ROLE AND IMPACT OF EPZ IN ATTRACTING FDI IN EPZ APPAREL AND TEXTILE INDUSTRY IN KENYA

BY

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UNITED STATES INTERNATIONAL UNIVERSITY - AFRICA

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A Research Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the Requirement for the Degree of Masters in Business Administration (MBA)

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I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University - Africa in Nairobi for academic credit.

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This project has been presented for examination with my approval as the appointed supervisor.

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ABSTRACT

The main objective of this study was to investigate the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The study was guided by the following specific objectives: To establish the determinants of foreign direct investments in apparel and textile industry, to identify the barriers of foreign direct investments in apparel and textile industry and to examine the implications of foreign direct investments in apparel and textile industry.

Descriptive statistical analysis was used to analyze the collected data. The study adopted a survey research design using both quantitative and qualitative approaches. The target population of this study comprised of 366 EPZ employees from 17 companies that deal with apparel and textile. One hundred and eighty nine (189) employees was selected as a sample for this study. Questionnaires were used to gather research information. Some of the tools used for analysis included mean, percentages. The advantage of descriptive statistics is that they enable the researcher to use one or more numbers (for example mean and standard deviation) to indicate the average score and variability of scores of a sample. Inferential statistics was used to analyze relationship between variables. This was done through correlation and regression analysis.

The findings on the determinants of foreign direct investments in apparel and textile industry indicated that tax incentives are among the most outstanding investment promotion initiative made available for FDIs. FDIs may seek to partner with governments when seeking alternate sources of capital or expertise to fund and operate large infrastructure projects or to seed with more established corporations. The development of conducive economic and legal framework attracts FDIs. The availability of physical infrastructure affects the decision of FDIs in selecting the investment place. Also, FDIs may be undertaken to exploit new markets.

The findings on the barriers of foreign direct investments in apparel and textile industry indicate that there is lack sound financial base. The fluctuation of exchange rates can have a significant bearing on the cost of delivering a project among FDIs. High inflation will lead to a rise in production cost. Long term survival of FDIs ventures is affected by corruption. Corruption can also have undesirable consequences on both the revenue and
expenditure of FDIs. The lack of technical capabilities is evidently the reason of why major construction projects are awarded to the few large foreign contractors. FDIs also face cultural differences as a barrier to organizational performance.

The findings on the implications of foreign direct investments in apparel and textile industry established that there is advanced managerial skill and enhances internal efficiency and international competitiveness. FDIs are important in creating more employment and lead to economic growth. FDIs firms have a higher level of labour quality in their employment composition than domestic firms. FDIs play an important role in poverty alleviation through the provision of higher wages. FDIs advance managerial skills which are important for the economic development of companies. FDIs significantly drive the delivery of project management capabilities leading to a significant growth as compared domestic investment.

The study concludes that tax incentives available may have a significant impact in attracting foreign direct investments. The barriers of foreign direct investments in apparel and textile industry indicate that there is lack sound financial base. Corruption can also have undesirable consequences on both the revenue and expenditure of FDIs. FDIs are important in creating more employment and lead to economic growth. The study recommends that tax incentives should be intensively used to attract FDIs. Sound financial base is an important factor for the survival of FDIs. The transfer of technology and acquisition of advanced managerial skill should be emphasized to enhance international competitiveness of the business alliance.
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DEDICATION

This project is dedicated to my husband and children who have been patient and kind with me as I committed a lot of time in writing this project. I also dedicate this work to my mother, sisters and brothers for their support and encouragement.
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CHAPTER ONE

1.0 INTRODUCTION
1.1 Background of the Study

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

Kenya has been involved in Global trade for many years, but mainly in the agricultural sector and with the US congress passing the African Growth Opportunity Act (AGOA) in 200 enhanced the formation of the Export processing Zones (EPZ) in Kenya, there is renewed interest in the once declining apparel manufacturing industry with the inflow of Foreign Direct Investments into the apparel sector mainly within the Export zones in order to reap the incentives offered by the EPZ scheme. Foreign Direct Investment is a source of capital and it provides other potential benefits to host countries which include technology, new management skills, job creation and at the same time may face challenges like political uncertainty, corruption, macroeconomic uncertainty and social-cultural differences.

Foreign Direct Investment involves the transfer of resources including capital, technology and personnel. It can also involve the acquisition of existing establishment. Direct ownership provides a high degree of control in the operations and the ability to better know the consumers and competitive environment. However, it requires a high level of resources and a high degree of commitment. FDI is an important element of economic development in all countries especially the developing ones, as they often regarded as generators of employment, high productivity, competitiveness, higher exports, access to international markets and international currencies. The advantage of technology transfer
by spillover to local firms may assist the host country in its technological developments to further its industrialization.

FDI provides positive net benefits to the host country. Many countries provide a range of incentives to entice FDI that include tax and duty concessions and guarantees against nationalization. Tax concessions include tax holidays, accelerated depreciation and exemption of investment income from corporate income tax. FDI is one of the most important international resources in a developing country. The host country firms can utilize the world wide network of FDI’s in order to venture into the international market. In Kenya, the level of FDI has been low, very unstable and predictable due to insecurity, corruption, poor infrastructure, high utility cost, interest rates and limited legal recourse that has affected investor confidence.

Global FDI inflows declined in 2014. Global foreign direct investment (FDI) inflows fell by 16 per cent to $1.23 trillion in 2014 and slightly rose to $2.136 in 2016. But the decline was mostly attributed to the fragility of the global economy, policy uncertainty for investors and elevated geopolitical risks. New investments were also offset by some large divestments. United States had the highest inflow of FDI at $ 379 billion, followed by China at $250 billion, Ireland at $ 203 billion, Hong Kong 180 billion and Switzerland at $ 120 billion. In Africa, Angola was the leading with investments worth $ 9.3 billion, followed by Egypt $ 6.9 billion, Mozambique $ 3.9 billion, Morocco $ 3.2 billion, Ghana $ 3.1 billion and Nigeria 3.1 billion as the top five in the continent. Regionally, Ethiopia had FDI worth $ 2.2 billion, Tanzania $ 1.97 billion, Sudan 1.7 billion, Kenya $ 1.4 billion, Uganda $ 1.06 billion and Somalia $ 0.52 billion. Africa continues to seek FDI for sustained economic growth. Many countries continue to get involved in intraregional investments and trade agreements at a higher rate.

In Kenya, FDI was attributed by the country’s advantage as a regional business hub as well as the discovery of oil and gas explorations. In Ethiopia, most of the investments were driven by the manufacturing industry where Asians were sought to carry out investment opportunities in the sector (UNCTAD, 2014). In some countries such as South Africa and Mozambique, the infrastructure investment was the key attraction in the two countries. There was also gas exploration in Mozambique. Investment among African
countries also played an important part in FDI inflows and this was led by South Africa, Kenya and Nigerian TNCs. Cross border investments has also increased by 18 percent of the total FDI inflow in Africa. For many smaller countries in Africa, which as landlocked or lack natural resources such as oil, intra-regional FDI account for a larger portion of foreign capital (UNCTAD, 2014). The intra-regional investments were mainly focussed in the manufacturing and the services sector. This could contribute to the economic development of the African countries. However, many sub-regional groups, intra-groups FDI form only a small portion of intra-Africa inflows. The East African Community (EAC) contributes about half of intra-group FDI in Africa while more than 90 percent of intra-group FDI was contributed by South African Development Community (SADC). A large proportion of these investments in the regional economic cooperation (RECs) were driven by Kenya and South Africa (UNCTAD, 2014).

Over the past decade, the popularity of Export Processing Zones (EPZs) has grown in many countries across the global south. There are now over 4,000 EPZs, which is over 3,000 more than 20 years ago (Yang and Ai, 2014). EPZs have been producing clothes, shoes, sneakers, electronics, and toys. The basic objectives of economic zones are to enhance foreign exchange earnings, develop export-oriented industries and to generate employment opportunities. Some countries have made the promotion of such zones central to their economic development strategies, while others have questioned their contribution to national development (Edelman, Oya and Borras, 2013). Meanwhile, the increasing implementation of international trade rules mean that some of the traditional incentives for EPZs, such as tax breaks for exports, are no longer in line with WTO rules. In that context EPZs, also called Special Economic Zones (SEZs), need to innovate new means of maintaining and developing their competitiveness (Bendell and Doyle, 2014).

The exact nature of the advantages used to attract investment can vary considerably from one zone to another (Yang and Ai, 2014). Common advantages or benefits provided in EPZs include preferential tax or duty treatment or exemptions from restrictions on the repatriation of profits, direct subsidies and enhanced physical infrastructure, as well as expedited permitting and related services (Edelman, Oya and Borras, 2013). These industrial zones may be administered by national, regional or local governments, by the private sector, or in some form of partnership. The OECD describes EPZs as “a policy
tool for development and export oriented growth”. EPZs have been a popular policy tool to attract export-oriented FDI. Most EPZs are located in developing countries and focus on light manufacturing activities (Waters, 2013). The ILO identifies nearly 30 unique forms of EPZs ranging from zones in China which encompass entire provinces to much smaller fenced-in economic zones. In addition to playing an important role in global value chains and providing a vehicle for FDI, EPZs can act as a mechanism for host countries to develop light manufacturing skills and a competitive industrial labour force (Gereffi and Bair, 2010).

In effect, EPZs can provide a platform for developing the infrastructure and regulatory environment in a country that enables concentrated business activity to take place in a geographically limited area. EPZs offer policy makers a more manageable scale, when compared with the challenges associated with developing the infrastructure of industrial activity and concomitant regulatory environment to operate on a region or country-wide basis (Bendell, Miller and Wortmann, 2011). From a development perspective, a positive initial experience at the EPZ level can be scaled up to be adopted on a more widespread basis across a region or a country. In essence, EPZs can be regarded as laboratories for application of new approaches to be applied on a limited basis before more widespread application elsewhere in a country (Bendell and Doyle, 2014). Thus, it has been argued that improved infrastructure found within EPZs does, in some cases; spill over to other parts of the country as economic development progresses. Aside from direct fiscal incentives, EPZs can provide a variety of other benefits such as pooled resources for infrastructure that enhances the efficiency and effectiveness of operations within the zone. All of these benefits are intended to improve the ease of doing business within the zone (Waters, 2013).

The competitiveness in the industry suggests that changes taking place in the global market mean that Export Processing Zones (EPZs), and Special Economic Zones (SEZs) more generally, can be restructured as centres of excellence for sustainable development. Such restructuring would increase the appeal of EPZs to multinational enterprises (MNEs) and their suppliers, while simultaneously contributing to the implementation of the Sustainable Development Goals (SDGs), also known as ‘Global Goals’ (Bendell, Miller and Wortmann, 2011). The report argues that EPZs face a strategic challenge as
traditional tax incentives for attracting companies into zones become incompatible with international trade law and exemptions for developing countries expire (Siroën and Yücer, 2014).

Also, the EPZs can enhance competitiveness through a ‘role reversal’: switching from a narrow focus on cost advantages and lower standards to become champions of sustainable business. EPZs can find new grounds for competitiveness through meeting the growing expectations on MNEs and their suppliers to exercise good social and environmental practices. The “Next generation” EPZs can gain a competitive advantage by not only providing conventional commercial benefits (such as modern infrastructure and expedited permitting), but by also providing cost-effective support for good environmental and social practices for firms operating within their boundaries (Gereffi and Bair, 2010).

1.2 Statement of the Problem

The establishment of export processing zones (EPZs) as a means of attracting foreign investment and promote manufactured exports has become a widely applied industrial policy approach in a broad range of developing countries. EPZs in 116 countries employed 43 million people. The role played by EPZs in promoting industrialization in developing countries has always been a controversial topic. Experience in many countries, in particular in Asia and Africa continent, has shown that these zones can contribute substantially to the generation and promotion of manufactured exports and to the provision of productive employment opportunities. However, they have more often been characterized by a concentration on only a few industrial branches, by the use of simple and fragmented production technologies, and by a lack of backward linkages with the domestic economy.

