

**KAMPALA INTERNATIONAL UNIVERSITY**

THE EFFECT OF CULTURE ON FOREIGN DIRECT INVESTMENT

CASE STUDY: UNILEVER COMPANY

KENYA

BY

NG'ETICH K JAMES

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## **DEDICATION**

Great appreciations to my dearest parents Mr. Symon Ng'etich and Mrs. Esther Ng'etich, my brothers Albert and Joshua.

### DECLARATION

I, NG'ETICH K JAMES do hereby declare that this research entitled "Effects of culture on Foreign Direct Investment" is entirely my own original work and that it has not been submitted before to any other university or institution of higher learning of the award of a degree.

Signed:  Date: 10/6/09

## APPROVAL

### Supervisor

This research report entitled, '*the effects of culture on Foreign Direct Investment, case study of Unilever Company Kenya*' has been submitted for examination with my approval as the candidate university supervisor for the award of Bachelors in International Business Administration.

Signed: \_\_\_\_\_



Mr. John the Baptist Baliruno.

Supervisor.

Date: \_\_\_\_\_

16/08/09

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## ABREVIATIONS

FDI Foreign Direct Investment.

UN United Nations.

WTO World Trade Organization

TRIMS Trade Related To investment Measures

## **ABSTRACT**

This report is a result of research carried to find out the effects of culture on FDI. This topic was guided by objectives which were; to examine the different cultural elements, to examine factors affecting the performance of FDI and to examine relationship between culture and FDI.

To achieve the objective of the study, the researcher mainly read and analyzes the existing literature to gather necessary information which was further reviewed to ensure accuracy and consistence of study variables.

The significance of the study was found out to be of great importance to business people, investors and future researchers.

Cultural elements which include; language, aesthetic, religion, taboos, material culture and education affect the smooth performance of FDI as discovered in the research study, though there were also other factors which include political, liberalization and regulatory framework also affects the performance of foreign investment.

The recommendations suggested that cultural adaptability is very important for the success of any firm entering foreign market.

## **CHAPTER ONE**

### **INTRODUCTION**

This chapter looks at the background, statement of the problem, purpose of the study, research objectives and research questions, scope of the study and the significance of studying effects of culture on Foreign Direct Investment.

### **1.0 THE BACKGROUND OF THE STUDY**

Cultural factors are powerful force to the operations of multinational firms and therefore many business operations abroad have failed to accept that, failure to access the depth and force of cultural elements can lead to serious threat to their survival. (Fernando, 2004).

It is important to foreign investors understand the importance of culture in that it will help them in their efforts to satisfy consumers in foreign market. If consumptions patterns are to be solved efficiently foreign operators should understand the culture in the market they intent to serve and the constraints imposed by those societies (Rathor 1996)

Basing on this, therefore whether and by how much a company adapts to the cultural elements depends on various factors. Cultural is the fabric which holds international firms operations (Hofsted, 1983)

According to Stonner (1995), he refers culture as a complex mixture of assumptions, behavior stories myths customs, ideas and metaphors that fits together to define what it means to be a member of a given society. It includes the programming of the mind that differentiates one member of a given society to another. (Hofsted, 1983)

In order for firms to succeed in foreign operations, cultural competence is a determining factor in the effect application of technical know-how and managerial skills. They conclude the cultural competence to include more than mere factual knowledge of the cultural difference but also require the ability to withstand the inner cultural shock that improves their participation. (Rathor 1996).

Understanding of the different cultural diversities in a region is a prerequisite for the success of all activities of Foreign Direct Investment done by Unilever Company (a major manufacturer of food, home care and personal care) the company has its office in Nairobi's industrial area, Kenya.

MISSION- is to add vitality to life. We meet everyday needs for nutrition, hygiene and personal care with brands that help people feel good, look good and get more out of life.

VISSION-our work is directed effective knowledge and skills, method and resources enhanced ethical competence and to making them widely available both within the university and in the wider community.

## **1.2 STATEMENT OF THE PROBLEM**

Basing the world trade organization (WTO) agreement on trade related to investment measures (TRIMS), it aimed at addressing investment measures that was trade restrictive and to promote the expansion and increased liberalization through facilitation of investment across national frontiers (WTO 1994).

