous future for his children, the community, the country and the world at large.

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ABSTRACT

Many researchers have carried out research studies in Multinational companies in various sectors operating in Kenya but no study has been carried out in Transport sector to establish the factors influencing investment in Kenya by MNCs. The primary purpose of this study was to establish the factors that influenced the three Multi national companies (MNCs) to invest in Kenya Railways.

The study used both Primary and Secondary data. Structured interview guide and personal interviews consisting of open-ended questions were used. Pertinent data were collected from the top and middle level management of the Rift Valley Railways at the headquarters. The Rift Valley Railways (RVR) officials targeted for interviewing were the head of Marketing, head of Operations, head of Human Resource, head of Finance and head of Administration. The response rate was 80% and the data collected was analyzed using descriptive statistics.

The open-ended interview guide enabled the respondents to give as much information as possible without any form of limitation. The researcher designed the interview guide on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of Ministry of Transport, Kenya Railways Corporation, Kenya Revenue Authority (KRA), Journals and Internal circulars. The study findings established that factors such as; knowledge and experience of the foreign markets; size and growth of the

foreign markets; government emphasis on FDI and financial incentives, economic policy; cultural closeness cost of transport, materials and labour, availability of resources; technology, political stability (that is, political stability of host country and political stability of neighbouring country), availability of raw material, availability of labour, conducive climate, availability of investment incentives, infrastructure, increase of sales and profit, entering rapidly growing markets, reduced operation costs and the government general legal guarantee that includes, foreign protection Act and international protection ,that is ICSID contributed immensely to the investors' decision to invest in Railway line services in Kenya and Uganda.

The findings also revealed that the parent company is registered in South Africa and has only two subsidiaries in Africa that is, Kenya and Uganda undertaking their core mandate in railway line transport services under concessionaire type of agreement of twenty five years reviewed after five years of initial investment. However there is need for Rift Valley Railways (RVR) investors to speed up expansion strategy to many other countries in the continent and beyond.

CHAPTER ONE
INTRODUCTION

1.1.0 Background

In recent years we have witnessed a fundamental change in the way multinational corporations (MNCs) are organizing their international activities. Spurred by the lessening of trade and investment barriers in emerging markets and plunging transport and communication costs, MNCs are changing strategies in order to exploit the new opportunities for division of labor on a global scale. The surge in global sourcing and global integration within the multinational corporation is widely described by International Business (IB) scholars, such as; Zaheer & Manrakhan (2001); Dicken (2003); Kotabe & Murray, (2004). What have received less attention are the local linkage effects of this surge, which is the propensity of MNCs to link up with local firms in the locations where they operate. Yet, development economics has long recognized that the key to beneficial effects from FDIs depend on whether or not foreign investors reach out to local industry through linkages such as alliances, joint ventures, license and franchise agreements, OEM contracts, etc. Through linkages, knowledge and technology may be transferred more effectively to the host country and new opportunities for local firm development will transpire (Lall, 1980, Altenburg, 2000, Görg & Grenaway, 2002). Without linkages, foreign investors may create enclaves in the local economy (Singer, 1950), exploiting its resources and labor, leaving few lasting positive effects on the host country (Cypher & Dietz, 2004).

Presumably, there is a link between the global strategies of MNCs and their linkage effects. Thus, MNCs with globally integrated strategies may be relatively inclined to opt for high levels of internalization as under-performing local linkage partners may disrupt their global value chain and potentially damage their global brand and reputation. On the other hand, firms with locally responsive strategies may be relatively more inclined to foster linkages where they operate as they will need the resources and knowledge of local firms to adapt to local conditions and as they will tend to see each investment as a separate portfolio and therefore have less concern in regard to the quality and costs of inputs. This paper therefore intends to explore the factors that influenced MNC (Rift Valley Railways) to invest in Kenya.

1.1.1 Rift Valley Railways (K) Limited

Owing to unworkable financial problems, the East Africa community broke up in August 1976. Kenya Railways Corporation became operational on 1st January 1977, which was legalized by the Act of Parliament Cap. 397 of the laws of Kenya, on 20th January 1977. The Kenya Railways Corporation operated 2650 kilometers of permanent track from Mombasa to Malaba and Kisumu including Branch lines to Taveta, Magadi, Nanyuki, Nyahururu, Kitale and Butere.

Due to poor performance by the Kenya Railways Corporation, the Government of Kenya decided to concession the corporation for twenty five years for freight services and five years for passenger services. The winner of the concession re-named the corporation Rift Valley Railways (RVR) which was incorporated in Kenya as Rift Valley Railways (Kenya) Limited (RVRK). RVRK is a company formed by a group of three companies led by South Africa's Sheltam with 60% shareholding as the lead investor, Trans-century, ICDC Investment and Australian company, Babcock and Brown. The decision to concede Kenya Railways was part of the Kenya Government's option of attracting the private sector funding for operation, maintenance, rehabilitation and renewal of infrastructure which would in turn result to rapid economic recovery and investment opportunities. The concession agreement was signed on January 23, 2006 by the Government of Kenya, Kenya Railways Corporation and Rift Valley Railways (K) Limited. The said agreement became effective on November 1, 2006.

Under the "Economic Recovery Strategy for Wealth and Employment Creation" (ERSWEC 2003-2007), the transport sector has been identified as the third pillar to the Kenya's economic recovery. Following the signing of the Concession, the World Bank considered and approved the release of a credit Loan of US $120.62 Million (Kshs. 8.7b)to the Kenya Government, of which 60% (Kshs. 5.1b) was earmarked to support the concession that is, retrench staff, redeployment support, and payment of pension arrears for Kenya Railways retired staff. Under the arrangement, the Rift Valley Railways will remit US$ 40 million annually to the Government as annual fee. The RVRC will also be expected to invest US$ 280million to rehabilitate existing assets and US$42 million investment in new rolling stock and operating equipment over the concession term. US $80 million out of US $322 million total investment is anticipated within the first five years.

1.1.2 Railways

Rail provides the cheapest mode of transport for bulky products to and from the Port of Mombasa to the mainland Kenya and the great lakes region and thus making a major contribution to the development of the economies of the Region. It is in recognition of this role that a division has been set up in the Ministry to address rail matters. The railways division in the Ministry of Transport is therefore responsible for the Railways Sub-sector and has set out a vision for the Sub-sector as provision of world class rail transportation systems and services with a mission to facilitate efficient rail transportation services to spur socio- economic growth and development.

At its good days in the early eighties, Kenya Railways Corporation (KRC) was carrying more than double its current volume of freight traffic of about 1.6 million tones. But because of the declining traffic, KRC reduced its staff by more than 50% over the last 10 years. However, continued overstaffing couple with breakdown in systems and procedures and declining capital investment led to unnecessarily high operating costs, losses, negative cash flow and inability to sustain operation. A strategic decision was taken in 2003 to have joint concession of Kenya and Uganda Railways. The Governments of Kenya and Uganda however, decided to concession their two railways jointly. A Memorandum of Understanding and a general blueprint for the design of the Joint Concession was signed July 8, 2004. The joint concession was awarded through a competitive bidding process governed by the laws of Kenya and Uganda in 2005. The two Governments selected the Rift Valley Railways Consortium (RVRC) led by Sheltam of South Africa on October 14, 2005. The handling over though delayed was done on 1st November 2006. The concession of railways was expected to stem the deterioration in their operating and financial performance under state management and to reduce the periodic large injections of state funds.