The entry method decision by managers of FDI is also very critical as any wrong decision can be very costly to the organization in terms of time and resources. At times the decisions can be irreversible once made and could instill a lasting impact on the operations of the firm and its existence. There are a number of challenges which have been identified that could lead to poor FDI and they include, macroeconomic instability, low growth, weak infrastructure, poor governance, hostile regulatory environments and ill conceived investment promotion strategies. It is on this basis that the study aims to
investigate the impact of EPZ in attracting FDI as there have been many mixed results regarding the impact of the same. Mugambi (2011) conducted a study on the knowledge of market entry strategies used by FDI by looking at the influencing factors. Mabruki (2005) investigated the determinants of FDI in Kenya in general without a specific focus on EPZ or apparel industry. Wanyama (2002) conducted a study on the factors that affect the operations of EPZ which was a general analysis. Otieno (2007) studied the factors influencing long term performance of EPZ-AGO Textile Exporting firms within Nairobi which cover one geographic location. Githaiga (2013) looked at the impact of tax incentives on FDI inflows if firms listed at the NSE and the results revealed there was a strong relationship between wear and tear allowances and FDI inflows. But investment in securities exchange is different from EPZ industries. Wanjiku (2016) also looked at the impact of foreign direct investment generally on economic growth in Kenya but there were still gaps in the EPZ industries. Hence, it was to the best knowledge of the researcher that the current study investigates on the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya.

1.3 General Objective
The main objective of this study was to investigate on the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya.

1.4 Specific Objectives
The study was guided by the following specific objectives:
1.4.1 To establish the determinants of foreign direct investments in apparel and textile industry.
1.4.2 To identify the barriers of foreign direct investments in apparel and textile industry.
1.4.3 To examine the implications of foreign direct investments in apparel and textile industry.
1.5 Importance of the Study

1.5.1 Apparel and Textile Industry
Understanding the challenges faced by apparel and textile industry in Kenya is relevant to the industry in general and to the practitioners in particular as it provides local framework to evaluate future negotiations, launch planning and attraction of foreign direct investment in the industry.

1.5.2 Citizens
The study is also important to the general public given the high significance of developments in the Kenya’s apparel and textile industry and their impact on the overall economy.

1.5.3 Government
The findings of the study can have important policy implications for Kenyan government. First, by exploring the determinants of FDIs, the study will provide useful information to policy makers in their quest to formulating and modifying investment strategies aimed at encouraging inward FDI into sectors with greater potential linkages and spillover effects. Second, Knowledge on factors explaining the attraction of foreign direct investments will inform policy on reforms needed to facilitate engagement with different partners. Finally, the findings on the FDI effects can be useful in designing investment strategies in the country. The findings can shed light on the reforms needed to encourage FDI for sustained economic growth.

1.5 Scholars and Practitioners
The study is important to scholars and practitioners in Strategy as it contributes to the body of knowledge on joint ventures management. It is hoped it will be used as a reference and will stimulate further research.

1.6 Scope of the Study
The study was carried out among individual employees at EPZ Kenya. The employees come from different nationalities across the world. The target population of this study comprised of 366 EPZ employees from 17 companies that deal with apparel and textile. One hundred and eighty nine (189) employees were selected as a sample for this study.
Questionnaires were used to gather research information. Some of the tools used for analysis included mean, percentages. The survey was done in the month of March to April 2017.

1.7 Definition of Terms

1.7.1 African Growth and Opportunity Act (AGOA)
The African Growth and Opportunity Act is a piece of legislation that was approved by the U.S. Congress in May 2000. The purpose of this legislation is to assist the economies of sub-Saharan Africa and to improve economic relations between the United States and the region (Bendell, Miller and Wortmann, 2011).

1.7.2 Export Processing Zone (EPZ)
An export-processing zone (EPZ) is a specific type of FTZ, set up generally in developing countries by their governments to promote industrial and commercial exports. Export processing zone offers firms free trade conditions and a liberal regulatory environment. Its objectives are to attract foreign investors, collaborators, and buyers who can facilitate entry into the world market for some of the economy's industrial goods, thus generating employment and foreign exchange (Waters, 2013).

1.7.3 Foreign Direct Investment (FDI)
The main objective of this study is to investigate the impact of EPZ in attracting foreign direct investment in Kenya (Yang and Ai, 2014).

1.7.4 Tax Holiday
A tax holiday is a temporary reduction or elimination of a tax. It is synonymous with tax abatement, tax subsidy or tax reduction. Governments usually create tax holidays as incentives for business investment (Waters, 2013).

1.7.5 Textile Industry
A textile can be defined as clothing or material made of natural or artificial fibres (yarn or thread) that are produced by spinning raw fibres of wool, flax, cotton, hemp, or other material to produce long strands. Textiles are formed by weaving, knitting, crocheting,
knotting, or felting. The word industry is used to describe the textile assembly trade (Yang and Ai, 2014).

1.8 Chapter Summary
This chapter addresses the nature and the issues of EPZ in attracting foreign direct investment across the globe and in Kenya. The chapter also mentions the statement of the research problem, the objective of the research, specific objectives, significance of the study, the scope as well as the definitions of the terms used. The subsequent chapters provide literature review on the determinants of FDI in the apparel and textile sector, the barriers of FDI in apparel and textile sector and the implications of FDI in the apparel and textile sector in Kenya. Chapter three is on the research methodology. Chapter was on results and findings. Chapter five is on the summary, discussion, conclusion and recommendations.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

The general objective of this study was to investigate on the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The first section of the literature review studies on the determinants of FDI in the apparel and textile industry. The second section of the literature review will investigate the barriers of FDI in the apparel and textile industry and the third section will examine the implications of FDI in the apparel and textile industry. A chapter summary will be provided.

2.2 Determinants of Foreign Direct Investment in Apparel and Textile Industry

2.2.1 New Resource

One of the most important factors to attract FDI is the advantage in competitive production factors. The production factors can include skilled labour, agricultural products or natural resources such as minerals that is largely untapped. The production of oil is among the highest in Africa (Sarpong, 2009). With the globalisation of the world economy and the liberalisation of international trade, unemployment and lack of technological knowhow in the production of new resource, foreign investors have come in to fill in the gaps. Multinational companies through FDI have provided the technology and employed people in sharing the gains of new resources in the country (Ozorhon, 2007). FDI is in this case not necessarily conducted in order to reach new customers but instead aimed at servicing current customers (Hitt et al., 2005).

They identify the Dutch disease and Rent-seeking activities as culprits in this process. The Dutch disease manifests itself as “de-industrialization” where the manufacturing and non-resource sectors collapse as a result of resources being diverted into natural resource production. By diverting resources like domestic investment, the natural resource sector has been described as “crowding out” the other sectors. For instance, Tietenburg (2006) comments that: “large rents in natural resource sector, “crowds out” most resources, including investment, thereby leading to underdevelopment”. Both authors drive home the point that ultimately, economy-wide employment and long-term growth suffer and
are negatively impacted. Another element of the Resource Curse is Rent-seeking activities.

Sarpong (2009) discusses earlier arguments that propose that resource-endowed countries have poor institutions because of high economic rents. They argue that rents from the thriving resource sector generate high corruption, inadequate red tapes as well as poor government efficiency. They depict an image of a “feeding frenzy” where government officials scramble to have a piece of the national cake. They argue that such inefficiencies depress investment demand and innovation because of special-interests groups and ultimately lead to a negative impact on growth. In effect the resource sector becomes the center of attention of the whole economy thereby leaving no incentive to diversify other sectors. The end result is a downward spiral leading to economic slowdown. Hitt et al. (2005) comment that because rent seeking is a ‘dead weight loss”, activities that promote rent seeking activities are detrimental to overall growth. The authors find a positive correlation between growth and good governance as well as with legal institutions. The implication is that these factors are pivotal for growth.

2.2.2 Market Size
Expanding internationally through FDI will often be caused by companies seeking to increase turnover and, hopefully, profits by entering new markets. Entering new and distant markets is often not feasible through export due to factors such as logistical costs and import taxes as well as lack of knowledge on local consumer demands. Market-oriented FDI aims to set up enterprises to supply goods and services to the local market. This kind of FDI may be undertaken to exploit new markets. Apart from the traditional reason for circumventing tariff barriers, the market size, prospects for market growth, and the degree of development of host countries are very important location factors for market-oriented FDI (Jamil, Mufti and Khan, 2008). The general implication is that host countries with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and, therefore, will attract more market-oriented FDI (Lim and Liu, 2011). Even for export-oriented FDI, the market size of host countries is important because larger economies can provide larger economies of scale and spill-over effects (Harrigan, 2008).
2.2.3 Physical, Financial and Technological Infrastructure

It can be presumed that the availability of physical infrastructure affects the decision of FDI in selecting the investment place. The more highways, railways and interior transport waterways are adjusted according to the size of the country, the more FDI inflows (Gale and Luo, 2004). Another important variable is the level of telecommunication services. Higher levels of telecommunications services will save time and reduce the costs of communication and information gathering, thus facilitating business activities (Cisibis, 2007). Research confirms the assumption supported by other empirical studies that countries with more developed infrastructure are likely to succeed in attracting FDI (Fugar, Owusu-Manu and Adinyira, 2009). The same inference can be made for the technological infrastructure. Larger firms often buy smaller firms in order to acquire new technologies, a common occurrence in the medical and biotech industries for instance. In this way the acquiring firm can take advantage of the often more entrepreneurial and innovative culture in smaller firms which often lead to development of superior technologies. According to Ghoshal (1987), doing business in a global market may also in itself aid development of diverse capabilities as companies are subjected to a multitude of stimuli by operating in different environments. This should provide multinationals with greater opportunities for organizational learning (Gale and Luo, 2004).

2.2.4 Economic and Legal

The development of conducive economic and legal framework attracts FDI (Sarpong, 2009). It is important for a country to promote a more transparent business environment and legal framework if it is to attract FDI. Some countries has been relaxing some trade restraints and liberalising the areas of restricted investment while streamlining its legal system concerning FDI (Debrah, 2012). Foreign participation in FDI brings advanced managerial skill and enhances internal efficiency and international competitiveness in the production of apparel and textile products. Considering all the measures to attract FDI, significant work still lies ahead in improving the economic and the legal environment (Assibey-Mensah, 2009).
2.2.5 Investment Protection and Promotion Investment Protection
The law of FDI has a major impact on how foreign companies meet their obligations in the host market. The protection of FDI allows the legal rights of all parties while allowing them to determine their own remedies for dispute resolution and breach of contract and to promote foreign investment (Jamil, Mufti and Khan, 2008). While the law is viewed as a step in the right direction with regard to transparency and procedure, the real enforcement still has significant shortfalls. Sometimes, foreign investors obtain incentives and benefits after direct negotiation with the relevant government authorities since some of these may not be conferred automatically (Sackey, 2008). The incentives available include significant reductions in national and local income taxes, land fees, import and export duties, and priority treatment in obtaining basic infrastructure services. Tax incentives, which are among the most outstanding investment promotion policies, were also made available for FDI (Matthews, 2009).

2.2.6 Mitigation of Execution Risk
Certain FDIs and business alliances are motivated by the need to share what are often significant up-front risks in developing new products and new business models. They can also be utilized as a means to providing access to efficiencies through the sharing of scarce functional expertise or resources spreading the risk (Fugar, Owusu-Manu and Adinyira, 2009). Also, where economies of scale are present, it makes sense to increase the customer base internationally and thus increase production volumes, as this will lead to lower average costs for products which will increase the company's competitiveness (Ghoshal, 1987). This is especially the case when it is feasible to concentrate production at a few international locations, preferably where production and logistics costs are lowest, which can then supply nearby markets.

2.2.7 Cash Preservation
Non-monetary exchanges and asset swapping arrangements have been considered across a variety of industries as a way to reweight portfolios and transact in cash-constrained environments (Matthews, 2009). However, it is especially difficult to identify the right partner, arrive at mutually acceptable terms and negotiate values and structure with these types of arrangements (Sarpong, 2009).
2.2.8 New Sources of Funding and Opportunities
A lack of available investment capital or a low appetite for risk is another motive behind FDIs and business alliances. Corporations have looked to partner with financiers such as private equity funds, hedge funds and sovereign wealth funds to co-invest in their strategic targets (Assibey-Mensah, 2009). These arrangements are often extremely complex structures with put and call options and decision triggers that can result in a divergence of ownership interests around factors such as business strategy, the venture’s life-cycle and other exit motives. The partners need to ensure these scenarios are thoroughly evaluated and fully contemplated at the negotiation and implementation stage in the FDI or business alliance (Cisibis, 2007).