However, given this opportunity, FDI have failed to succeed in foreign investments and this has been attributed to the failure of recognizing cultural diversities e.g. the Paris and Rogers international, (PRI), A British telecommunication company withdrew from Bahrain and this was attributed to its failure to adjust to cultural diversities (Daniels, 2002). The researcher is therefore to investigate the extent to which culture affects the performance of FDI.

Therefore Unilever Company needs to step up and understand more the culture of the region they are operating so it can adjust well and perform better in cultural diversities when doing Foreign Direct Investment.

## **1.3 PURPOSE OF THE STUDY**

The purpose of the study was to find out the implications of culture on the performance of Foreign Direct Investment case study of Unilever Kenya Company.

#### **1.4 OBJECTIVES OF THE STUDY**

The objective of the study was to:

To examine different cultural elements

To examine factors affecting the performance of Foreign Direct Investment

To find out the relationship between culture and performance of Foreign Direct Investment

#### **1.5 RESEARCH QUESTIONS.**

The study was to seek for information to answer the following questions:

What are the cultural elements?

What are the factors affecting the performance of Foreign Direct Investment?

What is the relationship between culture and the performance of Foreign Direct Investment?

#### **1.6 THE SCOPE OF THE STUDY**

This study was carried out in Unilever Company LTD (Kenya). The geographical location is Nairobi Kenya. The respondents who participated in this research was management and employees of Unilever Company Kenya at the Nairobi office. A sample of 20 out of 120 employees was prepared. The researcher had chosen the area of study due to his proximity to the place. The study focused on the effects of culture on FDI with culture being independent variable and foreign Direct Investment being dependant variable.

## **1.7 SIGNIFICANCE OF THE STUDY**

The study shall benefit the following groups:

- Investors: it will help future investors in different markets to appreciate the cultural factors literacy as a strategy for survival and competitiveness in the foreign market.
- Businessmen/women: it will help international marketers to improve their promotion strategies and decision making to control and prevent expensive and embarrassing mistakes of failing to understand cultural diversities of different markets.
- Researcher: it is a partial fulfillment for the requirements for the award of the bachelors' degree in International Business Administration.
- The future researchers: it also hoped that this study will serve as a basis of the future research. Future researchers will use this as a basis for further investigation on the same topic or other aspects that this study may have uncovered

## CHAPTER TWO

### LITERATURE REVIEW

#### 2.0 INTRODUCTION

This chapter is reviewing literature on culture and Foreign Direct Investment. It is of great importance and prerequisite for every organization to understand culture, in which it mostly can affect the performance of the organization especially on Foreign Direct Investment. A good organization is the one that understands the culture of a place that it operates in and this will allow the organization to be flexible and stable to meet changes that may occur in cultural environment.

A more elaborate review on the subject of training was extracted from the past studies done with the use of textbooks, journals, newspapers and information on internet. This was in order to establish the knowledge gap that this research will seek to fill.

#### 2.1 Definition of culture

According to Daniel (2003), views that culture consists of people with shared attitudes, values and beliefs; people simultaneously belong to a nation, ethnic professional and organizational cultures.

Culture refers to that part of the total repertoire of human action (and its product) which is socially, as opposed to genetically transmitted (Francis 2001)

Also Hofstede (1983) stated that culture is collective programming of the mind which distinguishes members of one human group from another.

Philip (1983) said that culture is a distinctive way of life of a group of people, their complete design of living.

#### 2.2 Elements of culture

Cultural factors can help firms in various countries to achieve a competitive advantage in the world economy. For example, some observers have argued that cultural factors have helped to lower the costs of doing business in Japan. This may have helped some Japanese businesses achieve a competitive advantage in the world economy. By the same token, cultural factors can sometimes raise cost of doing business. For example, firms based in Britain, a culture that historically experienced class conflict, found it difficult to achieve cooperation between management and labor resulting in many industrial disputes. (Hill, 2003)

According to Terpstra *et al* (2000), he agrees that culture has got different elements which include technological, material culture, language, aesthetic, education, religion attitudes and values and social organization which should be taken into consideration by local firms.