Under a twenty five year Concession Agreement, the railway assets including all the infrastructure, locomotives, rolling stock, plant and maintenance equipment, some facilities together with selected property assets, will be conceded to the concession company at the commencement of the concession. The concession company will have the obligation to make minimum investments in the railway network of US$ 5 million for the first five years, and to operate and maintain the network, locomotives, and rolling stock. The concession company is expected to invest around US$390 million in the upgrading of track infrastructure and rolling stock over the life of the concession. The investment requirements will be driven by the need to enhance capacity for the projected level of freight traffic and achieving the technical standards specified in the Concession Agreement, which specifies, amongst others, an increase in freight volumes by at least 75% by year five and then by at least 60% of the GDP increase every year. In return for the Grant of the concession rights, the concession company will pay a one off entry fee of US$ 3 million. It will also pay annual concession fees to KRC computed as a percentage (11.1%) of freight revenues and US$1 million per annum for each of the five years of the passenger service concession. KRC will be the conceding authority and will be responsible for monitoring the concession, and ensure that the concession company complies with operating standards and safety regulations specified in the concession agreement.

As part of the improvement of the railway services, the Government secured a loan from the World Bank through the East Africa Trade and Transport Facilitation Project to finance; the retrenchment of excess employees not taken over by the concessionaire in order to ensure payment of the handsome retrenchment package on time and as well provide training to the retrenched staff as a way of making them comfortably adapt to the business world; building, as mitigation measures, of houses and three markets over a period of three years to resettle the families which have encroached upon the railway line as a way of cushion them from disruption of life, a tarmacked footpath will also be constructed to provide access to the main road and setting up of pension fund and trustee to ensure employees retiring are paid their dues on time. The whole programme is funded to tune of Kshs. 5.2 billion.

The concession of the railways will lead to a more modern and efficient management of the railway sector and consequently to improved quality of service, reduced tariffs, and increased market share for the railways in freight traffic. This will ultimately increase efficiency and reduce cost of transporting goods and persons by rail through increased investment in the sector and further reduce cost of road maintenance due to decrease in road damage as cargo is shifted back from the road to rail.

1.1.3 Kenya

Kenya has had a long history of economic leadership in East Africa as one of the largest and most advanced economies in the region. However, inconsistent efforts at structural reforms and poor policies over the past 15 years generated a prolonged period of decline in development indicators, and significantly eroded this leadership position. While Kenya was a prime choice for foreign investors seeking to establish a presence in Eastern and Southern Africa in the 1960s and 1970s, poor economic policies, rising problems of corruption and governance, and deterioration of public services have discouraged Foreign Direct Investment (FDI) since the 1980s. For a long time, Kenya has been an underperformer in attracting direct foreign investment. Since 2003, Kenya's performance in attracting FDI has been marginally better at nearly US$6 per US$1,000 of GDP (US $82 million in total). But this is well below potential and well below the FDI levels in neighboring countries with smaller economies. To make the country more attractive to investors, the Government of Kenya (GOK) has reviewed its investment policy and launched a private sector development strategy. A policy review by the United Nations Conference on Trade and Development (UNCTAD, 2007) is one component of this effort.

The respective roles of the public and private sectors have evolved since independence in 1963, with a shift in emphasis from public investment to private sector-led investment. The GOK has introduced market-based reforms and provided more incentives for both local and foreign private investment. Foreign investors seeking to establish a presence in Kenya generally receive the same treatment as local investors, but there are some exceptions. Multinational companies make up a large percentage of Kenya's industrial sector. A new investment code, the Investment Promotion Act 2004, is expected to streamline the administrative and legal procedures to achieve a more effective investment climate. The legislation replaces the government's Investment Promotion Center with the new Kenya Investment Authority (KIA). The law creates some new barriers, namely, it sets the minimum foreign investment threshold at USD 500,000 (reduced to USD 100,000 in 2007), and conditions some benefits on obtaining an investment certificate from the KIA. Foreign employees are expected to be key senior managers or have special skills not available locally. Foreign investors are required to sign an agreement with the government stating training arrangements for phasing out expatriates. Any enterprise, whether local or foreign, may recruit expatriates for any category of skilled labor if Kenyans are not available.

The Kenyan government focuses its investment promotion on opportunities that earn foreign exchange, provide employment, promote backward and forward linkages, and transfer technology. The only significant sectors in which investment (both foreign and domestic) are constrained, are those where state corporations still enjoy a statutory monopoly. These are restricted almost entirely to infrastructure (that is, power, posts, tele-communications and ports) and the media, although there has been partial liberalization of these sectors. For example, in recent years, five Independent Power Producers (IPPs) have begun operation in Kenya. Foreign telecom companies can also establish themselves in Kenya, but must have at least 30% local ownership. All resident companies are subject to tax on their income at the rate of 30%. Branches of non-resident companies pay tax at the rate of 37.5%. Taxable income is generally defined to be income sourced in or from Kenya.

Value Added Tax (VAT) is levied on goods imported into or manufactured in Kenya, and taxable services provided. The standard VAT rate is 16%. Work permits are required for all foreign nationals wishing to work in the country. It is becoming increasingly difficult for expatriates to obtain work permits because the government contends that qualified middle level managers and technical staffs are available locally, but this may be driven more by the high unemployment levels, officially at 25% but all indications are that unemployment rate in the country is over 40%. There is no discrimination against foreign investors in access to government-financed research. The government's export promotion programs do not distinguish between local and foreign-owned goods, Central Bureau of Statistics (CBS, 2007).

UNCTAD, in conjunction with the International Chamber of Commerce (ICC), published an Investment Guide to Kenya in May 2005. The guide provides comprehensive analyses of investment trends, opportunities, and the regulatory framework in the country. According to the UNCTAD report, and most observers, significant disincentives for investment in Kenya include government overregulation and inefficiency, expensive and irregular electricity and water supplies, an underdeveloped telecommunications sector, a poor transport infrastructure, and high costs associated with crime and general insecurity.

The Government of Kenya (GOK) has sought foreign investment through investment conferences and foreign trips occasionally led by the Head of State. In August 2005, Kenyan President Mwai Kibaki made a five days visit to China to market the country as an investment destination to Chinese investors. The President made a follow-up trip to China in November 2006 as part of the government's strategy to broaden economic co-operation and diversify marketing activities into the non-traditional markets of the Far East. The increase in investment by MNCs in Kenya is through the perception based on true facts such as; the economic growth and the political and economic stability of the country, the improvement in the security levels, reduced level of corruption, her strategic location in the region coupled by her rich raw materials, many tourist attraction features, the port of Mombasa, special trade systems, transport, communication, competitive and highly qualified staff.

These factors have produced a positive reaction on the image of the Country all over the world. This study will try to explore in detail the above factors that attract MNCs to invest in the country and especially focus on RVR.