2.2.9 Divestment of Sub-Scale and Non-Core Businesses
Earnings pressure without top-line growth has put the spotlight on restructuring, cost-cutting and portfolio realignment. Such initiatives are often achieved via FDIs or some form of business alliance (Cisibis, 2007). More commonly, FDIs and business alliances are being utilized as a means of achieving a step divestment of a non-core business or function, or to combine a sub-scale business with a supplier or competitor in order to achieve a desired scale and potential for future profitability that benefits all parties (GIPC, 2010). In addition, these arrangements are being utilized to achieve a divestment where a value gap exists through the retention of a minority interest, or inclusion of seller financing. However, such structures may not provide an immediate or high infusion of cash and they can complicate deconsolidation accounting (Adnan, 2008).

Companies may seek to lower their risks by diversifying into additional markets through FDI and thus lowering their dependence on the business cycles of single markets (Hitt et al., 2005). For this reason, MNEs generally diversify their FDI investments geographically so as “not to put all their eggs in one basket” (Rugman 1979). Other risks which could be lowered by FDI are policy risks from unfavourable national legislation, competitive risks from lack of knowledge on competitor’s actions and resource risks such as dependence on a single source of an important raw material for production (Ghoshal, 1987).
2.2.10 Access to Government Sponsored Projects
Governments seeking alternate sources of capital or expertise to fund and operate large infrastructure projects or to seed the establishment of local businesses are increasingly willing to enter into FDI or business alliance vehicles such as Public Private Partnerships (PPPs) and sovereign wealth fund investments with more established corporations (Kumaraswamy, Palaneeswaran and Humphreys, 2010). These relationships also act as a pipeline for established businesses to expand with attractive new business opportunities in emerging markets and technologies (Matthews, 2009).

2.2.11 Accounting and Tax Rule Changes
In certain cases, accounting and tax rules are the motivating factors for a FDI or business alliance. These include potential gain recognition; off-balance sheet financing and pass-through structures that may allow tax gain deferral and accelerate the use of tax attributes (Kogut, 1988).

2.3 Barriers of Foreign Direct Investment in Apparel and Textile Industry
2.3.1 FDI has Increased Domestic Competition
FDI overtakes domestic firms collectively in industrial production. FDI holds large outputs shares and are relatively highly profitable then domestic firms (Matthews, 2009). Domestic firms may lose their competitiveness to FDI leading to lower profits. Stronger competition has thus resulted in state-owned enterprises having much poorer financial performance than others (Matthews, 2009). Domestic and foreign firms face stronger competition from imports. For instance, it can be expected that capital-intensive industries (namely, vehicles, electric and electronic goods, machinery) will be negatively affected by increased import competition. The actual effect of import liberalisation on the different categories of firms will depend on their sector specialisation (Kumaraswamy, Palaneeswaran and Humphreys, 2010). FDI, which are specialised in labour intensive industries, will be less affected than state owned enterprise. However they are also strongly involved in some capital-intensive sectors, such as the car industry, and will have to withstand import competition since tariffs of cars will be lowered (Acquaah, 2009).
However, there is no evidence to suggest that domestic firms have suffered from the competition of partially foreign owned enterprises, which would have displaced their exports. This results from the fact that domestic and foreign firms have followed divergent specialisation trends (Harrigan, 2008). Duties exemptions also seem to have played a role in the difference in export competitiveness in favour of foreign firms. Virtually all imports of machinery by foreign own enterprises benefit from duty exemptions, as they corresponded to initial equity investment or to assembly trade (Debrah, 2012). Imports of machinery by foreign owned enterprise represent majority of the total amount of machinery and equipment imported by the host country (Kumaraswamy, Palaneeswaran and Humphreys, 2010). This means that less imported equipment is directed to domestic firms, which in turn accounted for more domestic industrial production. This unequal access to imported equipment has certainly been a contributing factor in domestic firms’ performance (Agyakwa-Baah, 2009).

2.3.2 Economic Disparities have increased
Researchers suggest that FDI has strongly influenced the economic openness of the economy (Yan and Luo, 2011). Worldwide, the concentration of FDI in the oil sector has grown even faster than in other sectors (Sackey, 2008). While in some countries, the rapid expansion of the exports in the apparel and textile sector has led to increased international trade and production networks at the expense of local apparel and textile sectors. This suggests that FDIs positive association with income inequality as observed in previous studies equally applies to resource-endowed countries. Debrah (2012) argue that the inequality is rooted in the wage gap between the resource sector and the other sectors caused by the demand for and shift in labor from the non-traded sector into the resource sector. The notion of sector transitions inducing inequality in the short-term parallels Kuznets hypothesis. He argues that inequality is a result of workers moving from the agriculture sector to the industry sector or rural workers migrating to urban jobs.

Consequently, this problem can be addressed with diversification (development of other sectors) along with policies that improve institutions and enhance trade. In regression 5.4 we find evidence that a country’s level of openness decreases income inequality. Following Barro (2000)’s argument about the role of credit in an economy, we introduce the financial depth variable in regression 5.5. This variable reflects the financial
development and relevance of credit in a country. Yan and Luo (2011) finds that a negative effect (a decrease) on income inequality though not significant. Other result reveals that while FDI decreases poverty, elements of the natural resource curse which characterize resource-abundant countries, undermines and reverses this effect (Debrah, 2012).

### 2.3.3 Cultural Differences

The international joint venture faces cultural differences as a barrier to organizational performance. However, getting to know and understand different cultures through acculturation, may offer the mechanism to help overcome the barriers, between partners, that are raised by cultural differences (Fugar, Owusu-Manu and Adinyira, 2009). Acculturation has been defined as changes induced in (two cultural) systems as a result of the diffusion of cultural elements in both directions (Berry, 1980). These changes become manifest in trust between the parties. Trust is also defined as the perceived likelihood of the other not behaving in a self-interested manner (Madhok, 2006). Managers are said to be discovering the key role that mutual trust plays in the success of international organizations and projects (Li et al., 2006).

Trust can bring a number of important benefits to cross-national collaboration, as evidenced by its association with superior performance. As Child (2001) explains, trust generates willingness to overcome cultural differences and to work through other difficulties that arise in collaborations. Relationship building between partners is a challenge for all cooperative alliances, but especially for FDIs where trust is particularly difficult to build, because partners may differ widely in their cultural background and business operations. However, trust partners can purposely shape the trust process toward familiarisation (Li et al., 2006). To summarise these arguments and observations, both national and organisational cultural differences may adversely affect performance of organizations, but trust may help overcome the problem in FDIs.

### 2.3.6 Inflation and Exchange Rate Fluctuation

These are two very important financial indicators that have a significant bearing on the cost of delivering a project. The exchange rate indicates how the local currency is performing against other world major currencies. High inflation will lead to a rise in
production cost (Giora and Anderson, 2014). It may be naive to be overly optimistic of any significant changes in the economic performance of Kenya, since the economy is heavily dependent on imports. Thus the macroeconomic health of the nation is thus closely tied to the vagaries of the global crude oil price (Deng, Mertenskoetter and de Vondervoort, 2012). Business may not look attractive unless the country is able, somehow, to break its present over-dependence on donor support, capitalise on and maximise the benefits of its newfound oil resource (O’Sullivan, 2012).

2.3.7 Partner Problems

International Foreign Direct Investments (FDIs) are essentially only possible with two or more independent firms contributing finance, staff, plant and equipment, experience and knowledge to the achievement of agreed aims and objectives (O’Sullivan, 2012). Tasks are shared amongst all parties and the performance of the FDI is closely linked with the individual performance of all involved parties (Al-Fattah, 2013). Majority of domestic contractors lack sound financial base. They do not have sufficient access to funds, credit facilities and do not have the appropriate technological capabilities, plant and equipment and key personal to handle projects properly (Egmond and Erkelens, 2007). Their financial woes are deepened by delays in payment, especially, for work done on public projects. To sustain liquidity, some contractors trade quality and value for money by compromising on quality materials or workmanship. Some even end up abandoning projects altogether (Westring, 1997).

Also to a large extent, the technical and managerial competencies of many of the domestic contractors remain doubtful manifesting very often in poor quality product delivery (Agyakwa-Baah, 2009). This paucity of local expertise is evidently the reason the nation’s major construction projects are awarded to the few large foreign contractors (Assibey-Mensah, 2009). The emerging new technologies in construction, design, materials and components and the growing sophistication of customer demands when juxtaposed with the current level technical and managerial competencies of the majority of domestic contractors reveals a yawning gap that must be closed if the domestic partners are to achieve a competitive edge.
2.3.8 Economic Instability

Several studies have found that FDI in developing countries is affected negatively by economic and political instability (Lemi and Asefa, 2003). Political instability subsumes many kinds of events like antigovernment demonstrations, assassinations, cabinet changes, constitutional changes, coups, government crises, purges, revolutions, and riots (Moreira, 2006). It is expected to decrease FDI because it increases uncertainty about the cost and profitability of investment (Krugell, 2005). In turn, instability in macroeconomic variables as evidenced by the high incidence of currency crashes, double digit inflation, and excessive budget deficits is associated with macroeconomic policies that are not sustainable and thus makes investment unattractive (Krugell, 2005).

In a survey of foreign owned firms in Africa, Sachs and Sievers (1998) find that the greatest concern of firm owners is stability, both political and macroeconomic. In an empirical analysis of the social and political development of foreign investment in Africa, Kolstad and Tondel (2002) find that countries that are less risky attract more FDI per capita. Asiedu (2003, 2006) also shows that both macroeconomic and political instability deter investment flows in Africa. In addition, Rogoff and Reinhart (2003) obtain a statistically significant negative correlation between FDI and the following indicators of political and economic instability in Africa: conflicts; inflation; probability that the parallel market premia is above 50 percent. Furthermore, a closer look at the improvements in the business climate of Mali and Mozambique during the 1990s also reveals that macroeconomic and political stability was among the reasons for their recent success (Morisset, 2000). As stated in the previous section, the study by Lemi and Asefa (2003) examines how uncertainty affects FDI flows to African countries. In general, the results differ by industrial group and source country. For FDI flows from all source countries and for US FDI flows, Lemi and Asefa (2003) show that both political and economic uncertainties are not significant determinants. The same result was reached in Asiedu (2002).
2.3.9 Political Instability

In relation to political uncertainty, Morisset (2000), Onyeiwu and Shrestha (2004) and Yasin (2005) find that political instability is not a significant determinant of FDI flows in Africa. On the other hand, Fedderke and Romm (2006) find that political stability has a positive impact on FDI to South Africa. The results for US manufacturing FDI to Africa also indicate that political instability is a concern to foreign investors (Lemi and Asefa, 2003). As concerns to economic uncertainty per se, Lemi and Asefa (2003) find that it is binding for US non-manufacturing FDI to Africa only when economic uncertainty is coupled with political instability and debt burden of host countries. Schoeman et al. (2000) focus on fiscal stability as it is generally considered to be one of the indicators of macroeconomic stability. The results suggest that the higher the budget deficit relative to South African GDP the greater the negative impact on FDI relative to South African GDP.

Unfortunately, the image of the African continent as a location of FDI is unfavourable, because investors perceive the continent as a home for wars, civil unrest, poverty, disease and a generally unfriendly investment destination and this result in the diversion of these investments to other regions (UNCTAD, 1999). In other words, African countries receive less FDI than countries in other regions, by virtue of the (perceived) riskiness of the continent. Asiedu (2002) and Jaspersen et al. (2000) argue that being an African country is indeed a significantly negative determinant of FDI, because of investors’ perceptions of Africa as inherently risky. According to the findings of Haque et al. (2000) and Collier and Pattillo (1997, 2000), commercial risk rating agencies rate African countries as riskier than justified by their fundamental investment conditions. On the other hand, a study on private capital flows to low-income countries by Martin and Rose-Innes (2003) reveals that investors no longer fully share the continuing negative perception of much of Africa as a “basket case” region with high risk and low return, which determines the attitudes of many MNC headquarters, the international media and some agencies. In a study of regional susceptibility to war, Rogoff and Reinhart (2003) found that wars are more likely to occur in Africa than in other regions and there is a negative correlation between FDI and conflict in Africa.
2.4 Implications of FDI in the Textile and Garment Industry

2.4.1 Creation of Jobs

Attracting FDI has been a cornerstone of many countries’ development strategies, with the magnitude of the inward investment in local economies sometimes even regarded as being more important than the type of investment received. There is a widespread consensus as to the importance of FDI in creating quality jobs in order to share the fruits of economic growth and increased productivity with a greater proportion of the population (Asiedu, 2012). Capital accumulation, technological change and an increasingly qualified labour force, encouraged by an appropriate regulatory framework, have a positive influence on labour productivity and contribute to high and sustainable growth trends. This in turn helps create quality jobs, making the process socially sustainable, while the rise in consumption stimulates aggregate demand, feeding a virtuous circle of growth (Lemma, 2011).