There is also knowledge and beliefs, ideals and preference (Francis 2001)

### **2.3 Language**

Language is a system of patterned sounds often with corresponding written symbols, that a member of a society use to communicate their thoughts and feelings to one another for example French, English, Spanish etc (MacLachlan 2006). Language reflects the nature and the value of a given society. A country's language is the key to its culture. It's imperative to learn the language if one is to work extensively in a given culture. Language difference within countries may indicate social as well as communication problems in which in turn may affect the performance of sales in a given business organization. (Kotler, 1992)

Language diversity has created problems for companies in integrating their workforce and making products truly international level, (Philip 1997). Sak (2002) observed the importance and influence of language. Because language affects thoughts systems that employ different codes may as well employ different methods of thought.

The nature of language also structure the way we perceive the world. Language helps define culture in countries which have more than one language for example; Canada has both English and French speaking cultures. (Charles, 2002)



## **2.4 Material culture**

Material culture affects the level demand, the quality and type of products demanded and their functional features as well as the means of production of these goods and distribution (Roderich, 1980). Material life according to Subhash (2001) refers to economic that is what people do to drive livelihood. The tools, techniques, methods and process that a culture utilizes to produce goods and services as well as their distribution and consumption are all part of material life. Material culture reflects the standards of living and degree of technology advancement.

Cateora (1987) describes material culture as the manner in which people employ their capacities and resulting benefits included in the subject of economies are production of goods and services, their distribution, consumption, means of exchange and the income derived from the creation of utility.

## **2.5 Taboos and culture**

Taboos and beliefs are norms so strongly held by the members of a given society that to violate them is virtually inconceivable for example prohibiting against incest, prohibiting against cannibalism (Macionis, 2006). Beliefs are convictions the existence or characteristics of physical and social phenomenon. We may believe that for example high cholesterol diet causes cancer. Whether this belief is true or not, it's of particular importance in terms of our actions. Even a totally foolish belief may affect the way we behave (Zikmund, 1993).

Sak (2003) affirms that in the modern world, it is easy to dismiss superstitions as nonsense yet superstitious belief play an important role in explaining personal as well as business behavior in all parts of the world. It must be remembered that, people everywhere are human beings with emotions and idiosyncrasies. They cannot be expected to behave always in rational and objective manner.

## **2.6 Religion**

Religion is defined as a system of shared beliefs and values that are concern with the realms of sacred (Hill, 2000). According to Philip (2000), like all cultural elements one's own religion is not often reliable guide of another belief. Many do not understand religion other than their own and what is known of other religion is often incorrect. Religion shapes attitudes towards work and entrepreneurship and cost of doing encourages Christians to glorify God by working hard and being thrifty.

Ethical systems refer to moral principles or values that are used to guide and shape behavior. Most of the world's ethical systems are product of religions. (Hill, 2000)

Weber argued that protestant ethics emphasized the importance of hard work and wealth creation (for the glory of God) and frugality. This was just the kind of value system needed to facilitate the development of capitalism. The above paved way for the development of capitalism in Western Europe and USA.

The values of different religious and ethical systems have implications business practice.(Hill, 2003)

## **2.7 Education**

Formal education is a medium through which individuals' conceptual and mathematical skills that are indispensable in modern societies. Formal education supplements the family's role of in socializing the young in to values and norms of the society. (Hill, 2002).

From international business perspective, perhaps one of the most important aspects of education is its role, as a determinant of the national competitive, availability of pool skilled and educated workers seem to be major determinant of likely economic success of a firm. (Porter, 1994)

## **2.8 Aesthetic**

Aesthetic is closely interwoven with the effects of people and universe on a culture are aesthetics that is its music, drama and dance. Aesthetic are of particular interest to the marketer because of its roles in interpreting symbols of various methods of artistic

expressions, color and standards of beauty in each culture. The uniqueness of culture can be sported easily in symbols, having distinctive meaning.

Without correct cultural interpretation of a country's aesthetic values, whole host of marketing problem can arise; production style must be aesthetically pleasing to be successful. Insensitive to aesthetic values can offend, create a negative impression and generally renders marketing efforts ineffective. (Cateora, 2002).