1.1.4 Performance of Railways before Concession

The railway is essential for providing public transport services for both freight and passengers. In Kenya, the railway is the second most important provider of transport services after roads. However, the current railway system is in desperate need for investment and modernization. The freight throughput of Kenya Railways (KR) has decreased from about 4.8 million tones per annum in the early 1980's to the current level of 2.3 million tones per annum. It requires investments in order to increase freight throughput, deliver improved quality of service, introduce new and innovative technology and improve the working conditions of its employees. Due to limited financial resources, the Government was not in a position to provide the funding required for investing and modernizing the railway infrastructure or buying new equipment and rolling stock.

During the colonial and immediate postcolonial era, the railway was the single highest contributor to Kenya's Gross Domestic Product, contributing about 5% in 1970's. The workers were satisfied and respected such that the

Managing Director used to cover the duties of the Governor when the later was on leave or vacation. However, after restructuring since 1992 the load carried by the corporation has gone down by more than half and the organizations contribution to the GDP has gone down to a mere 1.9% by 1995. (See appendix III for the organizational performance over time). In order to improve the performance of the railways, the Government decided to concession Kenya Railways to a private investor for a specific period of time. Under this arrangement, the Government will continue owning the railway infrastructure and facilities but the concessionaire will operate trains and maintain the infrastructure.

1.1.5 Transport Sector

Development and maintenance of physical infrastructure are key to economic growth and poverty reduction. Production costs, employment creation, access to markets, and investment depend on the quality of infrastructure, especially transport. Road transport is the most widely used means of transportation in Africa. The fragmentary nature of the railway system and the limitations imposed on the scope of inland water transport by geographical factors mean that transport of people and freight by rail and inland waterways has to be supplemented, usually by road transport over long distances.

An accurate assessment of the development of road networks in African countries is made difficult by the lack of reliable statistical information. This makes it necessary to employ for analytical purposes surrogate indicators such as aggregate lengths classified according to operating conditions instead of standard indices such as tonne per kilometre or passenger per kilometre. The data available show that Africa had approximately 311,184 km of paved roads in 1996, half of them in poor condition.

With the exception of Mauritius and the North African countries of Algeria, Egypt, Morocco, and Tunisia, paved roads account for less than 50 per cent of the road network in Africa. Indeed, paved roads in sub-Saharan Africa account for less than 17 per cent in 1996, with many countries falling below the average. About 57 per cent of the roads in North Africa were paved compared to 25 per cent in South Africa and 10.2 per cent in Central Africa. Road density per km^2 is generally much lower than those of Asia and Latin America (ADB 1999:122).

Traditionally in most African countries road building has been given a higher priority than road maintenance, with scant attention to the imperatives of recurrent costs of road management once the road has been constructed. In a study on road deterioration in developing countries, Harral and Faiz (1988) estimated the annual maintenance expenditure required to prevent road deterioration. On average, expenditures for 1986–1990 varied from 0.2% of GDP for countries in East Asia and the Pacific to 1% for countries in West Africa. They estimated that the backlog of maintenance work varied from 1.6% of GDP in East Asia and the Pacific to 3.5% in South Asia.

The poor condition of paved roads, is as a result of low level of road maintenance in the individual countries. As the road network expands, the institutional and financial burden tends to increase more rapidly than the national budget could cater for, especially in times of socioeconomic crisis. Many countries are not able to meet maintenance costs from budgetary resources or financing investment in new trunk road systems that meet stipulated requirements and standards according to volume and weight of traffic. Lack of maintenance has left over 50% of the paved roads in Africa in poor condition, and the condition of more than 80% of the unpaved main roads would be considered just fair. The case of rural feeder roads is even worse, at the end of 1999, up to 85% of them were estimated to be in poor condition with accessibility limited to dry seasons in most cases. The inadequate and poorly maintained rural feeder roads connecting villages, farming areas with market centres is a major gap in rural transport in many countries.

Road networks have not kept pace with growth required as kilometre lengths are limited and construction standards are often low. And few cities have been able to keep pace with road network needs. Although the construction of regional road networks on a sub-regional basis is crucial for economic cooperation and integration, a real regional African road system does not exist as yet, and a large number of national road networks are not coordinated effectively. As agriculture and industry expand, and as national and sub-regional economies develop, existing road networks will require tremendous extension and improvement in quality. In particular, road links between nations will have to be strengthened to meet the large-scale demand for intra- and interregional goods traffic. In many African countries all of this requires heavy capital investment and expenditure.

The transport sector in Kenya comprises a road network with 150,000 km of roads and 350,000 vehicles, a single-track railway running from Mombasa to Uganda, a major seaport at Mombasa, small ports at Lamu and Malindi, a ferry service to Uganda, an oil pipeline from Mombassa to Kisumu via Nairobi and Eldoret, four international and many small airports, and three inland container depots (IEA, 1998). With a 34% share in the total transport sector in 1998, road transport has the highest contribution to national output among the transport systems. It is followed by air transport, with 25%, and water transport, with 16% (Ikiara et al., 2000). The frequent re-carpeting and construction of major roads in the country has been as a result of heavy tracks transporting containers and other commodities by roads.

1.2 Statement of the Problem

Multinational companies are often subject of discussion as they are perceived as the major contributor to the economic growth of any given country or nation they venture in. Generally, governments worldwide welcome these companies since they bring capital, economic activities, employment, technology and managerial skills. But an establishment of such a company also leads to increased competitive environment, making it more difficult for local actors to survive. MNCs are often accused of taking advantage of host country resources, and leave the host country once they have been drained. An example of this when MNCs attract top local human resources from local companies, thereby creating “a brain drain” (Czinkota et al., 2001).

However, policy makers tend to recognize the positive effects of inward investments. The emphasis is put on job creation and inflow of capital, technology, management and production techniques (Gilmore et al,. 2003). This was stated by Caves (1996) who states, “foreign direct investment shapes competition between firms in most industries and has important consequences for the welfare of nations”. Foreign investments being present on the global investment scene are constantly evaluating the attractiveness of different host countries. Furthermore, Martin, Swaminathan and Mitchell (1998) identified two conditions that have to be present when undertaking a FDI. The first condition states that, the technologies or products possessed by the company must be valuable enough to compensate for the risks involved in making FDI. Secondly, when deciding on entry mode, the cost of transferring knowledge is of vital importance. If the costs of transferring knowledge across firm are substantially higher than the costs of transfer between subsidiaries of the same firm, then the company will set up its own operations (Martin, Swaminathan and Mitchell, 1998).

Furthermore the focus of FDI have changed from primarily being designed to exploit the existing ownership advantage in countries providing a firm with location advantages, to being designed to generate new ownership advantages. By acquiring a domestic or foreign company, and by adding new resources, new ownership advantage can be generated externally (Ekstrom, 1998). Today simple factors such as low cost unskilled labour and natural resources are increasingly less important to global competition than complex factors such as skilled scientific and technical personnel as well as advanced infrastructure (Porter, 1986).

When decision comes to setting up own overseas operations abroad spectrum of factors influencing the choice of host country arise. According to Gilmore et al, (2003) there are different factors influencing when evaluating a host country's attractiveness. Furthermore, Rugman and Hodgett's (2003) discussed seven reasons for foreign direct investment where as Czinkota and Ronkainen (2001) stated five major determinants for foreign direct investments. When the foreign direct investors ventures in the host country, they pose a lot of competition to the local companies. However, to remain relevant and meet the challenges created by competitive business environment, the Kenya Railways Corporation started restructuring in early 1990's in order to improve its operational efficiency.