FDI in Africa revolves around the extraction of natural resources. On the other hand, Fedderke and Romm (2006) argue that extractive activities have a limited impact on direct job creation. This is because much investment is channeled into primary activities and the initial stages of industrial processing, sectors that are more capital intensive. For every US$ 1 million invested, only one job is created in extractive activities, while the same investment creates two jobs in natural-resource-intensive manufacturing. These sectors accounted for about 47% of investment amounts and 25% of new jobs announced in investment projects during the 10-year study period. Even though the wages paid to these workers tend to be high, the labour market cannot fulfil its role in the primary income distribution (Lemma, 2011).

The emergence of investor interest in this sector is attributed to the government offered incentives to FDIs as well other players in the private sector. In addition, the technology used in the extraction of natural resource is more capital compared to labour intensive; as a result many jobs are created in the process (UNCTAD, 2010b). FDI firms’ diversification from the extraction of natural resources to other sectors such as manufacturing and services may be a critical factor in creating more employment and lead to economic growth in Sub-Saharan Africa (UNCTAD, 2010b).
The creation of employment opportunities, either directly or indirectly, has been one of the most prominent impacts of FDIs in the economy. Total employment and urban employment in FDI have increased significantly (Al-Fattah, 2013). This means that most employment opportunities created by FDI are located in various sectors. As a result, this would suggest that FDI can contribute to decreasing income gap between the sectors (Giora and Anderson, 2014).

2.4.2 Upgraded Skills
One first indicator is the percentage share of skilled workers in the total number of workers employed by FDI firms. Research suggests that FDI firms are more allocative and technically efficient in labour utilisation in production because they put more of their total labour force into direct production and less into non-productive administrative activities as compared to domestic firms (Owuor, 2007; Bogdanovska Djurovic, 2012). The research also found that FDI firms have a higher level of labour quality in their employment composition than domestic firms. FDI firms tend to hire more employees with university and higher education than domestic firms, particularly in capital intensive and technology intensive industries (Giora and Anderson, 2014). They also tend to hire fewer employees with lower education than domestic firms. Because FDI firms pay higher wages than domestic firms and employ a higher level of labour than domestic firms, there is a real risk, however, that more and more quality labour will be drawn into FDI firms away from domestic firms. If this is the case, then the spillover effects with regard to the transfer of technology and managerial skills from FDI firms to domestic firms resulting from labour turnover may be quite limited (Owuor, 2007).

Ezeoha (2008) explains that FDI in the form of Multinational Enterprises (MNEs) is known to transfer superior technology, management and marketing skills, which are important for the development of Sub-Saharan economies. Developing countries tend to attract these multinational corporations so as to build modern manufacturing industries as well as have access to the best skills and technology. On the same note, UNCTAD (2000) perceive FDI as a major driving force for merging developing and developed world together. Transfer of skills and technology can have a positive impact on the overall economic performance of a country by improving the skills and knowledge of the employees of FDI firms in beneficiary countries.
Ezeoha (2008) adds that FDI significantly drives the transfer of technological skills leading to a significant growth as compared domestic investment. Findlay (1978) cited by Ezeoha (2008) added that FDI quickens the technology process in the host country through a “contagion” effect from the more advanced technology by multinational corporations. Part of the reason of why government provides special incentives to multinational corporations is to attract foreign direct investments that would lead to the transfer of technology and skills. Lemma (2011) suggests that FDI can also have a significant impact on technological effect on the host country, especially when a joint-venture form is subjected to domestic control. With the emergence of globalization, increase in business activities, knowledge and information have gained significant importance for the success of any economy. It is believed that Upgrade of skills is as a result of accumulation of factors of production or the improvement of technology or both.

2.4.3 FDI Pay Higher Wages

As in other countries, FDI firms pay higher rates of employee compensation (wages, salaries, bonuses, and monetary and non-monetary fringe benefits) than domestic firms. The the gaps between average wages may reflect differences in the composition of employment: better qualified workers should be better paid. These differences between employees’ profiles could be either the result of decisions taken at the time of recruitment, or of the human-resources management practices implemented by both kinds of company. In other words, it is possible that subsidiaries place greater emphasis on training and in-company professional development, which in turn leads employees to improve their profiles over time. Another explanation may be found in the conditions of recruitment. A more elastic demand for labour might give rise to a requirement for higher wages, to compensate for lesser job stability. Workers may also accept lower wages in exchange for the promise of being able to pursue careers within the company (Bogdanovska, 2012).

Apart from differences in the distribution of their activities between (relatively high and low) wage sectors, FDI firms record higher labour productivity and have higher capital intensity than their local competitors. In some cases, these higher levels of productivity reflect a higher capital to labour ratio (Owuor, 2007). FDI firms are also larger than their local competitors and large firms usually pay higher wages than small firms. In some
cases, FDI firms may feel the need to “buy” themselves into unfamiliar labour markets or to attract workers away from competing employers (Giora and Anderson, 2014). The stimulus for attracting workers may be as a result of better working conditions which also depend on the productivity advantages that FDI companies have over local firms. Incentives based on working conditions should also be greater for better qualified workers. Activities requiring that workers have specific knowledge should also incentivize greater staff retention through the payment of better wages, especially for those with the highest qualifications (Lim and Liu, 2011).

FDI firms may play an important role in poverty alleviation through the provision of higher wages. According to Ahmed, Cheng and Messinis (2011), most countries in sub-Saharan Africa have experienced stagnant economies, but they are slowly recovering and FDI inflows are necessary to drive economic growth and development. As some countries had indicated slight growth, the economies have the potential to alleviate the level of poverty where more FDI may be needed to come out the situation (Kogut, 1988). Initiatives to alleviate the levels of poverty have been real and very motivating. In comparison to South East Asia countries, the level of FDIs in Sub-Sahara Africa is small to get people out of poverty (Lim and Liu, 2011).

2.4.4 FDI Increase Productivity and Transfer of Technology

For a firm to invest abroad it must possess some kind of ownership advantages such as a patent, blueprint or trade-mark (Kogut, 1988). It could also be some specific intangible assets or capabilities such as technology and information, managerial, marketing and entrepreneurial skills, organisational systems and access to intermediate or final goods markets sufficient to outweigh the disadvantages of doing business abroad (Kumaraswamy, Palaneeswaran and Humphreys, 2010). There is clear evidence that technology and managerial skills have been transferred to FDI firms. Technology plays a significant role in achieving higher productivity and competitiveness. The last necessity relates to strengthening the capacity of the government to clarify, protect the property rights of individuals and transparency of government actions (Matthews, 2009).

Such evidence was found in relation to the size, physical and capital intensities of the FDI firms and their factor intensity. The size of a firm can be measured by its total assets. On
average the size of FDI firms is nearly 100 per cent larger than that of South Africa domestic firms. It is 170 per cent larger in labour intensive industries, 124 per cent larger in technology intensive industries and 40 per cent larger in capital-intensive industries than that of domestic firms in developing countries (Jamil, Mufti and Khan, 2008). This implies that FDI firms employ a more technically efficient way in their production and benefit more from economy of scale than domestic firms. Because of their ownership advantages, FDI firms also have as a general rule a higher capital to labour ratio than domestic firms in the same industry (Lim and Liu, 2011). The difference in physical capital intensity is the largest in technology intensive industries, followed by capital-intensive industries and labour intensive industries. This implies that FDI firms do possess superior ownership advantages and employ more technologically advanced production methods than domestic firms (Matthews, 2009).

Interestingly the ratio of skilled labour such as technicians, professionals and managerial personnel to total labour in the FDI firms is higher than that of domestic firms. The ratio is almost identical in labour intensive industries but in the technology intensive and capital-intensive industries, FDI firms had a higher ratio in human capital intensity than do domestic firms (Lim and Liu, 2011). This suggests that FDI firms use higher technology and higher skills in their production in these industries than domestic firms. The more moderate performance in labour intensive industries can in turn be attributed to the fact that FDI investors in this sector are mainly operating in the final stage of the production process while keeping R&D activities and the innovative stage of the production processes at home (Matthews, 2009).

Looking at factor productivity, the research found that, on average, the average labour productivity of FDI firms is two and half times that of domestic firms and more than four times in the technology intensive industries. But the average capital productivity of FDI firms was only marginally higher than that of domestic firms. Even though this could be attributed to the much higher capital to labour ratio of FDI firms than that of domestic firms, however, in the technology intensive industries, where the capital to labour ratio of FDI firms was found to be three times that of the domestic firms, the average capital productivity of FDI firms higher than that of domestic firms (Kumaraswamy, Palaneeswaran and Humphreys, 2010). When comparing the marginal factor productivity
and its changes over time of FDI firms and domestic firms, the firms demonstrate a certain degree of increasing returns to scale in their production patterns.

2.5 Chapter Summary
The general objective of this study was to investigate the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The first section of the literature review looked at on the determinants of FDI in the apparel and textile industry. The second section of the literature review investigated the barriers of FDI in the apparel and textile industry and the third section examined the implications of FDI in the apparel and textile industry. The next chapter is on the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction
The chapter sets out the methodology adopted in this study. The methodology included the research design, population, sample and sampling technique, instruments for data collection, data collection procedure, pilot test and data processing and analysis. The chapter also described the measurement of variables and the model estimation.

3.2 Research Design
A research design constitutes the blueprint for the collection, measurement, and analysis of data. Cooper and Schindler (2008) define research design as the plan and structure of investigation conceived so as to obtain answers to research questions. According to Kothari (2004), research design is a master plan that specifies methods and procedures for collecting and analyzing the needed information. The study adopted a survey research design using both quantitative and qualitative approaches. The aim of a survey is to explore and describe a phenomenon. Surveys are more efficient and economical (Kothari, 2009). They help the researcher to understand more about opinions, and attitudes of the respondents. According to Mugenda (2003), a survey attempts to collect data from members of a population in order to determine the current status of that population with respect to one or more variables. Wibowo (2008) argues that qualitative and quantitative are the two main approaches that define any research. According to Zikmund and Babin (2007), quantitative approach is a design that sets out to quantify data in order to use statistics to analyze a data set.

In addition it is the most popular research approach was used to examine relationship between different variables and measure objective theories (Creswell, 2009). In this study quantitative approach was used to quantify the hypothesized relationship between dependent variable firm performance and the independent variables determinants of FDI, barriers and implication of FDI. The approach was also be used because the data collected through the questionnaire was analyzed using standard statistical tools. Qualitative approach was adopted to provide in-depth understanding of the situation about competitive strategies and firm performance. Open-ended questions were used which met
the criteria described by Cooper and Schindler (2006) about qualitative research. The two approaches complemented each other in that qualitative approach provided in-depth explanations while quantitative approach provided the hard data needed to meet required objectives.

3.3 Population and Sampling Design

3.3.1 Population
Target population refers to a well defined or set of people, services, elements, events, group of things or households that are being investigated (Ngechu, 2004). Target population is the specific population about which information is desired. The target population of this study comprised of 366 EPZ employees from 17 companies that deal with apparel and textile.

3.3.2 Sampling Design

3.3.2.1 Sampling Frame
A sampling frame is a list of all the items where a representative sample is drawn for the purpose of the study, (Nachmias and Nachmias, 2008). The sampling frame for this study will be the employees of EPZ their information was obtained from the directory of Human Resource Management Office (2017).

3.3.2.2 Sampling Techniques
Sampling involves drawing of a target population for observation. It is appropriate when it is not feasible to involve the entire population under study. The sample of the study was identified using multi-stage sampling technique. This technique is chosen as it is said to reduce within-stratum variances (Kothari, 2007). The researcher first used stratified sampling technique to divide the employees into different strata. Stratified random sampling was used to enable the researcher to represent not only the overall population but also key sub-groups of the population.

Stratification also helps reduce standard error by providing some control over variance. The technique also provides a better comparison across strata (Saunders, et. al., 2007). In the second stage, the researcher used simple random sampling technique to determine the sample size. This allowed equal representation of all individuals in the defined population.
to be selected as a member of the sample (Kombo and Tromp, 2006). This is important as it helps reduce biases that may arise.