Aesthetic is the idea in culture concerning art, drama and dance and appreciation of color and form. He also affirms that, there is a significant difference in color, designs and music that varies from culture to culture. An understanding of these differences is critical in creating advertisement messages. (Terpstra et al, 2000)

## **2.9 Knowledge and beliefs-**

One of the features of culture in general that is of special sociological interest is the shared quality of a belief system. People who share a given culture tend to take a hostile towards those within their midst who cannot or will not accept conventional definitions of fact. (Francis, 2001)

### **2.9.1 FOREIGN DIRECT INVESTMENT**

FDI is acquisition of foreign assets for the purpose of controlling them. Under US, regulations, FDI occurs when an investor owns at least 10 percent of the voting stock of a foreign company. (Griffin, 1999).

FDI comprises of investments from non resident entities and vice versa. It comprises of portfolio and other investments (David 2000).

### **2.9.2 FACTORS AFFECTING THE PERFORMANCE OF FDI**

Many countries have during the past begun liberalizing their national policies to establish hospitable regulatory framework for FDI's by relaxing rules regarding market entry and foreign ownership. These core policies are important because FDI's will not simply take place where it's forbidden or strongly impeded. However changes in policies have asymmetrical effect on performance of FDI. Changes in the direction of greater openness

allow firms to establish themselves in a certain location. In contrast changes in the direction of less openness. For example nationalization or closure to entry will ensure a reduction in FDI (UNCTAD 1998). Murshad (2001) supported the UNCTAD world investment report saying that regulatory restrictions like tariffs, quotas tends to discourage cross border acquisition by multinational enterprises. Countries that impose restrictions on foreign entry and ownership, and foreign exchange transactions as well as discriminating tax provisions tend to hamper FDI's flows.

Companies are controlled and managed by people and people may often prefer to operate within their region or within their economic and political bloc. Some of the political faced by foreign investors is expatriation or nationalization by the host country and unfavorable ideas on the role of foreign companies by the host country. (Stanley, 1993)

However, political and structural factors have also been important factor influencing the performance of FDI for example economic uncertainty has retrain Greenfield FDI in Brazil and private sector merger and acquisition transaction have slowed down with increasing economic difficulties in Argentina. In Indonesia the severe recession, uncertainty over economic policies and economic disturbances led to the reduction of FDI in 1998. In addition to this recent analysis found out that the countries policy environment attracts a larger share of FDI's flows whereas high levels of corruption acts deterrent. (Borensztein, 1995)

### **2.9.3 SIGNIFICANCE OF FDI**

Despite the remarkable growth in FDI especially to developing countries as a whole, FDI remain highly concentrated in just a few countries. (Kyaw, 2000)

Foreign investment has numerous effects on the recipient country. It influences the labor market, income, prices, exports and import (Erdal, 2002). Its important vehicle for technology transfer and positive contributor to economic growth (Lim 2001)

Sass (2003), asserts that FDI has great effect in creating employment in the host country. However in contrary, Yash (2001) argues that basing international experience that shows that, FDI's are not accompanied by substantial employment creation and in most cases leads to job losses when public companies are privatized.

Menon (1995) stated that multinational firms can improve labor skills through training, seminar and formal education.

Kyaw (2003) FDI is seen as important source of capital formation especially when it capital bases are low. However, Sandy (2003) said that there has been cases whereby FDI has not led to capital formation but rather grounded out domestic investments.

#### **2.9.4 RELATIONSHIP BETWEEN CULTURE AND FDI**

According to Kotler (1993), business buyers are subjected to many influences when they make their buying decisions. Some marketers assume that the major influence is economy. They think that buyers will favour suppliers who offer lower prices or the best product or service thus concentrating on offering economic benefit to buyers. In most cases buyers respond actually to economic and personal factors.

While evaluating norms and values may seem abstract, they have a direct relationship to marketing. When serving foreign markets, marketers must be aware that every society has its own values which are very different from those held by the majority in the home country. ((Gilbert, 1995).

Uncertainty avoidance and trust influence the location of foreign firms. The choices of foreign firms to invest in countries with lower levels of uncertainty avoidance and high levels of trust are achieved through understanding cultural diversities. Uncertainty avoidance moderates the relationship between host country's trust and levels of FDI such that the relationship between trust and FDI becomes weaker as uncertainty avoidance increases. (Gabler, 2007)

According to Sak 2001, he argues that culture prescribes beliefs, traditions, customs and customs which are then socially shared. Culture is subjective, enduring yet dynamic. It affects people's behavior in diverse ways- through logic, communication patterns.