Prior to the restructuring, the corporation was for example, transporting 4.5 million tones of goods annually in 1982 and was contributing to about 5% to the National Gross Domestic Product (GDP). The morale of the workers was very high and the company was one of the most respected and well paying in the country. However, after restructuring since early 1990's, the load carried by the corporation has dropped. In 1993 for example, the load carried by railways fell to 2.5 million tones and 1.9 million tones in 2005. In the concession deal, RVR took over 3700 employees from the KRC and the employees had their service transferred to the new employer. It was envisaged that the concessionaire will improve the infrastructure, equipment, technology used and generate more revenue hence pay more profits and taxes to the Kenyan Government. The government felt that concession was the only way to save the giant corporation, improve the morale of workers and in effect result in higher economic growth rate for the country.

In Kenya, many researchers have carried out research in multinational companies in various sectors operating in Kenya. Mwangi, (2003), carried out study on strategy and structure relationship focusing on locally owned Pharma manufacturing companies and MNCs operating in Kenya, Mcharo (2003), studied determinants of Foreign Direct Investment (FDI) in Kenya's Citibank and the aim was to find out the factors which MNCs consider important for investment in the third world countries. Kioi (2003), studied the relationship between Foreign Direct Investment and economic growth in Kenya, Uganda and Tanzania and the aim was to establish whether FDI contributes to economic growth in said countries. Madger (1989), studied factors considered important by Multinational forums when deciding on the host country and the aim was to find out the factors which MNCs consider important for investment in the third world countries. However, no study has been carried out in Transport sector to establish the factors influencing investment in Kenya by MNCs. This has prompted the researcher to undertake the study on factors influencing investment in Kenya by MNCs in the Transport sector focusing attention on RVR. This study will establish what motivated the three Multi national companies (MNCs) to invest in Kenya Railways and whether concession of Kenya Railways has resulted to a higher economic growth rate for the country.

1.3 Objective of the Study

To determine factors that influence investments by Multinational Corporations (MNCs) in Kenya, within Transport Sector.

1.4 Importance of the Study

The findings of this study will be of interest to the following parties:-

1. *The Rift Valley Railways Management* – The management will be made aware of the areas causing great dissatisfaction hence to solve the problem in order to boost performance.
2. *The Multi- national Corporations (MNCs)*- The study will reveal some of the probable factors to influence their decision to invest in any developing country.
3. *The Government of Kenya*- The information will be useful to the government in its endeavor to influence control in terms of ownership and also the extend it could offer supportive role in other public enterprises targeted for restructuring.

CHAPTER TWO
LITERATURE REVIEW

2.1.0 Introduction

Multinational firms started becoming major actors in shaping the world's economy in 1950s and 1960s. Today between 25% and 30% of the world's stock of Foreign Direct Investment (FDI) is in the developing countries; about 40% of this is in the manufacturing sector and about 30% in transport sector. Multinational corporations (MNCs) have been attracted to large developing countries, especially Latin America, because of the trade policies that restrict imports of final products to these countries. On the other hand they have been attracted to other developing countries like Kenya, due to their large markets, her strategic point to other African countries served by Indian Ocean and abundance of semi- skilled cheap labour (Penrose, 1987).

Multinational corporations plays an active part in the economies of the East African countries. Kenya is by far the most industrialized of the five economies of East Africa community (that is, Kenya, Uganda, Tanzania, Burundi and Rwanda). For this reason, foreign investors have tended to favour Kenya over these other countries. Another reason for this preference has been the political and economic strategy adopted by the Government of Kenya which favours private ownership. A considerable proportion of capital formation in Kenya arises from the activities of foreign private firms (Gershenberg 1975, Penrose et al.,1971). From the above, MNCs are the best antidote to the weak economies of the third world and that the less developed countries cannot survive without their existence. However, this is actually not so, since multinational firms have been the subject of considerable controversy partly because they are foreign and partly because they are large and often seen to dominate host nation economy, particularly industrial sector. Also, because of their links with private enterprises in other countries, they are often accused of reducing economic independence of the host countries and of inhibiting the development of their local technologies (Muller et al. 1980, Brooke et al.,1978).

Kenyan economists believe that although the economy obtains a net benefit from the activities of MNCs operating in the country, this benefit is less than it ought to be because the same or better results could be obtained at lower costs if the government exerted greater control. It is held that foreign investors are inducements rather than are necessary to attract them, and that they are permitted to engage in a variant of practices that are detrimental to the economy (Gershenberg et al.,1975).

2.1.1 Description of Concession Systems

Under a concession system the state grants a franchise the right to finance, build, own, operate, and maintain a public infrastructure for a given period, and to charge users for that service. Concessions are normally stand-alone, single-purpose entities that are expected to finance themselves eventually, if not initially, without recourse to their shareholders. They are independent corporate entities run by a dedicated staff that seeks career advancement within the concession company. Invariably, the successful concession has been created because of a compelling economic need. However, a concession system can be used to run many other public services, such as bridges, telecommunications, and airports. In order for a concession to be successful, the State's granting authority must be clearly defined. Typically, this authority is vested in the Ministry of Transport. The Ministry exercises its authority under a special law. But there are exceptions to this design. In the United Kingdom concessions have been authorized by special acts of

Parliament. Examples include the Dartford River Crossing and the Channel Tunnel High Speed Rail Link, for which a bill is pending in Parliament.

Motorway and railway concessions can vary in length, averaging about thirty years. In general, the concession should run for a period of time long enough to enable the company to service all debt and earn the required return on equity. But there are no hard and fast rules. For example, the Birmingham Northern Relief Road has a concession length of fifty two years, and the duration of Dulles Greenway's concession expires ten years beyond the final maturity of the longest-term debt used in the initial financing (making the concession forty-two years). In Mexico the initial concession period can be as short as seven years, although this length has proven to be nonviable.

The land for the project is usually acquired by the State under its compulsory purchase rights and then leased at a nominal rent to the concession company for the life of the concession. The cost of land acquisition is usually borne by the concession company. Interestingly, the concession company for the Dulles Greenway acquired the land by private negotiation, meaning that the concession company determined the final alignment as a function of its land acquisition. At the end of the concession period, the land and road will be handed over to the highway authority, a procedure characteristic of most concessions. The highway authority often drafts the preliminary design of the road, and the concession company or its contractor completes the detailed design. But for both the Dulles Greenway and the Birmingham Northern Relief Road the concession company developed the complete design, though approved by the highway authority. The concession companies considered it important to have full control over design because the tolling policy that they adopted would influence road design. Standards or specifications for road construction and design are always required to be at least as strict as those of the highway authority. The standards of the concession company are often higher because it realizes that the road and railway is its income-producing asset. Further, most good concession companies feel that they are offering a service to the public.