### 3.3.2.3 Sampling Size

Sample size determination formula recommended by Kothari (2004) was used to select 189 employees for intensive study. The sample size represents more than the 10% of the accessible population that is generally recommended by social researchers required for statistical data analysis (Gay, 1981) and at least 189 cases were obtained as indicated in Table 3.1 on the sample size of the study.

The following formula was used to calculate the sample size.

\[
n = \frac{z^2 \times p \times q \times N}{e^2 (N-1) + z^2 \times p \times q}
\]

\[
n = \frac{1.96^2 \times 0.7 \times 0.3 \times 454}{0.1^2 (454-1) + 1.96^2 \times 0.7 \times 0.3}
\]

\[
n = \frac{366.2581}{1.9392} = 189
\]

Where: 
- \( n \) = Sample Size
- \( z \) = confidence level at 95% (Standard value of 1.96).
- \( p \) = proportion in the target population estimated to have adopted competitive strategies
- \( q \) = proportion in the target population estimated not to have adopted competitive strategies
- \( N \) = size of target population
- \( e \) = margin of error in the 95% confidence interval.
3.4 Data Collection Method

Although several tools exist for gathering data, the choice of a particular tool depends on the type of research. These include; focus group discussions, observations, interview and questionnaire. Since this study sought to examine how employees of the company view the impact of EPZ in attracting foreign direct investment in Kenya, a research instrument will be used to investigate and measure their perception is required. In this study, a questionnaire is the most appropriate tool.

A questionnaire is perceived as the most accurate tool for measuring self sufficiency existing relationship, objects or events as well as self-reported beliefs and behaviour (Newman, 1997). Further, the questionnaire is seen to be appropriate as it collects data in a quick and efficient manner. The use of questionnaire also makes it possible for descriptive, correlation and inferential statistical analysis (Saunders et al., 2007). The researcher will develop the questionnaire used in this study on the basis of previous studies. The items used in this study will be adopted and modified from a questionnaire of Dess and Devis (1984) and Jaworski and Kohli (1993). Use of previous questionnaire assists in the reliability and validity of the current instrument as well as saving much time spent in developing new questionnaire (Morgan and Hunt, 2004).

A five-point likert scale was used for most questions in the survey except for the section dealing with firm background information and a few open-ended questions. Likert type scale is an ordinal scale comprising of a set of qualitative variations of a particular attribute or entity ordered sequentially from least to most (Nunnaly and Bernstein, 2014) and has been commonly used in business research Sakaran (2010). Five choices were provided for every question or statement. The choices represent the degree of agreement to the given question. The choices range from strongly agree, through agree, neutral and disagree to strongly disagree. Other questions also provided the respondents with choices ranging from much worse, worse, indifferent, better and much better. The Likert type of questions enabled the respondents to answer the questions easily. In addition, this allowed the researcher to carry out the quantitative approach effectively with the use of statistics for data interpretation.
3.5 Research Procedures
The research was carried out using a detailed review of published and unpublished literature relevant to the study. Primary data was collected using semi-structured questionnaire. The questionnaires contained both closed-ended questions and few open-ended questions to encourage higher response rate. Open-ended questions provided the respondents with a chance to express their own personal opinions beyond the researcher’s span of knowledge. These questions also aided in enriching the qualitative methodology effectively. The questionnaires further provided anonymity as most respondents do not want their identity revealed. Before embarking on the field study, the researcher recruited and trained three research assistants so that they were able to get quality data. Since the data was collected from top level managers or their equivalent it required booking appointments. Appointments were booked and the questionnaires administered by the research assistants at agreed times. This approach helped in clarifying any item that requires some explanation by the respondents. The approach also helped reduce delayed response usually associated with managers where there is no personal contact.

3.6 Data Analysis
Data analysis is the process in which raw data was ordered and organized so as to extract useful information (Smith, 2001). This study generated both quantitative and qualitative data. First, the researcher examined the data collected to make inferences through a series of operations involving editing to eliminate inconsistencies, classification on the basis of similarity and subsequent tabulation to relate variables. Quantitative data was analyzed through descriptive statistics and inferential statistics which enable meaningful distribution of scores or measurement using indices and statistics. According to McClave and Sincich (2003), descriptive statistics utilize numerical and graphical methods to look for patterns in a data set to summarize the information revealed in a data set and to present the information in a convenient form.

The main descriptive statistical analysis used included mean and frequencies to cater for the likert scales that had been used in the study. According to Orodho (2008), the advantage of descriptive statistics is that they enable the researcher to use one or more numbers (for example mean and standard deviation) to indicate the average score and
variability of scores of a sample. Inferential statistics were used to analyze relationship between variables. This is done through correlation and regression analysis.

Pearson product moment of correlation was used to determine the role and impact of EPZ in attracting foreign direct investment in Kenya linear multiple regression analysis was also used to explain the determinants of foreign direct investments in apparel and textile industry, the barriers and implications of foreign direct investments in apparel and textile industry (independent variables) explained variation in FDI performance (dependent variable). Moderated multiple regression was further be used to establish the estimate interaction effect and test the moderating the role and impact of EPZ in attracting foreign direct investment in EPZ apparel and textile industry in Kenya.

3.7 Chapter Summary
This chapter presents, explains and justifies the different research approaches, techniques and processes that the researcher adopted in the course of the study. These included the research design, target population, data collection methods and data analysis. The next chapter is on the results and findings.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

This chapter presents the results and findings from data analysis. The study sought to investigate the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The findings are outlined according to specific objectives of the study. The findings are based on the responses from the questionnaires filled and information gathered on the research objectives. The first research objective was to establish the determinants of foreign direct investments in apparel and textile industry. The second research objective identified the barriers of foreign direct investments in apparel and textile industry. The third section examined the implications of foreign direct investments in apparel and textile industry. Out of a targeted 189 respondents, 99 responded to the questionnaires. This represented an effective response rate of 52.4% that was sufficient enough to answer the research objectives. The response rate is presented in Table 4.1.

<table>
<thead>
<tr>
<th>Category</th>
<th>Target Respondents</th>
<th>Response</th>
<th>Response Rate (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Respondents</td>
<td>189</td>
<td>99</td>
<td>52.4%</td>
</tr>
<tr>
<td>Total</td>
<td>189</td>
<td>99</td>
<td>52.4%</td>
</tr>
</tbody>
</table>

4.2 General Information

The general information was organized in the following areas: gender, age range, education level, employment status and the joint venture pre-planned end date.

4.2.1 Gender

The findings on Table 4.2 illustrates that 58% of the respondents were male and 42% of the respondents were female. Thus, the findings indicate that majority of the respondents were male. The findings are indicated on Table 4.2.
4.2.2 Age of the Respondents

The findings illustrated in Table 4.3 indicate that 18% of the respondents were between the ages of 20 to 30 years, 52% aged between 31 to 45 years and 30% of the respondents were aged between 46 to 60 years. Therefore, the findings indicate that most of the respondents were below 45 years.
4.2.4 Education Level

The study determined the education level of the respondents involved in the study. It was revealed that most of the respondents had bachelor degree (48%). This was followed by masters degree (30%), diploma (13%), certificate (6%) and 3% had doctorate, respectively. The findings are indicated in Table 4.4.

![Education Level Chart]

**Figure 4.3: Education Level**

4.2.6 Joint Venture Pre-Planned End Date

The study determined whether the respondents knew of the foreign direct investment pre-planned end date. The findings established that most of the respondents (95%) do not know the pre-planned end date of the FDI while 5% agreed that there was a pre-planned end date. The findings are indicated on Table 4.2.

<table>
<thead>
<tr>
<th>Joint venture pre-planned end date</th>
<th>Distribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>96</td>
</tr>
<tr>
<td>Yes</td>
<td>5</td>
</tr>
<tr>
<td>No</td>
<td>91</td>
</tr>
<tr>
<td>Percent</td>
<td>100</td>
</tr>
</tbody>
</table>

**Table 4.2: Joint Venture Pre-Planned End Date**
4.3 Determinants of FDI in the Apparel and Textile Industry

The study aimed to find out the determinants of foreign direct investment in apparel and textile industry from the respondents involved in the study. The findings in Table 4.3 illustrated that most respondents agreed that Access to Government Sponsored Projects attracts investors at a mean of 3.76. This was followed by a large proportion of the respondents who claimed that the investors are motivated by the tax incentives at a mean of 3.70. A number of respondents agreed that the availability of physical infrastructure affects the decision of investors in selecting the investment place at a mean of 3.69 and other respondents agreed that investors are attracted by the natural resourcefulness of the local partners at a mean of 3.62. All these are the main determinants of foreign direct investment in apparel and textile industry. However, a small number of the respondents agreed that the development of conducive legal framework attracts investors at a mean of 3.26. Fewer respondents agreed that there is lack of available investment capital is another motive behind investors motivation in foreign direct investment at a mean of 2.03 and very few respondents agreed that the investors are attracted by the local market at a mean of 1.79.

Table 4.3: Determinants of FDI in the Apparel and Textile Industry

<table>
<thead>
<tr>
<th>Determinants of Foreign Direct Investment in the Textile Industry</th>
<th>Average</th>
<th>Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors are attracted by the natural resourcefulness of the local partners</td>
<td>3.62</td>
<td>4</td>
</tr>
<tr>
<td>Investors are attracted by the local market.</td>
<td>1.79</td>
<td>10</td>
</tr>
<tr>
<td>The availability of physical infrastructure affects the decision of investors in selecting the investment place.</td>
<td>3.69</td>
<td>3</td>
</tr>
<tr>
<td>The development of conducive economic framework attracts investors</td>
<td>3.32</td>
<td>7</td>
</tr>
<tr>
<td>The development of conducive legal framework attracts investors</td>
<td>3.26</td>
<td>8</td>
</tr>
<tr>
<td>Investors are motivated by the tax incentives</td>
<td>3.70</td>
<td>2</td>
</tr>
<tr>
<td>Investors and business alliances are motivated by the need to share up-front risks.</td>
<td>3.53</td>
<td>6</td>
</tr>
<tr>
<td>A lack of available investment capital is another motive behind investors.</td>
<td>2.03</td>
<td>9</td>
</tr>
<tr>
<td>Investors are a means of achieving diversification of investments.</td>
<td>3.61</td>
<td>5</td>
</tr>
<tr>
<td>Access to Government Sponsored Projects attracts investors.</td>
<td>3.76</td>
<td>1</td>
</tr>
</tbody>
</table>
4.3.1 Correlation between FDI and Investment in the Textile Industry

The section intended to measure the correlation between preplanned FDI and the determinant factor of investing in the textile industry. The findings in Table 4.4 indicated that there was no significant correlation between the variables.

Table 4.4: Correlation between FDI and Investment in the Textile Industry

<table>
<thead>
<tr>
<th></th>
<th>FDI Pre-Planned</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors are attracted by the natural resourcefulness of the local partners</td>
<td>Pearson Correlation .266</td>
</tr>
<tr>
<td>Investors are attracted by the local market.</td>
<td>Pearson Correlation -.011</td>
</tr>
<tr>
<td>The availability of physical infrastructure affects the decision of investors in selecting the investment place.</td>
<td>Pearson Correlation .210</td>
</tr>
<tr>
<td>The development of conducive economic framework attracts investors</td>
<td>Pearson Correlation -.130</td>
</tr>
<tr>
<td>The development of conducive legal framework attracts investors</td>
<td>Pearson Correlation -.009</td>
</tr>
<tr>
<td>Investors are motivated by the tax incentives</td>
<td>Pearson Correlation -.327</td>
</tr>
<tr>
<td>Investors and business alliances are motivated by the need to share up-front risks.</td>
<td>Pearson Correlation -.036</td>
</tr>
<tr>
<td>A lack of available investment capital is another motive behind investors.</td>
<td>Pearson Correlation -.029</td>
</tr>
<tr>
<td>Investors are a means of achieving diversification of investments.</td>
<td>Pearson Correlation -.310</td>
</tr>
<tr>
<td>Access to Government Sponsored Projects attracts investors.</td>
<td>Pearson Correlation .165</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

*Correlation is significant at the 0.05 level (2-tailed)*
4.3.2 Regression of FDI and Investment in the Textile Industry

The regression equation between foreign direct investment and the determinants to invest in textile industry had a weak correlation. The findings are outline in Table 4.5.