Although in cases cultural traits are universal, many others are unique and vary from country to country. In spite of national norms, cultural differences as rules even exist between each nation. Because foreign investment takes place within a given culture, a firm's marketing plan takes on meaning it is appropriate only when it is relevant to that culture.

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.0 INTRODUCTION**

This provides description of major headings which include research design, sample size, sample procedure, methods of data collection, and data analysis.

**3.1 RESEARCH DESIGN-** the study mainly used the descriptive survey and qualitative methods. The descriptive method is good in facilitating the collection of data from large populations within a short period of time (Koul, 1986). Qualitative design was used to get detailed information diversity of multiple realities.

**3.2 SAMPLE SIZE-** the population to be targeted was for Unilever Kenya Company employees in Nairobi branch office who are 120 in total who work at the different departments especially human resource and operations departments.

**3.3 SAMPLE PROCEDURE-** a sample of 20 employees of was used. This sample size will be chosen so as to minimize costs. A stratified sampling was important to make sure each group is represented. Stratified sampling obtained by taking samples from each stratum or sub group of a population.

Also purposive sampling was used where a researcher sample with a purpose in mind. Usually would have one or more specific predefined groups the researcher seeks. It helps in questionnaire where the researcher wishes to select particular respondent to test the broad applicability of the research question.

#### **3.4 METHODS OF DATA COLLECTION**

Data was collected mainly through questionnaires, which was administered to casual employees. The questionnaire had both open and closed questions. Interview method was

used to seek information from the top management. Data also was obtained through observation on effects of culture on Foreign Direct Investment.

**3.4.1 Questionnaires-** this are questions which were administered to employees in the firm and the purpose of it was to get information on the effects of culture on Foreign Direct Investment. The administered questions administered were answered by the selected respondents. The respondents were given enough time to answer questions.

**3.4.2 Interviews-** interviews was important and were used on top management like head of departments, and managers. Face to face conversations took place while the researcher filled the already set questions.

**3.4.3 Observation-** this was observation by the researcher on how culture affects the performance of the firm regarding Foreign Direct Investment.

### **3.5 DATA ANALYSIS**

The data from administration of questionnaire, observation and interviews was collected, summarized and edited to check for possible errors. Comparison was then under taken to find out relationship between studied variables.

## CHAPTER 4

### INTERPRETATION AND DISCUSSION OF THE FINDINGS

#### 4.0 INTRODUCTION

This chapter laid down comprehensive analysis of the different views from different respondents in relation to major variables of the study which include; cultural elements, factors affecting the performance of FDI of Unilever company and the relationship between these variables.

#### 4.1 Culture

##### Awareness of culture response:

A TOTAL OF 20 EMPLOYEES

Table 1

| GENDER | EMPLOYEE | MANAGEMENT | TOTAL |
|--------|----------|------------|-------|
| Female | 30%      | 15%        | 45%   |
| Male   | 35%      | 20%        | 55%   |
| Total  | 65%      | 35%        | 100%  |

Source: Unilever Kenya respondents

Female and male employees who responded that awareness of culture was done at the company were 30% and 35% respectively.

In the management side those who responded to the above were 15% female as well as 20% male. The all 20 employees responded that they were aware of cultural elements being done by the company.

#### 4.2 Relation of cultural elements awareness to the job of staff:



Table 2

| GENDER | YES RESPONSE | NO RESPONSE | YES RESPONSE | NO RESPONSE | TOTAL |
|--------|--------------|-------------|--------------|-------------|-------|
| Female | 25%          | 0           | 12.5%        | 0           | 37.5% |
| Male   | 37.5%        | 12.5%       | 12.5%        | 0           | 62.5% |
| Total  | 62.5%        | 12.5%       | 25%          | 0           | 100%  |

(Source From Unilever Kenya respondents)

The numbers of human resource employees were 8 in the organization. The total number of male and female employees who responded that cultural elements awareness was related to their work was 37.5% and 25% respectively. Totaling 62.5%.

Only 12.5% male human resource worker responded that cultural elements awareness was not related to their job.

On the top management on human resource department 12.5% of male and 12.5% of female responded that cultural awareness was related to their job. None responded vice versa.