Concession companies typically have a financial structure consisting of modest amounts of equity and substantial amounts of debt raised from domestic and international financial markets. The debt is serviced by revenue from tolls, which also covers operating and maintenance costs. Revenue from other activities, such as rent from motorway service areas, may be considered as a source of debt service, but gains from property development are not normally accepted as reliable sources for this purpose. Motorway and railway concessions are always faced with high initial construction costs and slowly growing revenue. During the initial operating period, they almost always make losses and, more importantly, have a negative cash flow. These cash deficits must be covered, a problem that is a significant part of concession financing. In general, if the concession is going to operate with deficits for a long time, private promoters and banks will require government subsidies to cover these deficits. The amount of subsidy and the length of time that it is provided is a matter for negotiation.

2.1.2 History of Concessions

Concessions were widely used in the nineteenth century to finance railways, tramways, and highways in Europe and the Americas. There are still a few small bridges in the United Kingdom that date their right to collect tolls to the seventeenth century. Unfortunately, the right to set toll levels was left with Parliament, with the result that tolls have not been increased, and so few improvements have been made. One of the best-known infrastructure concessions is the Suez Canal, which was a financial success until it was nationalized in the mid 1950s. Unfortunately, many other large nineteenth century infrastructure projects foundered, and large amounts of money were lost.

In the United States, the concept of toll roads is well established. Between 1789 and 1900 there were more than 2,000 private corporations operating turnpikes in Pennsylvania, New York, Ohio, Michigan, and elsewhere because governments were not able to provide adequate highways. The world's first modern tolled motorway opened in 1924 in Italy. It was 48 kilometers long, running from Milan to the Lakes. The first motorways in France and Italy were constructed in the 1950s and 1960s, when concessions were awarded to publicly owned motorway companies. In the same period, the idea of establishing a network concession to manage profitable and unprofitable sections of motorways emerged in Italy, where Autostrade S.P.A. was set up under the auspices of the State Institute of Industrial Reconstruction. Spain embarked on its motorway program in the mid-1960s, a full decade after France and Italy.

The national budget was deemed inadequate to meet the demands of a booming tourist industry. The solution adopted was to develop toll roads through concession companies. Spain benefited from the experience of France and Italy. The new Spanish motorway companies were all private entities, although they were subjected to a high degree of state monitoring and control. Towards the end of the 1960s, a new policy began to emerge in France, favoring a reduction in state intervention and recourse to private participation. This policy led to the creation of four private concession companies and to a greater degree of autonomy being given to the SEMs.

The energy crises of the 1970s had a severe impact on motorway development in France, Italy and Spain. Construction costs rose dramatically, and loan finance was available over only short periods and at high interest rates. Traffic growth slowed, actual and predicted revenue fell. In Italy, state grants had to be applied to support motorway companies, and motorway development was temporarily halted. In France the SEMs received advances from the state to help cover unforeseen annual deficits. The private companies were forced to refinance with loans offered at unfavorable terms. Two of the four private companies were forced to call on state guarantees in 1982, followed by a third in 1985. The state took over these companies and assimilated them into the public system of SEMs. From this point most of motorway development in France was channeled through the public sector.

A similar development in Spain led in 1983 to the collapse of three companies, representing about 15 percent of the motorway sector. The public sector acquired their assets under a new State-owned holding company. By the late 1980s the fortunes of the motorway companies had revived because of improved economic conditions and unexpectedly high traffic growth. By 1982-83, the Italian companies as a whole were able to cover operating costs and financing charges with toll revenue. By 1987 the Spanish motorway sector was showing an overall profit for the first time. Today, the concession companies in Italy and Spain are profitable and the shares of some are actively traded on the local stock exchanges.

2.1.3 Concession Types and Structures

Discussions so far has been on the general characteristics of toll road concessions and their applicability in the historic development of road networks in Europe and North America. In the U.K. the situation is different. The motorway network has been built by the State and there are no direct user charges. Similar to other governments, the U.K. government now does not have enough funds to finance new roads or the widening of existing roads or, as important, the maintenance of roads to the standard which is required. The Department of Transport has set out a new program to encourage private sector involvement called DBFO (Design, Build, Finance, and Operate). There are eight DBFO projects presently being bid for and for many of the projects there is a minimum amount of construction and a substantial amount of maintenance. An example is a project on the M40 between London and Birmingham. The total length of the road is 122 kilometers while the amount of road widening is approximately 12 kilometers at an estimated cost of £37 million. Tolls will not be charged on the DBFO projects but instead, the government will pay an agreed amount for each vehicle that uses the road over a period of up to thirty years. This practice is called “shadow tolling”. The trick is to correctly estimate the traffic flows over thirty years and then to negotiate with the government on the shadow toll per vehicle. The important point to be made is that the U.K. government is awarding road concessions not to build new roads, but to widen, operate, and maintain existing roads. The government's declared aim is to “foster the development of a private sector road operating industry in the U.K”. There are no fixed structures for concession companies or for the flow of contractual obligations regarding construction and operation. A typical example would see the concession company owned by the bidding consortium and possibly third-party institutional investors.

2.2 Factors Influencing Investment in Developing Countries by Multinational Corporations (MNCs)

In an attempt to explain the underlying factors that are influencing the choice of host market Gilmore et al, (2003), stated and explained the following factors: -

2.2.1 Marketing Factors

Knowledge and Experience of the foreign market is a fundamental factor in that the more information and experience a company has about a certain location, the more likely it is that the company will invests in that market. Increased knowledge about a foreign country reduces both the costs and uncertainty of operating in that foreign market place (Gilmore…et al., 2003).

The size and growth of the Foreign Market, including factors like proximity and access to a free trade area, the size of the foreign market, and its growth potential are regarded as key factors according to Gilmore et al. 2003. Regarding the free trade, area, one should keep in mind that the size and growth of that particular free trade area may be more important than the size and growth of the particular country in which the company is about to invest.

Cultural closeness determines the cost of entering a market, which is similar in culture to the home market. However, there is a disagreement among researchers about the extend to which companies prefer to invest in markets exhibiting near and similar cultures. Nevertheless, most companies tend to successively enter markets at an increasingly cultural distance from the home country.

When new markets are emerging they present great opportunities for many Multinational companies. In order to utilize on these benefits the companies have to enter the new markets as quick as possible. One way of increasing the speed of entry is to conduct a foreign investment. China, which has been considered as a closed market throughout the history, has during the past two decades started to move towards a more market driven economy and is therefore experiencing an annual growth rate of 7% to 8% percent. This has also led to more and more MNCs trying to enter the Chinese market and is today one of the worlds most attractive markets to enter.

2.2.2 Investment Climate Factors

The Government emphasis on FDI and Financial Incentives is a factor to be considered. If the government of the host country actively works to attract FDI, then that country will be more attractive compared to a system with government bodies forcing the foreign investor to undertake lengthy beauracratic processes, before the investments are approved. Examples of incentives are; generous tax incentives, worker training support package, good transport facilities, and well developed telecommunications. However, Gilomre..et al. (2203) argue that based on earlier research studies, financial incentives have little impact on the choice of location .

The Economic policy of the host country has to be analyzed and well understood before investors make decision to invest in. Inflation, tax rates and the tax structure of the host country are examples of the economic policy factors and theses examples are also key investment considerations. Several studies have shown that the rate of corporate taxation has a negative effect on investment decisions.

Political stability is a great concern for companies conducting foreign investment in that the host government may change the rules of the game within the industry where the multinational company is active. Therefore, a climate with political stability, that is very attractive for companies active on the global market (Hertz, 1964). Under this factor, the researcher explores two types of political stability, that is, of host country and neighbouring country.