Table 4.5: Model Summary of FDI and Investment in the Textile Industry

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.446(^a)</td>
<td>.199</td>
<td>.102</td>
<td>.391</td>
</tr>
</tbody>
</table>

\(^a\) Predictors: (Constant), Investors are motivated by the tax incentives, the availability of physical infrastructure affects the decision of investors in selecting the investment place and access to government sponsored projects attracts investors.

4.3.3 ANOVA of FDI and Investment in the Textile Industry

On the ANOVA table, the regression was not significant where the (p=.000) was more than 0.05. This shows that foreign direct investment have insignificant influence on the determinants to invest in textile industry. The ANOVA Table 4.6 is presented below.

Table 4.6: ANOVA of FDI and Investment in the Textile Industry

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.945</td>
<td>3</td>
<td>.315</td>
<td>2.065</td>
<td>.130(^b)</td>
</tr>
<tr>
<td>Residual</td>
<td>3.814</td>
<td>25</td>
<td>.153</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>4.759</td>
<td>28</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

\(^a\) Dependent Variable: Pre-Planned FDI
\(^b\) Predictors: (Constant), investors are motivated by the tax incentives, the availability of physical infrastructure affects the decision of investors in selecting the investment place and access to government sponsored projects attracts investors.

4.3.4 Coefficients of FDI and Investment in the Textile Industry

The coefficient table indicates the degree of relationship between each variable that represents the determinant of foreign direct investment. The constant was 1.535 while most of the variables were statistically insignificant with the determinant of foreign direct investment as indicated in Table 4.7.
Table 4.7: Coefficients of FDI and Investment in the Textile Industry

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>(Constant)</td>
<td>1.535</td>
<td>1.169</td>
<td>1.313</td>
<td>.201</td>
</tr>
<tr>
<td>Access to Government Sponsored Projects attracts investors.</td>
<td>.059</td>
<td>.164</td>
<td>.067</td>
<td>.359</td>
</tr>
<tr>
<td>The availability of physical infrastructure affects the decision of investors in selecting the investment place.</td>
<td>.171</td>
<td>.150</td>
<td>.205</td>
<td>1.139</td>
</tr>
<tr>
<td>Investors are motivated by the tax incentives</td>
<td>-.316</td>
<td>.164</td>
<td>-.361</td>
<td>-1.922</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Pre-Planned FDI

4.4 Barriers of Foreign Direct Investment in Apparel and Textile Industry

The study aimed to find out the barriers of foreign direct investment in apparel and textile industry from the respondents involved in the study. The findings in Table 4.8 illustrated that most respondents agreed that investors are affected by the exchange rate fluctuations at a mean of 3.51. This was followed by a large proportion of the respondents who claimed that investors are affected by the host country labour laws at a mean of 3.08. A number of respondents agreed that investors experience technical capabilities at a mean of 3.00 and other respondents agreed that investors deal with the challenge of inflation at a mean of 2.53. All these are the main barriers of foreign direct investment in apparel and textile industry. However, a small number of the respondents agreed that investors experience technical complexity of projects at a mean of 2.08. Fewer respondents agreed Investors are affected by violence at a mean of 2.05, a small proportion of the respondents agreed that Investors are challenged by the economic disparities between sectors of the economy at a mean of 2.04 and other respondents agreed that investors have inadequate capitalization at a mean of 1.50.
Table 4.8: Barriers of Foreign Direct Investment in Apparel and Textile Industry

<table>
<thead>
<tr>
<th>Barriers of Foreign Direct Investment in Apparel and Textile Industry</th>
<th>Average</th>
<th>Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors have misaligned objectives</td>
<td>2.32</td>
<td>7</td>
</tr>
<tr>
<td>Investors experience Cultural differences</td>
<td>2.50</td>
<td>5</td>
</tr>
<tr>
<td>Investors have inadequate capitalization</td>
<td>1.50</td>
<td>12</td>
</tr>
<tr>
<td>Investors are affected by violence</td>
<td>2.05</td>
<td>10</td>
</tr>
<tr>
<td>Investors experience slow decision making</td>
<td>2.32</td>
<td>7</td>
</tr>
<tr>
<td>Investors deal with the challenge of inflation</td>
<td>2.53</td>
<td>4</td>
</tr>
<tr>
<td>Investors are affected by the host country labour laws</td>
<td>3.08</td>
<td>2</td>
</tr>
<tr>
<td>investors experience technical capabilities</td>
<td>3.00</td>
<td>3</td>
</tr>
<tr>
<td>Investors are affected by the exchange rate fluctuations</td>
<td>3.51</td>
<td>1</td>
</tr>
<tr>
<td>Investors are affected by corruption</td>
<td>2.38</td>
<td>6</td>
</tr>
<tr>
<td>Investors experience technical complexity of projects</td>
<td>2.08</td>
<td>9</td>
</tr>
<tr>
<td>Investors are challenged by the economic disparities between sectors of the economy.</td>
<td>2.04</td>
<td>11</td>
</tr>
</tbody>
</table>

4.4.1 Correlation between FDI and Barriers in Apparel and Textile Investment

The section intended to measure the correlation between pre-planned FDI and the barriers on investing in the textile industry. The findings in Table 4.9 indicated that there was no significant correlation between the variables.

Table 4.9: Correlation between FDI and Barriers in Apparel and Textile Investment

<table>
<thead>
<tr>
<th>Investors have misaligned objectives</th>
<th>Pre-Planned FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pearson Correlation</td>
<td>.415*</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.011</td>
</tr>
<tr>
<td>Investors experience Cultural differences</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.786</td>
</tr>
<tr>
<td>Investors have inadequate capitalization</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.548</td>
</tr>
<tr>
<td>Investors are affected by the host country labour Laws</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.225</td>
</tr>
<tr>
<td>investors experience technical capabilities</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.471</td>
</tr>
<tr>
<td>Investors are affected by the exchange rate fluctuations</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.390</td>
</tr>
<tr>
<td>Investors are affected by corruption</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.682</td>
</tr>
<tr>
<td>Investors experience technical complexity of projects</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.061</td>
</tr>
<tr>
<td>Investors are challenged by the economic disparities between sectors of the economy.</td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Sig. (2-tailed)</td>
<td>.777</td>
</tr>
</tbody>
</table>

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).
4.4.2 Regression between FDI and Barriers in Apparel and Textile Investment

The regression equation between foreign direct investment and the barriers experienced on investing in the textile industry had a weak correlation. The findings are outline in Table 4.10.

Table 4.10: Model Summary of FDI and Barriers in Apparel and Textile Investment

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.323&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.104</td>
<td>.023</td>
<td>.413</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Investors are affected by the exchange rate fluctuations, investors are affected by the host country labour laws, investors experience technical capabilities

4.4.3 ANOVA of FDI and Investment in the Textile Industry

On the ANOVA table, the regression was not significant where the (p=.000) was more than 0.05. This shows that foreign direct investment have insignificant influence on the barriers to invest in textile industry. The ANOVA Table 4.11 is presented below.

Table 4.11: ANOVA of FDI and Barriers in Apparel and Textile Investment

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>.653</td>
<td>3</td>
<td>.218</td>
<td>1.278</td>
<td>.298&lt;sup&gt;b&lt;/sup&gt;</td>
</tr>
<tr>
<td>Residual</td>
<td>5.618</td>
<td>33</td>
<td>.170</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>6.270</td>
<td>36</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: Pre-Planned FDI
b. Predictors: (Constant), Investors are affected by the exchange rate fluctuations, investors are affected by the host country labour Laws, investors experience technical capabilities

4.4.4 Coefficients of FDI and Barriers in Apparel and Textile Investment

The coefficient table indicates the degree of relationship between each variable that represents the barriers of foreign direct investment. The constant was .991 while most of the variables were statistically insignificant with the barriers experienced in foreign direct investment as indicated in Table 4.12.
Table 4.12: Coefficients of FDI and Barriers in Apparel and Textile Investment

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>.991</td>
<td>.836</td>
<td>1.186</td>
<td>.244</td>
</tr>
<tr>
<td>Investors are affected by the host country labour Laws</td>
<td>.171</td>
<td>.101</td>
<td>.286</td>
<td>1.691</td>
</tr>
<tr>
<td>investors experience technical capabilities</td>
<td>.010</td>
<td>.147</td>
<td>.013</td>
<td>.071</td>
</tr>
<tr>
<td>Investors are affected by the exchange rate fluctuations</td>
<td>-.096</td>
<td>.149</td>
<td>-.116</td>
<td>-.643</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Pre-Planned FDI

4.5 Implications of FDI in the Textile and Garment Industry

The study aimed to find out the implications of FDI in the textile and garment industry from the respondents involved in the study. The findings in Table 4.13 illustrated that most respondents agreed that investors upgrade employee skills at a mean of 3.82. This was followed by a large proportion of the respondents who claimed that investors create employment at a mean of 3.58. A number of respondents agreed that investors improve the organization international competitiveness at a mean of 3.36 and other respondents agreed that investors enhance internal efficiency at a mean of 3.26. All these are the main implications of FDI in the textile and garment industry. However, a small number of the respondents agreed that investors pay higher wages at a mean of 2.11. Fewer respondents agreed that investors bring in profits at a mean of 2.44 and very few respondents agreed that investors bring in capital at a mean of 2.55.
Table 4.13: Implications of FDI in the Textile and Garment Industry

<table>
<thead>
<tr>
<th>Implications of FDI in the Textile and Garment Industry</th>
<th>Average</th>
<th>Rankings</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investors create employment</td>
<td>3.58</td>
<td>2</td>
</tr>
<tr>
<td>Investors upgrade employee skills</td>
<td>3.82</td>
<td>1</td>
</tr>
<tr>
<td>Investors pays higher wages</td>
<td>2.11</td>
<td>12</td>
</tr>
<tr>
<td>Investors reduces poverty</td>
<td>2.79</td>
<td>7</td>
</tr>
<tr>
<td>Investors increase organization productivity</td>
<td>2.86</td>
<td>6</td>
</tr>
<tr>
<td>Investors transfer of technological skills</td>
<td>2.71</td>
<td>8</td>
</tr>
<tr>
<td>Investors advance managerial skill</td>
<td>2.59</td>
<td>9</td>
</tr>
<tr>
<td>Investors enhance internal efficiency</td>
<td>3.26</td>
<td>4</td>
</tr>
<tr>
<td>Investors improve the organization international</td>
<td>3.36</td>
<td>3</td>
</tr>
<tr>
<td>competitiveness.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Investors bring in profits</td>
<td>2.44</td>
<td>11</td>
</tr>
<tr>
<td>Investors bring in capital</td>
<td>2.55</td>
<td>10</td>
</tr>
<tr>
<td>Investors bring in project management capabilities</td>
<td>2.87</td>
<td>5</td>
</tr>
</tbody>
</table>

4.5.1 Correlation between FDI and the Implication in Textile and Garment Industry

The section intended to measure the correlation between preplanned FDI and the determinant factor of investing in the textile industry. The findings in Table 4.14 indicated that there was no significant correlation between the variables.

Table 4.14: Correlations between FDI and Implication in Textile Garment Industry

<table>
<thead>
<tr>
<th>Implications of FDI in the Textile and Garment Industry</th>
<th>Pre-Planned FDI</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Pearson Correlation</td>
</tr>
<tr>
<td>Investors create employment</td>
<td>-.277</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.092</td>
</tr>
<tr>
<td>Investors upgrade employee skills</td>
<td>-.055</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.745</td>
</tr>
<tr>
<td>Investors pays higher wages</td>
<td>-.131</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.432</td>
</tr>
<tr>
<td>Investors reduces poverty</td>
<td>-.320</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.050</td>
</tr>
<tr>
<td>Investors increase organization productivity</td>
<td>.167</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.330</td>
</tr>
<tr>
<td>Investors improve the organization international</td>
<td>.340</td>
</tr>
<tr>
<td>competitiveness.</td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.053</td>
</tr>
<tr>
<td>Investors bring in profits</td>
<td>-.075</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.665</td>
</tr>
<tr>
<td>Investors bring in capital</td>
<td>-.246</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.137</td>
</tr>
<tr>
<td>Investors bring in project management capabilities</td>
<td>.085</td>
</tr>
<tr>
<td></td>
<td>Sig. (2-tailed)</td>
</tr>
<tr>
<td></td>
<td>.612</td>
</tr>
</tbody>
</table>

**Correlation is significant at the 0.01 level (2-tailed)**

*Correlation is significant at the 0.05 level (2-tailed)
4.5.2 Regression of FDI and the Implication in Textile and Garment Industry

The regression equation between foreign direct investment and implication in textile industry had a weak correlation. The findings are outline in Table 4.15.