Operations department response on relatedness of their job to the cultural elements awareness.

Table 3

| GENDER | YES<br>RESPONSE | NO<br>RESPONSE | YES<br>RESPONSE | NO<br>RESPONSE | TOTAL |
|--------|-----------------|----------------|-----------------|----------------|-------|
| Female | 16.6%           | 0              | 16.6%           | 0              | 33.2% |
| Male   | 41.6%           | 0              | 25%             | 0              | 66.6% |
| Total  | 58.2%           |                | 41.6%           |                | 100%  |

(Source from respondents of Unilever Kenya)

The total number of employees in operations department was 12.

The total number of employees who responded was 58.2%. All of them responded that culture was related to their work.

All the top management of operations department responded that cultural elements were related to their work with a percentage of 41.6%

#### 4.3 Duration of the training of staff on how to tackle cultural elements

All the junior staff in both the human resource and operations department responded that training of staff on how to tackle cultural elements that affect the organization was done after every 6months.

Female and male response was 46.2% and 53.8% respectively.

Table 4.below

| GENDER | AFTER 3 MONTHS | AFTER 6 MONTHS | AFTER 1 YEAR | TOTAL |
|--------|----------------|----------------|--------------|-------|
| FEMALE | 0              | 46.2%          | 0            | 46.2% |
| MALE   | 0              | 53.8%          | 0            | 53.8% |
| TOTAL  | 0              | 100%           | 0            | 100%  |

(Source respondents from Unilever Kenya)

Top management response on duration of training of staff on cultural elements. Total of 7 employees questionnaire was administered to.

Table 5

| GENDER | AFTER 3 MONTHS | AFTER 6 MONTHS | AFTER 1 YEAR | TOTAL |
|--------|----------------|----------------|--------------|-------|
| FEMALE | 0              | 42.9%          | 0            | 42.9% |
| MALE   | 0              | 57.1%          | 0            | 57.1% |
| TOTAL  | 0              | 100%           | 0            | 100%  |

(Source from Unilever respondents Kenya)

All the top management in both human resource and operations department also responded that training of staff on how to tackle cultural elements that affect the organization was done after every 6months.

Female response was 42.9% while the male response was 57.1%.

#### 4.4 Response on cultural elements that employees know of:

90% of employees in which the questionnaire was administered to responded that the cultural elements they knew mostly were religion and taboos and beliefs while the other 10% suggested education plus language. Some added on that taboos and beliefs were the ones affecting mostly the company.

#### 4.5 Response on visits to geographical regions to identify cultural elements:

on 20 employees (both top management and junior staff) which the questionnaires were given to 55% of them who were from operations department said that they go to the geographical regions to identify some cultural elements especially before doing an investment but 20% of operation department said that they read documents showing cultural elements found in a specific geographical area. The other 20 % who are from HR department said that they visit the regions to indentify them saying it helps a lot when recruiting workers.

#### **4.6 Response On the way they can do to minimize the bad effects of cultural elements on the performance of the firm;**

The top management suggested that its mainly through training of employees on how to handle cultural elements and avoiding areas where cultural elements may too costly to handle.

33% of lower management said that training of staff was important and 67% said that there was need for the company to sensitize consumers on importance of their products and showing positive about Unilever products.

#### **4.7**

##### **Response on if the organization practice FDI:**

All the junior staff and top management responded that the Unilever Company practice foreign direct investment.

The response of female employees was 45% while male 55%.

The response on junior staff was 65% while the top management was 35%.

how the performance of FDI has been in the Unilever.

Table 6.response rate

| GENDER | YES<br>RESPONSE | NO<br>RESPONSE | YES<br>RESPONSE | NO<br>RESPONSE | TOTAL |
|--------|-----------------|----------------|-----------------|----------------|-------|
| Female | 30%             | 0              | 15%             | 0              | 45%   |
| Male   | 35%             | 0              | 20%             | 0              | 55%   |
| Total  | 65%             |                | 35%             |                | 100%  |

(Source from respondents from Unilever Kenya)

**4.8 Response on how the performance of FDI has been in Unilever**

Table 6

| GENDER       | POOR  | FAIR  | GOOD  | VERY<br>GOOD | TOTAL |
|--------------|-------|-------|-------|--------------|-------|
| Top mgt      | 14.3% | 42.9% | 28.6% | 14.3%        | 100%  |
| Junior staff | 15.4% | 23.0% | 38.5% | 23.0%        | 100%  |
| Total        | 29.7% | 65.9% | 67.1% | 37.3%        |       |

(Source respondents from Unilever Kenya)

**4.9 response on the factors that affect the performance of FDI;**

92% of the top management responded that its political, cultural and economic environments that affect Unilever Company mostly but 8% said that technological environment which affects the company adding that it sometimes expensive to import technology.