Political stability of host country is a factor that has been mentioned several times in the relevant literature. The political stability of the host country is of utmost importance to the foreign investor, as high risk is involved in investing in a politically unstable country. Apart from the high risk of expropriation i.e. forceful ownership of property by government, there is fear of economic depression, which may result in very low, if any, profits (Hertz, 1964). Political stability of neighbouring country, is also very important, because it may result in some adverse effects on the host country. For example, if the subsidiary being set up is in land locked country, and the only sea port available is in a politically unstable country, the foreign investor has to be cautious. Therefore, relationship between the host country and its neighbours is of utmost importance to a prospective foreign investor (Hertz, 1964).

2.2.3 Cost Factors

Transport and raw materials are key cost factors that companies take into consideration when conducting foreign investment. However, the cost of labour has been more extensively explored in the foreign investment literature and research has produced mixed feelings. Dunning (1980) for example has conducted research showing that higher wages reflect more productive workforce and are associated with increased foreign investment. At the same time, other researchers have come to the conclusion showing the reverse effect, meaning high salaries have a negative impact on the flow of foreign investment. (Gilmore et al.,2003).

Availability of resources is considered by companies conducting for foreign investments, in particular labour and raw materials. Population density and unemployment rates are two examples of labor-related factors, while the standard and amount of local suppliers are raw material related factors.

However, the importance of availability of raw materials has recently showed to have less impact since raw materials are already often sourced on a global basis. Concerning the human resources the single most important factor is to what extent the education of the workforce are comparable to the needs of the specific company.

Access to technology is considered to be one of the most important factors concerning investment location and especially the ownership level of the investing company in today's globalized markets. It is important to note that high levels of research and development expenditures are not necessarily connected to high level of technological advancement (Langdon, 1975). Usually when multinational firms invest in a third world country, they bring technology and managerial skills with them. Therefore, the availability of technology does not seem to be of prime concern to the multinational firm, be it manufacturing oriented firm. In fact one of the reasons why third world developing countries promote foreign direct investment is to get modern technology. They prefer to import technology rather than develop it at home, due to the cost. However, they want the technology to be adapted to local conditions and the requisite skills to be transferred to local citizens (Davis, 1977, Langdon, 1975).

Capital can be generated internally or it can be sourced from abroad. The ambitious growth plans of developing countries have generally meant that some of the required capital must be sourced from abroad. Many projects, which are undertaken in the third world countries, are financed by international loaning bodies like the international monetary fund (I.M.F), and the World Bank. However, multinationals prefer to borrow capital locally, as it is cheaper. The foreign firm can get loans quite easily as compared to the local borrower (Hertz, 1964).

Foreign companies are out to exploit raw materials in various host countries where raw materials are available. Many MNCs have been known to establish subsidiaries in various parts of the world due to availability of raw materials in those parts. The raw material may be semi-processed and then exported to the parent company, or it may be converted into the final product for the local market. A good example to get this subsidiaries, are those in South Africa. South Africa is rich in nuclear raw material, diamonds and Gold, for this reason many MNCs have established subsidiaries to exploit these raw materials. These subsidiaries are mainly manufacturing oriented firms. Therefore, one would expect the manufacturing firms to consider the availability of raw materials of more importance than the service firms (Hertz, 1964).

Multinational firms are usually concerned about the national labour force they will have to employ once they are established. They are very cautious about the type of labour laws agreed to, the formation of trade unions and their regulations can be harmful to the MNCs. Since the various host countries' labour differs in history, philosophy and structure, a very rigorous analysis has to be done before coming up with the labour laws and regulations. Manufacturing firms are usually more concerned about labour laws as they are the ones, under whom a large number of workers are employed. Service firms on the other hand mainly have to employ qualified staff.

Investors are likely to conduct foreign investment in a country with a well-developed infrastructure. Infrastructure includes; road, "quality of life", communication and technology. In addition, quality of life is included into this factor, which is regarded as an increasingly important incentive in attracting foreign investors and expatriates from the home country.

The cost of energy is a very important factor when a firm is engaging in foreign direct investment as energy intensive industries might be forced to move their operations overseas in order to cut energy costs. Similarly if the production facility is located too far away from the suppliers or the customers, then the transportation costs will make the company non-competitive. An example of reducing costs due to production location is the US companies that have set up operations closely connected, but on each side of the US-Mexican boarder, for the purpose of shipping goods between the two countries. US components are shipped into Mexico duty free, allowing the company to benefit from the low wages in the country, and after being assembled by Mexican workers the products are re-exported to the US.

2.2.4 General Factors

Climate as a factor is not very important for investor to base on when making investment decision. However, climate of a host country is fairly important as a probable reason in that, the technology transferred may not function effectively in a very hot or cold condition. Also a very hot or cold climate could result in breakage of transport and communication infrastructure. Similarly, it may just be a matter of convenience in that the general manager may not live in a very hot or cold climate and he may then decide not to undertake invest in that particular country abroad.

When analyzing the turnover of the largest and best known MNCs, one can see that they are extremely large amounts of money through overseas sales. At the same time, smaller companies being active in smaller economies need to look outside their home borders. Some large MNCs enter contracts with local companies and if these smaller companies are performing what they are expected to, then the MNCs might want to extend the contract and allow the local firm to supply other worldwide locations. In addition, the global markets often are considered to be much more lucrative than the domestic markets in increasing sales and profits.

2.3 The Nature of Investment Incentives Offered by the Kenyan Government.

The basic strategy of the Kenyan government has been one of indigenization. This strategy involves more than just replacement of the foreign elite by the African elite; it includes the creation of an economy responsive to the human needs of the members of the society. The structural level indignation entails production for domestic needs rather than for external needs, indigenous technology and indigenous patterns of consumption rather than imported one. This basic strategy underlies the package of potential foreign investors. The package may include general legal guarantees and International protection.

2.3.1 General Legal Guarantees

Before undertaking to invest in a foreign country, an investor needs to be assured that an unfavorable situation will not be created later. These investors gain some assurance when a favorable legal situation has existed for a sufficiently long time, or when the country's economic and political structure is so stable that there is little possibility of any radical change in the immediate future. In addition, foreign investors wish to be assured that they will avail themselves, both at present and in the future, to a definite legal treatment, specified in the relevant legal instruments and that they need not fear any major changes in local legal or political conditions that would be unfavourable to their interests.

Since the international arrangements are difficult and faced with many limitations, the need for legal guarantees to foreign investors is essentially through host country action. Normally, it is the capital-importing states that are in need of foreign capital, it is incumbent upon them to offer legal guarantees to prospective investors. In Kenya, the instruments for foreign investment guarantees are;

2.3.2 The Foreign Protection Act

Under this act, foreign investors may be issued with a certificate of Approved Enterprise provided that the proposed investment is likely to benefit the Kenyan economy. The expected resulting benefits may include; an earning or saving of foreign exchange, an increase in the economic wealth and social stability of the country by raising the national income or promoting investment diversification in the economy. Foreign investors holding the Certificate of Approved Enterprises are protected from expropriation or compulsory acquisition of their enterprises and are entitled to the repatriation of both capital and profits.