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.432&lt;sup&gt;a&lt;/sup&gt;</td>
<td>.187</td>
<td>.103</td>
<td>.412</td>
</tr>
</tbody>
</table>

<sup>a</sup> Predictors: (Constant), Investors improve the organization international competitiveness, investors create employment and investors upgrade of employee skills

4.5.3 ANOVA of FDI and the Implication in Textile and Garment Industry

On the ANOVA table, the regression was not significant where the (p=.000) was more than 0.05. This shows that foreign direct investment have insignificant impact in the textile industry. The ANOVA Table 4.6 is presented below.

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>1.132</td>
<td>3</td>
<td>.377</td>
<td>2.219</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>4.929</td>
<td>29</td>
<td>.170</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>6.061</td>
<td>32</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

<sup>a</sup> Dependent Variable: Pre-Planned FDI
<sup>b</sup> Predictors: (Constant), Investors improve the organization international competitiveness, Investors create employment and investors upgrade of employee skills

4.5.4 Coefficients of FDI and the Implication in Textile and Garment Industry

The coefficient table indicates the degree of relationship between each variable that represents the implication of foreign direct investment. The constant was 1.231 while most of the variables were statistically insignificant with the impact of foreign direct investment in the textile industry as indicated in Table 4.17.
Table 4.17: Coefficients of FDI and the Implication in Textile and Garment Industry

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>(Constant)</td>
<td>1.231</td>
<td>.868</td>
<td>1.419</td>
<td>.167</td>
</tr>
<tr>
<td>Investors create employment</td>
<td>-.233</td>
<td>.146</td>
<td>-1.592</td>
<td>.122</td>
</tr>
<tr>
<td>Investors upgrade employee skills</td>
<td>.006</td>
<td>.193</td>
<td>-.029</td>
<td>.977</td>
</tr>
<tr>
<td>Investors improve the organization international competitiveness.</td>
<td>.244</td>
<td>.116</td>
<td>.367</td>
<td>.044</td>
</tr>
</tbody>
</table>

a. Dependent Variable: Pre-Planned FDI

4.6 Chapter Summary

On the determinants of foreign direct investment in apparel and textile industry, the findings established that access to government sponsored projects attracted investors as well as the tax incentives. However, a small number of the respondents agreed that the investors are attracted by the local market. On the barriers of foreign direct investment in apparel and textile industry, the findings revealed that investors are affected by the exchange rate fluctuations and the host country labour laws but a small number of the respondents agreed that investors have inadequate capitalization. On the implications of FDI in the textile and garment industry, the findings revealed that investors upgrade employee skills and create employment but fewer respondents agreed that investors bring in profits and capital.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter provides a summary of the study, a discussion on the findings of the research as compared to the findings in the literature review, and recommendations on the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The research is concluded on the basis of the discussion of the research objectives.

5.2 Summary of the Findings
The main objective of this study was to investigate the role and impact of EPZ in attracting FDI in EPZ apparel and textile industry in Kenya. The study was guided by the following specific objectives: To establish the determinants of foreign direct investments in apparel and textile industry, to identify the barriers of foreign direct investments in apparel and textile industry and to examine the implications of foreign direct investments in apparel and textile industry.

Descriptive statistical analysis was used to analyze the collected data. The study adopted a survey research design using both quantitative and qualitative approaches. The target population of this study comprised of 366 EPZ employees. One hundred and eighty nine (189) employees were selected as a sample for this study. Questionnaires were used to gather research information. Some of the tools used for analysis included mean, percentages. The advantage of descriptive statistics is that they enable the researcher to use one or more numbers (for example mean) to indicate the average score and variability of scores of a sample. Inferential statistics was used to analyze relationship between variables. This was done through correlation and regression analysis.

In regards to the determinants of foreign direct investments in apparel and textile industry, the findings indicated that tax incentives are among the most outstanding investment promotion initiative made available for FDIs. Tax incentives available may have a significant impact in attracting FDIs. FDIs may seek to partner with governments when seeking alternate sources of capital or expertise to fund and operate large infrastructure projects or to seed with more established corporations. FDIs are being
utilized as a means of achieving diversification of investments. The development of conducive economic and legal framework attracts FDIs. The availability of physical infrastructure affects the decision of FDIs in selecting the investment place. FDIs is also undertaken to exploit new markets.

In regards to the barriers of foreign direct investments in apparel and textile industry, the findings indicated that FDIs is affected by the lack of sound financial base. The arrangements of FDIs are often extremely complex structures. This may lead to decision triggers that can result in a divergence of ownership interests. The fluctuation of exchange rate can have a significant bearing on the cost of delivering a project among FDIs. High inflation will lead to a rise in production cost. Long term survival of FDIs is affected by corruption. Corruption can also have undesirable consequences on both the revenue and expenditure of FDIs. The lack of technical capabilities is evidently the reason of why major construction projects are awarded to the few large foreign contractors. FDIs face cultural differences as a barrier to organizational performance.

In regards to the implications of foreign direct investments in apparel and textile industry, the findings revealed that FDIs brings advanced managerial skill and enhances internal efficiency and international competitiveness. FDI firms’ may be a critical factor in creating more employment and lead to economic growth. The creation of employment opportunities, either directly or indirectly, has been one of the most prominent impacts of FDIs in the country’s economy. Another indicator of FDI implication is the percentage upgrade of skilled workers by the firms. FDI firms have a higher level of labour quality in their employment composition than domestic firms. FDI firms may play an important role in poverty alleviation through the provision of higher wages. FDI firms advance managerial skills which are important for the economic development of companies. FDIs significantly drive the delivery of project management capabilities leading to a significant growth as compared domestic investment.
5.3 Discussion

5.3.1 Determinants of Foreign Direct Investment in Apparel and Textile Industry

Certain FDIs investors especially from China are willing to enter into foreign markets through government sponsored projects. The findings revealed that a large proportion of the respondents claimed that access to government sponsored projects drive the establishment of FDIs. Similarly, Kumaraswamy, Palaneeswaran and Humphreys (2010) suggests that FDIs may seek to partner with governments when seeking alternate sources of capital or expertise to fund and operate large infrastructure projects or to seed with more established corporations. Matthews (2009) adds that these relationships also act as a pipeline for established businesses to expand with attractive new business opportunities in emerging markets and technologies. In this case, FDIs share significant up-front risks with the government through the sharing of scarce functional expertise or resources spreading the risk.

Tax incentives are among the most outstanding investment promotion initiative made available for FDIs (Matthews, 2009). The findings indicated that most respondents agreed that investors are motivated by the tax incentives. FDIs may decide to invest in another country due to the tax incentives. Similarly, Matthews (2009) explains that the tax incentives available may have a significant impact in attracting Joint ventures. This makes tax incentive a motivating factor for a FDIs or business alliance. Kogut (1988) adds that tax incentives lead to potential gains that accelerate the use of tax attributes among FDIs.

The availability of physical infrastructure affects the decision of investors in selecting the investment place. A large proportion of the respondents agreed that the availability of physical infrastructure affects the decision of foreign direct investors in selecting the investment place. Physical infrastructure save time and reduce the costs of communication and information gathering, thus facilitating easier business activities. Similarly, Fugar, Owusu-Manu and Adinyira (2009) confirm the assumption supported by other empirical studies that countries with more developed infrastructure are likely to succeed in attracting FDIs. The same inference can be made for the technological
infrastructure. The current level of the technology in Kenya may attract FDI through induced technological transfer.

The development of conducive economic and legal framework attracts FDI (Sarpong, 2009). The findings indicated that, a small number of the respondents agreed that the development of conducive economic framework attracts FDI. EPZ endeavour to promote a more transparent business environment and legal framework. Similarly, Debrah, (2012) suggests that the country has been relaxing some restraints and liberalising the areas of restricted investment while streamlining its legal system concerning FDIs. Foreign participation in FDIs brings advanced managerial skill and enhances internal efficiency and international competitiveness. Therefore, considering all the measures to attract FDIs, significant work still lies ahead in improving the economic and the legal environment (Assibey-Mensah, 2009).

Market-oriented FDIs set up enterprises to supply goods and services to the local market. The findings showed that very few respondents agreed that FDI firms are set up as a result of the attractiveness of the local market. This kind of FDI may be undertaken to exploit new markets. Similarly, Jamil, Mufti and Khan (2008) suggest that market growth, and the degree of development of host countries are very important location factors for market-oriented FDIs. The general implication is that host countries with larger market size, faster economic growth and higher degree of economic development will provide more and better opportunities for these industries to exploit their ownership advantages and, therefore, will attract more market-oriented FDIs (Lim and Liu, 2011).

5.3.2 Barriers of Foreign Direct Investment in Apparel and Textile Industry
The arrangements of foreign direct investment are often extremely complex structures. The findings indicated that a large proportion of the respondents who claimed that foreign direct investment experience slow decision making. This may lead to decision triggers that can result in a divergence of ownership interests around factors such as business strategy, the venture’s life-cycle and other exit motives. The partners need to ensure these scenarios are thoroughly evaluated and fully contemplated at the negotiation and implementation stage in foreign direct investment or business alliance for fast decision making (Cisibis, 2007).
The fluctuation of exchange rate can have a significant bearing on the cost of conducting international business operations. The findings showed that a number of respondents agreed that investors are affected by inflation. The fluctuation of exchange rate happens when the local currency is poorly performing against other world major currencies. High inflation will lead to a rise in production cost (Giora and Anderson, 2014). This may be naive to be overly optimistic of any significant changes in the economic performance of the textile industry in Kenya, since the economy is heavily dependent on imports (Deng, Mertenskoetter and de Vondervoort, 2012). Similarly, O'Sullivan (2012) suggests that the macroeconomic health of the nation is thus closely tied to the vagaries of the global crude oil price. For this case, any foreign direct investment may look at the investment as unattractive unless the country is able to stabilize its exchange rates and guard it against fluctuations. But a small proportion of the respondents agreed that the investors are less challenged by the economic disparities between sectors of the economy.

Long term survival of foreign direct investment is affected by corruption. The findings indicated that foreign direct investment is affected by corruption. This indicates that the quality and quantity of business decisions are adversely affected by corruption. Similarly, Pope (2010) indicates that corruption makes business policies become unclear and inconsistent to make any decision relevant and reliable for sound business decisions. Businesses exist to make profits, and in a corrupt environment, the need to survive may obscure the bigger picture objectives of companies, with detrimental results on the wider economy. It is imperative that measures are implemented to curb corruption, especially on issues affecting investors and the economy in general. Corruption can also have undesirable consequences on both the revenue and expenditure of FDIs.

The lack of technical capabilities is evidently the reason of why major construction projects are awarded to the few large foreign contractors (Assibey-Mensah, 2009). The findings indicated that fewer respondents agreed that foreign direct investment experience technical capabilities. The current levels of technical and managerial competencies in South Sudan companies remain doubtful (Agyakwa-Baah, 2009). The emerging new technologies in construction, design, materials and components and the growing sophistication of customer demands when juxtaposed with the current level technical and
managerial competencies of the majority of domestic contractors reveals a barrier that must be closed if the foreign investment partners are to achieve a competitive edge.

Foreign direct investment faces cultural differences as a barrier to organizational performance. The findings showed that cultural differences affect foreign direct investment. There is need to have mechanism to help overcome the barriers that are raised by cultural differences (Fugar, Owusu-Manu and Adinyira, 2009). These changes become manifest in trust between the parties. Trust is also defined as the perceived likelihood of the other not behaving in a self-interested manner (Madhok, 2006). Managers are said to be discovering the key role that mutual trust plays in the success of international alliances and projects (Li et al., 2006). Acculturation can bring a number of important benefits to cross-national collaboration, as evidenced by its association with superior performance. Similarly, Child (2001) explains that trust generates willingness to overcome cultural differences and to work through other difficulties that arise in collaborations.

Majority of domestic contractors and FDIs may lack sound financial base. The lack of sufficient access to funds, credit facilities among other appropriate technological capabilities, plant and equipment threaten the investment sustainability (Egmond and Erkelens, 2007). The findings revealed that very few respondents agreed that FDIs have inadequate capitalization. Sometimes, the financial woes are deepened by delays in payment, especially, for work done on public projects. To sustain liquidity, some contractors trade quality and value for money by compromising on quality materials or workmanship. Some even end up abandoning projects altogether (Westring, 1997).