All the lower management responded that either bad culture, political or economic environment affects mostly the performance of FDI.

#### **4.9.1 Response to solutions to improve FDI Unilever**

The top management responded that to improve FDI the entire company should study an area very well in terms of knowing how to handle culture, political, technological and economic environment. Adding that this can be done well by training employees on the above.

34% of the lower management responded that doing investments in areas where economic environment is good like favorable taxation, low inflation will only lead to improvements in FDI while the other 66% suggested that if the firm gets to understand the cultures and politics of the people more FDI will be done.

#### **4.9.2 the response on how culture affects FDI of the firm. From both Human resource and operations selected 20 employees.**

Table 7

| GENDER | YES RESPONSE | NO RESPONSE | YES RESPONSE | NO RESPONSE | TOTAL |
|--------|--------------|-------------|--------------|-------------|-------|
| Female | 55.6%        | 11.11%      | 22.2%        | 11.1%       | 100%  |
| Male   | 54.5%        | 9.0%        | 36.4%        | 0           | 100%  |
| TOTAL  | 110.4        | 20.11%      | 58.6%        | 11.1%       |       |

(Source respondents from Unilever Kenya)

**4.9.3 Culture has affected FDI in that;**

When the company wants to invest in a region it has to learn the language of the people especially when doing marketing especially if the information is not interpreted well to local language it may lead to wrong perception of the company by the people.

Also where taboos and beliefs are strongly upheld by a society, it's very difficult to convince people to use a product as they may prefer their traditional products also they may feel betraying their culture when they use such a product. The respondents gave an example of cosmetics which the company produces saying in some regions people prefer their own unrefined traditional goods.

Education also affects the FDI in that, areas where people are less educated, the less they understand the products of the company and they may even have wrong perception.

Where education is high the company's FDI performs well.

In some regions, religion is what affects the FDI, for example, respondents said that in Islamic regions they don't produce pig refined products, thus affecting their market.

**4.9.4 The response on how the effects of culture brought high costs in the practice of FDI in Unilever. Here include both operations and Human resource departments.**



Table 8

| GENDER            | YES<br>RESPONSE | NO<br>RESPONSE | YES<br>RESPONSE | NO<br>RESPONSE | TOTAL |
|-------------------|-----------------|----------------|-----------------|----------------|-------|
| HR Dept           | 75%             | 0              | 25%             | 0              | 100%  |
| Operation<br>Dept | 58.2%           | 0              | 41.6%           |                | 100%  |
| TOTAL             | 133.2%          |                | 66.6%           |                |       |

(Source respondents from Unilever Kenya)

a) Most of the respondents responded that culture has brought high costs in that they have to train employees a lot to handle different cultures and also cost arises when doing a lot of advertising in a region especially where taboos and beliefs also where education level is low to make good perception and understanding of the company to the people.

**4.9.5 The negative consequences that have resulted from effects of culture on FDI as per the response of employees are:**

High costs.

Slow sales especially at the start of operations.

Difficulty in entering a market.

**4.9.6 Interview guide:**

Response on how organization sensitizes employees on culture:

The managers interviewed responded that they are sensitized on culture mainly on attending workshops which are held after 6 months. The Unilever Company also distributes manuals on how to teach them on the effects of culture. This is done by the top management.

Response on keeping cultural elements records:

Unilever Company keeps records on cultural elements especially the ones identified during workshops and the ones experienced in the market.

Response on some cultural elements known to employees:

Some cultural elements found:-

- ❖ Language
- ❖ Education
- ❖ Religion
- ❖ Attitude and values.