2.3.3 International Protection

Kenya is a signatory to the World Bank convention for the settlement of investment disputes. The International centre for settlement of Investment Disputes (ICSID) provides facilities for the conciliation and arbitration of investment disputes between member countries and individual investors. Recourse to ICSID is entirely voluntary. However, once the parties have consented to arbitration under the ICSID convention, neither can unilaterally withdraw its consent. Moreover, all ICSID contracting states, whether or not parties to the dispute, are required by the convention to recognize and enforce ICSID arbitral awards.

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Research Design

This research adopted a case study approach to identify the factors that influence investments in Kenya by MNCs, especially in Transport sector with a focus on Rift Valley Railways Limited. A case study was appropriate as it involves a careful and complete observation of a social unit-a person, institution, family, cultural group, or an entire community-and emphasizes depth rather than the breadth of study (Kothari, 1990). The design is valuable for an in-depth contextual analysis. This method was successfully used by Mwangi, (2003), Mcharo (2003), Kioi (2003) and Madger (1989). The pertinent primary and secondary data were collected to meet the objectives of the study. The researcher personally interviewed the respondents using the pre-prepared interview guide.

3.2 The Data Collection

The study used both Primary and Secondary data. Structured interview guide and personal interviews consisting of open ended questions was used. Pertinent data were collected from the top and middle level management of the Rift Valley Railways at the headquarters. The Rift Valley Railways (RVR) officials targeted for interviewing were the head of marketing, head of operations, head of human resource, head of finance and head of administration.

The open-ended interview guide enabled the respondents to give as much information as possible without any form of limitation. The researcher designed the interview guide on the basis of the objective of the research and the study's literature review. The primary data was supplemented by secondary data from the existing records of Ministry of Transport, Kenya Railways Corporation, Kenya Revenue Authority (KRA), Journals and organization's internal circulars.

3.3 Data Analysis

The nature of the data collected was qualitative on the basis of the factors highlighted. Data was analyzed using the contextual analysis. The interview guide was edited for completeness and consistency. The data was analyzed by looking at the factors influencing MNCs investments in Kenya with main focus on Rift Valley Railways (RVR).

CHAPTER FOUR
DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

This chapter details research findings, analysis and presentation of data obtained from the personal interview guides that were done with the various Rift Valley Railways' Top Management Officials and other essential existing records of Ministry of Transport, Kenya Railways Corporation, Kenya Revenue Authority (KRA), Journals and Internal circulars. The data is summarized and presented as a feedback report from the respondents on each of the variables in question. The data was derived from the Top management officials at the head office.

During the study, I encountered two main challenges. First, the respondents stated that, the subject of the study required them to share information that other officials considered confidential. Some respondents were suspicious about the motive of the researcher given that there is apparently some mistrust within Rift Valley Railway circles caused by the outcry from the public regarding their operation and performance. Secondly, the same respondents claimed to be "tired of being interviewed". The Rift Valley Railways appears to be attracting a large number of researchers and also most staff have signed performance contracts thus having little time to act on issues outside their designated duties.

Four Managers were interviewed, out of the five Managers targeted for interview thus giving a response rate of 80% hence reliability and validity of the data.

4.2 Parent Company Registration, Subsidiaries, Type of Investment and Mandate

The four managers interviewed cited South Africa as the parent country where the company is registered. This was an indication that the respondents were involved in policy formulation of the company (RVR), thus the reliability and validity of the information.

The four managers interviewed out of the target five cited that, there are only two countries that is Kenya and Uganda where the company have the subsidiaries. This is an indication that the RVR is small in terms of MNCs hence needs to expand rapidly to other nations within Africa and beyond

The four interviewees stated that the company is solely in business of Railway line transport services. This indicates RVR investors' full disclosure of their business dealings hence clear policy and strategy formulation by the management official interviewed. The four interviewees cited that the company's type of business in Kenya is on Concessionaire agreement of twenty five years type.

4.3 Factors that Influence the RVR Company to Undertake the Concessionaire type of Business.

The four respondents attributed the following factors as major determinants that influence the decision to undertake business investment; full disclosure of years to operate, full disclosure of the investment amount required by the Government, full disclosure of the amount to be paid to Government, after how long such payment has to be made, the expected results by the Government after the lapse of the concessionaire agreement, lack of existing competitor, existence of skilled manpower, political stability of country, strategic location of the country to other regional countries, the connection of railway line to Mombasa Port which serves all East and Central Africa, availability of raw materials in the country and also having ready clientele.

4.4 Factors Considered by Multinational Corporations when making Investment Decisions

This is the gist of this research paper and as such shall be elaborately expounded as the analysis deals with the various factors considered by Multinational firms when deciding on the host country to invest in. The respondents were asked to state the factors they find important, when considering investment in Kenya and their responses are analyzed below.

4.4.1 Investment Climate Factors

Political stability of host country as a factor was to be the main focus by the investors when making decisions on investing in a country. Most of the respondents cited this as a major factor that management of Rift Valley Railways considered when making investment decision. They indicated that Rift Valley Railways is involved in transporting huge cargo for clients within the country and others heading to various countries thus require political stability of the host country. This is in line with what the researcher expected as no company be it a multinational or local firm would like to invest in a politically unstable country due to the high risk involved.

The interviewees stated that the political stability of neighbouring countries is another factor that influences multinational corporation's decisions to invest in the host country. However, they said, even though an investor would like political stability of neighbouring countries, its absence is not one of high priority in an investment decision.

Stability of host country's currency should also be considered due to the fact that most of the service firms are joint ventures in which the partnership involved financial help from abroad. For example a company, which is a joint venture, may be financed by a foreign body such as the international Monetary Fund, which loans the money in U.S. dollars. If the Kenyan currency depreciates, the multinational firms will have to pay more than what it would have had to pay had the currency remained stable. For this reason, the financial institutions are extremely concerned about the stability of the currency. The results for price controls by government as a factor were also diverse as far as concessionaire terms are concerned. However, the results were difficult to interpret.

Three out of four interviewees cited investment incentives provided by the Kenyan government to MNCs as another factor that the investor of Rift Valley Railways considered important when making decision. They highlighted the following investment incentives provided by the Kenyan Government as determining ones, guarantee for capital repatriation, tax incentives, protection against expropriation, full ownership guarantee to investor, export compensation, international protection (Kenya is a signatory to the world bank convention for settlement of investment disputes (ICSID), general legal guarantee, the foreign protection act and import compensation. This is in line with our literature review. The government allows importation of all spare parts, cranes, railway engines, etc by the investor in to country duty free.

4.4.2 Cost Factors

Only two interviewees out of the four interviewed stated that labour laws is a factor the investors will look at before making decision to invest in Kenya. These laws are not to some extend of prime considerations in an investment decision, probably because these laws are usually not as stringent as those in the MNCs home countries. The four interviewees cited availability of raw materials as the one of the factors investor will analyze before coming to Kenya to invest in transport sector. The railway line is considered important in transporting cargo from various sources of raw materials (that is, Magadi Soda, Maize, wheat etc) to the processing destination. As stated in the literature, many multinational firms have set up subsidiaries in various parts of the world, mainly because of the availability of raw materials in those areas.