5.3.3 Implications of FDI in the Textile and Garment Industry

The main implication of foreign direct investment implication is the percentage upgrade of skilled workers by the firms. The findings showed that a number of respondents agreed that FDI has upgraded employee skills. FDI firms have a higher level of labour quality in their employment composition than domestic firms. Similarly, Bogdanovska Djurovic (2012) suggests that FDI firms are more allocative and technically efficient in labour utilisation in production because they put more of their total labour force into direct production and less into non-productive administrative activities as compared to domestic firms. Giora and Anderson (2014) adds that FDI firms tend to hire more employees with
university and higher education than domestic firms, particularly in capital intensive and technology intensive industries. If this is the case, then the spillover effects with regard to the transfer of technology and managerial skills from FDI firms to domestic firms may be quite significant.

FDI firms’ may be a critical factor in creating more employment and lead to economic growth (UNCTAD, 2010b). The findings indicated that a large proportion of the respondents who claimed that FDI creates employment. The creation of employment opportunities, either directly or indirectly, has been one of the most prominent impacts of FDI on a country economy. Similarly, Al-Fattah (2013) suggests that the total employment and urban employment in FDI have increased significantly. This means that most employment opportunities created by FDI. However, Giora and Anderson (2014) warn that this would suggest that FDI might have contributed to widening the income gap between the sectors.

FDIs bring advanced managerial skill and enhance internal efficiency and international competitiveness in the way business is operated. The findings established that most respondents agreed that FDIs improves the organization international competitiveness. Given the need to reform some companies, there is lack of managerial capacity, but FDI aims to improve the competitiveness of the organizations. In addition, a number of respondents also agreed that investors can enhance internal efficiency. Assibey-Mensah (2009) suggests that considering all the measures to attract FDIs, significant work still lies ahead in improving the economic and the legal environment to make the organizations competitive.

Ezeoha (2008) adds that internal efficiency significantly drives the delivery of project management capabilities leading to a significant growth as compared domestic investment. Ezeoha (2008) added that FDI quickens the technology process in the host country through a “contagion” effect from the more advanced technology by multinational corporations. Part of the reason of why government provide special incentives to multinational corporations is to attract foreign direct investments that would lead to the transfer of project skills. Lemma (2011) suggests that FDIs can also have a significant impact on the alliances economic revenue.
The findings indicated that a small number of the respondents agreed that FDIs advances managerial skill. Ezeoha (2008) explains that FDIs in the form of Multinational Enterprises (MNEs) is known to transfer superior technology, management and marketing skills, which are important for the economic development of companies. Developing countries tend to attract these multinational corporations so as to build modern manufacturing industries as well as have access to the best skills and technology. On the same note, UNCTAD (2000) perceive FDIs as a major driving force in the transfer of skills and technology can have a positive impact on the overall economic performance of a country by improving the skills and knowledge of the employees of FDIs firms in beneficiary countries.

FDIs firms may play an important role in poverty alleviation through the provision of higher wages. However, the findings revealed that a small number of the respondents agreed that FDIs reduce poverty. FDIs pay higher rates of employee compensation (wages, salaries, bonuses, and monetary and non-monetary fringe benefits) than domestic firms. This may be the case in all sectors including the textile and garment industry. Similarly, Bogdanovska (2012) explains that FDIs may play an important role in poverty alleviation through the provision of higher wages. According to Ahmed, Cheng and Messinis (2011), most countries in sub-Saharan Africa have experienced stagnant economies, but they are slowly recovering and FDI inflows are necessary to drive economic growth and development. As some countries had indicated slight growth, the economies have the potential to alleviate the level of poverty where more FDI may be needed to come out the situation (Kogut, 1988).

5.4 Conclusion

5.4.1 Determinants of Foreign Direct Investment in Apparel and Textile Industry

Tax incentives are among the most outstanding investment promotion initiative made available for FDIs. Tax incentives available may have a significant impact in attracting foreign direct investments. FDIs may seek to partner with governments when seeking alternate sources of capital or expertise to fund and operate large infrastructure projects or to seed with more established corporations. Some FDIs and business alliances are motivated by the need to share what are often significant up-front risks in developing new products and new business models. FDIs and business alliances are being utilized as a
means of achieving diversification of investments. The development of conducive economic and legal framework attracts FDIs. The availability of physical infrastructure affects the decision of FDIs in selecting the investment place. Also, FDIs may be undertaken to exploit new markets.

5.4.1 Barriers of Foreign Direct Investment in Apparel and Textile Industry

Foreign direct investment is affected by the lack sound financial base. The arrangements of FDIs are often extremely complex structures. This may lead to decision triggers that can result in a divergence of ownership interests. The fluctuation of exchange rates can have a significant bearing on the cost of delivering a project among FDIs. High inflation will lead to a rise in production cost. Long term survival of FDIs ventures is affected by corruption. Corruption can also have undesirable consequences on both the revenue and expenditure of FDIs. The lack of technical capabilities is evidently the reason of why major construction projects are awarded to the few large foreign contractors. FDIs also face cultural differences as a barrier to organizational performance.

5.4.1 Implications of FDI in the Textile and Garment Industry

Foreign participation in FDIs brings advanced managerial skill and enhances internal efficiency and international competitiveness in the production of oil. FDIs are important in creating more employment and lead to economic growth. Hence, the creation of employment opportunities, either directly or indirectly, has been one of the most prominent impacts of FDIs in the country. Another indicator of FDIs implication is the percentage upgrade of skilled workers by the firms. FDIs firms have a higher level of labour quality in their employment composition than domestic firms. FDIs play an important role in poverty alleviation through the provision of higher wages. FDIs advance managerial skills which are important for the economic development of companies. FDIs significantly drive the delivery of project management capabilities leading to a significant growth as compared domestic investment.
5.5 Recommendations

5.5.1 Recommendation for Improvement

5.5.1.1 Determinants of Foreign Direct Investment in Apparel and Textile Industry

The study recommends that tax incentives should be intensively used to attract FDIs. The government can introduce Public Private Partnerships (PPP) to seek foreign direct investment partnerships as alternative sources of capital and expertise in operating large infrastructure projects. Business environment risks should be reduced to attract FDIs and business alliances in developing new products and new business models. FDIs can also consider diversification as a form of new investment. The development of a stable economic and legal framework in a country can attract FDI. Emphasis should be made on the development of physical infrastructure to attract FDIs.

5.5.1.2 Barriers of Foreign Direct Investment in Apparel and Textile Industry

There should be well aligned objectives for the success of FDIs. Sound financial base is an important factor for the survival of FDIs. There should be a simple management structure to ensure the success of FDIs. This may lead to faster decision process that can result in a concentrated ownership interests. The fluctuation of oil prices can be controlled and overcame to safeguard the cost of delivering a project among FDIs. Mechanisms to fight corruption can be put into place to eliminate the undesirable consequences on the operations of FDIs. Acculturation can be promoted to overcome the joint venture faces cultural challenges for enhanced organization performance.

5.5.1.3 Implications of FDI in the Textile and Garment Industry

The transfer of technology and acquisition of advanced managerial skill should be emphasized to enhance international competitiveness of the business alliance. FDI firms’ can be encouraged to create more local employment of employees. Another important emphasis is the upgrade of employee skills and the quality of labour. FDI firms should adhere to employee employment laws to prevent discrimination in terms of gender and provide fair remuneration of wages to reduce the level of poverty. FDIs should ensure that their employee skills are channelled towards economic development of the local partners. FDIs should provide effective ways of delivering project management capabilities for positive returns on the host country petroleum investments.
5.5.2 Recommendation for further studies

The researcher recommends that future studies can be carried out in other sectors of the Kenyan economy and the divestment from the textile and garment industry.
REFERENCES


PWC (2012). *Navigating Joint Ventures and Business Alliances: Success factors in executing complex arrangements that are challenging to negotiate, operate, monitor and exit*. A publication from PwC’s Deals practice.


APPENDIX A: INTRODUCTORY LETTER

Dear Sir/Madam,

RE: REQUEST TO PARTICIPATE IN A RESEARCH STUDY

I am a student at the United States International University Africa undertaking a degree of Masters in Business Administration (MBA). I am carrying out a research as part of the program degree requirements by investigating the impact of EPZ in attracting foreign direct investment in Kenya.

Given your unique position and experience of FDI at the workplace, you have been selected as one of the respondents. Your role in this study will only involve completing a questionnaire. The questions to be asked will relate to your experience and opinions in your area of specialization. It is important that you understand that there is no correct or wrong answer. This research is aimed at allowing you to provide details about what you honestly think.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

Thank you for your indulgence.

Flora Mirugi (Researcher)
APPENDIX B: QUESTIONNAIRE

The purpose of this research is to investigate the impact of EPZ in attracting foreign direct investment in Kenya.

Please note that any information you give will be treated with confidentiality and at no instance will it be used for any other purpose other than for this project. Your assistance will be highly appreciated. I look forward to your prompt response.

Section I: General information

Kindly tick (√) where applicable and do not indicate your names or personal number

1. Sex
   Male [ ]  Female [ ]

2. Age (Years)
   Below 25 [ ]  25-35 [ ]  35-50 [ ]  Above 50 [ ]

3. Educational Level
   Completed Primary School [ ]  Completed Secondary School [ ]
   Certificate [ ]  Diploma [ ]
   Bachelor Degree [ ]  Master of Degree [ ]
   Ph.D [ ]  Other [ ]

4. The status of employment
   Full time [ ]  Part-time [ ]
   Other (please specify) ___________________

5. What is your profession? _________________________

6. When was the FDI started? _________________________________

7. Does the FDI have a pre-planned end date?
   No [ ]  Yes [ ]

8. Kindly give details
   ................................................................................................................
   ..............................................................................................................
Section II: The Determinants of FDI in the EPZ Sector

9. How would you rate the considerations for FDI in the EPZ Sector?

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Investors are attracted by the natural resourcefulness of the local partners</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b. Investors are attracted by the local market.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c. The availability of physical infrastructure affects the decision of investors in selecting the investment place.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>d. The development of conducive economic framework attracts investors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>e. The development of conducive legal framework attracts investors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>f. Investors are motivated by the tax incentives</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>g. Investors and business alliances are motivated by the need to share up-front risks.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>h. A lack of available investment capital is another motive behind investors.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>i. Investors are a means of achieving diversification of investments.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>j. Access to Government Sponsored Projects attracts investors</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

10. What other factors are considered by FDI to invest in the EPZ Sector?

________________________________________________________________________

________________________________________________________________________

63
Section III: Barriers of FDI in the EPZ Sector

11. How would you rate the barriers of FDI in the EPZ Sector?

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Investors have misaligned objectives</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b. Investors experience Cultural differences</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c. Investors have inadequate capitalization</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>d. Investors are affected by violence</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>e. Investors experience slow decision making</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>f. Investors deal with the challenge of inflation</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>g. Investors are affected by the host country labour Laws</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>h. Investors experience technical capabilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>i. Investors are affected by the exchange rate fluctuations</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>j. Investors are affected by corruption</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>k. Investors experience technical complexity of projects</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>l. Investors are challenged by the economic disparities between sectors of the economy.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

12. What other barriers are experienced by FDI investment in the EPZ Sector?

________________________________________________________________________
________________________________________________________________________
Section IV: Implications of FDI in the EPZ Sector

13. How would you rate the implications of FDI in the EPZ Sector?

<table>
<thead>
<tr>
<th>Statements</th>
<th>Strongly Disagree</th>
<th>Disagree</th>
<th>Agree</th>
<th>Strongly Agree</th>
</tr>
</thead>
<tbody>
<tr>
<td>a. Investors create employment</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>b. Investors upgrade employee skills</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>c. Investors pays higher wages</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>d. Investors reduces poverty</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>e. Investors increase organization productivity</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>f. Investors transfer of technological skills</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>g. Investors advance managerial skill</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>h. Investors enhance internal efficiency</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>i. Investors improve the organization international competitiveness.</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>j. Investors bring in profits</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>k. Investors bring in capital</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>l. Investors bring in project management capabilities</td>
<td>1</td>
<td>2</td>
<td>3</td>
<td>4</td>
</tr>
</tbody>
</table>

14. What are the other implications of FDI in the EPZ Sector?

___________________________________________________________________________

___________________________________________________________________________