Availability of technology as a factor was cited by all the four respondents as a requirement needed by investor of Rift Valley Railways. Even though the multinational firms usually bring their own technology, they still value the availability of other appropriate technology.

Availability of capital as a factor was also cited by all the four respondents as a requirement needed by investor of Rift Valley Railways to win the concessionaire agreement and also funds to build new railway lines and purchase more engines and coaches. This is quite logical, because capital is required for any investment to expand and grow.

The four interviewees positively identified infrastructure as a factor that the RVR investors considered when entering into concessionaire agreement with the

Government of Kenya. The infrastructure includes;- the availability of unrestricted communication networks/technology throughout the country and her neighbouring countries and rest of the world, existing railway line that only needed improvement and also “good quality of life”. This was regarded as an increasingly important incentive in attracting the investor of RVR and the expatriates to work in RVR.

4.4.3 General Factors

Three out of four interviewees stated that climate is a determining factor to consider before making investment decision. The Rift Valley Railways investors' considered the Kenyan climate important in any investment decision. The reason for this was due to the fact that a very hot or very cold climate could result in breakage of transport and communication, which could prove harmful to the multinational firm investment portfolio. The Rift Valley Railway Company relies heavily on transport and communication thus require favorable climate conducive to their business operations.

The four interviewees attributed the increase of sales and profits as a determining factor by the investor of RVR. They argued that, though they are not involved in direct sales of products instead they offer transportation services at a price for their clientele with an aim of making profits. They ventured in transport sector especially railway line transport after seeing no competitor to compete with.

The four interviewees strongly cited entering rapidly growing markets as one factor that the investor of RVR analyzed before making the decision to invest in Kenya. They argued that Kenya being the hub to East and Central Africa with the Port of Mombasa serving all these countries, had potential markets that were yet to be fully exploited especially in the Railway transport sector which has no competitor, but serving so many of these countries. The ban by the Government for transporting of heavy cargo and containers by road also contributed to the investor consider this factor to important as the Government was trying to off load heavy containers to be transported by road to railway line thus in agreement with the literature review.

CHAPTER FIVE
SUMMARY, DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The importance of carrying out the study to determine the factors influencing investment in Kenya by Multinational Corporations (MNCs) in transport sector, the case of Rift Valley Railways Ltd cannot be over emphasized despite the challenges encountered. The RVR is yet to cause any impact on service delivery to the two nations despite enjoying all the factors that influenced its investment in both Kenya and Uganda.

5.2 Summary, Discussion and Conclusion

The findings reveal that the Rift Valley Railways Ltd investors critically analyzed all the factors favourable for investment in the country before making the decision of undertaking concessionaire type of business. The researcher established that factors such as; knowledge and experience of the foreign markets, size and growth of the foreign markets, Government emphasis on FDI and financial incentives, economic policy, cultural closeness, cost of transport, materials and labour; availability of resources, technology, political stability (that is, political stability of host country and political stability of neighbouring country), availability of capital, availability of raw materials, availability of labour, conducive climate, availability of investment incentives, infrastructure, increase of sales and profit, entering rapidly growing markets, reduced operation costs and the Government general legal guarantee that includes foreign protection Act and international protection (that is, ICSID) contributed immensely to the investors' decision to invest in Railway line services in both the two countries (Kenya and Uganda). The above factors are in line with the literature review hence the reliability of the study.

The findings also revealed that the parent company is registered in South Africa and has only two subsidiaries all in Africa that is, Kenya and Uganda undertaking their core mandate in railway line transport services under concessionaire type of agreement of twenty five years reviewed after five years of initial investment. The researcher came to a conclusion that the company is at its initial expansion strategy to many other countries.

According to the research, some of the factors highlighted by the respondents of Rift Valley Railways on investment within the transport sector in Kenya, such as political stability of the neighbouring country and cultural closeness, were not of great consideration by investors of RVR.

5.3 Limitation of the Study

The limitation of the study was the concentration on the head office management staff and not the branch network staff. This was mainly because the majority of the target group was based at the head office. Furthermore, the research embraced the top management of the RVR and it could be enriched by embracing a bigger number of respondents ranging from the very lower cadres to the top most, and may be this would have broadened the ideas got from the personal interviews of the top management team.

5.4 Recommendation for Further Research

Further research can be undertaken to incorporate the wider non-management staff of the RVR. More so the organizations that can be studied are far more in number. Diversity in emphasis on the target study group can be made to include other variables that are of great influence to MNCs decision to invest in the host country. Further research can be made targeting the wider branch network so that the total perspective of the organization can be studied. Further research can also be undertaken to analyze the performance of Rift Valley Railways Ltd after concessionaire period.

5.5 Recommendations for Policy Makers of the RVR

Further studies can be done by examining other organizations if any that has engaged in concessionaire type of business. More so, the data collected can be made open to include the views of the various lower cadre staff in the organizational structure. Also studies can be taken to establish how other sectors have responded to concessionaire type of agreement, besides the transport sector especially the railway line services and the factors they consider favourable to the investment in host country so that the cumulative findings will provide relevant and additional information to the study of factors influencing investment in Kenya by Multinational Corporations (MNCs) in transport Sector.

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APPENDIX 1: INTRODUCTORY LETTER

University of Nairobi,

School of Business,

P. O. Box 30197.

NAIROBI

Dear Sir,

RE: RIFTY VALLEY RAILWAYS LIMITED;
A CASE STUDY

I am a postgraduate student in the School of Business, University of Nairobi. I am conducting a management research project titled: Factors influencing Investment in Kenya by Multinational Corporations (MNCs): The Case of Rift Valley Railways Limited. This is in partial fulfillment of the requirements for Masters of Business Administration Degree Programme.

In view of the responsibilities you hold in this company, you have been selected as one of the respondents to this interview guide. The information collected will strictly be used for academic purposes and will be treated in strict confidence. A copy of the research project will be made available to you on request.

Your assistance will be highly appreciated.

Thank you.

Yours faithfully,

G. C. Sigei   Eliud O. Mududa

APPENDIX II: INTERVIEW GUIDE

The following are issues to be tackled by the respective respondents in Rift Valley Railways.

1) In which country is your parent company registered?

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2) In how many countries does your parent company have subsidiaries?

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3) How many of the above mentioned subsidiaries operate in Africa?

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4) What is the core mandate of your company?

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5) What do you consider your investment in Kenya to be?

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6) From the above answer provided in question 5, what factors prompted you to enter into such type of investment in Kenya?

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7) What factors do you consider important when investing in a developing country? …………………………………………………………………

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8) What nature of investment incentives does the government of Kenya offer to your organization?

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9) Please state any other issue that you may consider relevant to this research

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APPENDIX III: TRAFFIC TRANSPORTED BY RAILWAYS BETWEEN 1978 AND 2005 IN MILLION TONES

Year	1978	1980	1982	1984	1989	1990	1992	1993
Load	3.85	4.5	4.2	3.6	3.55	3.47	3.09	2.5

year	1996	1998	1999	2000	2001	2002	2003	2004
Load	2.6	2.1	2.36	2.33	2.23	3.14	2.0	1.78

Source*: KRC Corporate performance indicators 1978-2004,*
Kenya Railways Corporate Plan 2005-2010