Response on how the factors affecting the performance of FDI dealt with in order to improve performance of the firm:

The management identified unfavorable economic environment and political environments as the factors affecting the performance of FDI and they have dealt with it by:

Investing in areas where inflation is not high and where taxes are not high too to avoid high costs. In some areas where political environment is uncertain or unstable, they tend not to invest a lot of money on such regions thus affect FDI though there may be big market on such places.

Response on The areas where Unilever has performed well after identifying factors affecting FDI are:-

The company has performed well in sales; the sales went up over 20% in quarter year. the company set up strategies for example, they have selling subsidiaries in different parts of the region and requesting government to reduce taxes on them in which it has been reduced and thus reducing prices of goods leading to high volumes of sales.

Response on Negative consequences that have resulted from effects of culture on FDI.

- ❖ High costs to the company. The company does a lot of advertisement in some areas but don't buy a lot of its goods because of attitude & values and education. Also a lot of research involved before getting onto a market which taxes a lot of time.
  
- ❖ It has made sales go slow thus problem sometimes when paying employee and also slowed production process in some regions thus not catching up faster with competitors.

## **CHAPTER FIVE**

### **5.0 CONCLUSIONS AND RECOMMENDATIONS**

#### **5.1 INTRODUCTION**

This chapter gives a conclusion based on the findings and the researchers' suggestions and the recommendations about the study.

The proceeding chapters of this report dealt at length with various issues pertaining to culture and performance of FDI.

#### **5.2 CONCLUSION**

In relation to foreign direct investment, cultural differences should be considered when carrying out business operations.

When determining various cultural elements in international business, the problem faced is whether to adapt or not to adapt.

Presence of various international cultures makes performance of FDI quite complex when assessing relationship between culture and performance of FDI. Some factors hindering the growth of foreign direct investment includes emphasis on national cultures without considering the foreign cultures.

In relationship between culture and the performance of FDI foreign investors should analyze the cultural elements of various markets and incorporate in their marketing plan.

The study also revealed that there are other factors affecting FDI such as political, economic and legal factors.

### **5.3 RECOMMENDATIONS**

- ❖ Cultural elements of a society takes time to change, they determine how a society will perceive products and hence their consumption patterns. Cultural elements of a society are in most cases stable compared to other factors affecting the performance of FDI. Foreign investors should study the cultural elements of the foreign targeted market and try to incorporate them into their marketing plan.
- ❖ Cultural adaptability is very important for any firm entering foreign market. Being able to adapt your promotional mix to the culture of the host country will guarantee their success in the foreign market.

### **5.4 SUGGESTED AREAS FOR FURTHER RESEARCH**

The researcher feels that with limited time and not withstanding financial resources constraints the following areas should be researched:

- ❖ Relationship between African cultures and foreign direct investment
- ❖ Contribution of cultural elements on the performance of foreign direct investment.
- ❖ Effects of culture on consumption patterns.

## Questionnaire

I am a student of Kampala International University pursuing a bachelor's degree in International business Administration, carrying out a research to assess the effect of culture on Foreign Direct Investment, a case study of Unilever Company Kenya.

The study is entirely meant for academic purpose, therefore, feel free to avail all relevant information since the information collected shall be treated with ultimate confidentiality.

Thank you so much for your co-operation.

Please tick where appropriate and give details where necessary in the spaces provided.

### Section A

#### General

1) Gender

a) Male

b) Female

2) What is your highest education standard attained?

Certificate

Diploma

Degree

Masters

Others (specify)...

3) Department

4) Designation

5) The period you have worked for the Company.

0-5 years

5-10 years

10 years and above

**Section B**

**Culture**

1. Is awareness of culture to the staff done at Unilever Kenya?

Yes

No

2) Is cultural elements awareness related to your job?

Yes

No

3) How frequently do training of staff on how to tackle cultural elements that affect your organization done?

After 3 months

After 6 months

After 1 year

4) What are some cultural elements you know?

5) Do you go to sometimes geographical regions to identify some cultural elements?

6) Suggest one way a person can do to minimize the bad effects of cultural elements on performance of the firm.

**Section C**

**Foreign Direct Investment**

Does your organization practice Foreign Direct Investment?

Yes

No

If yes, how has been the performance of Foreign Direct Investment in your organization?

Poor

Fair

Good

Very good

Suggest some factors that affect the performance of Foreign Direct Investment?

Give some solutions to improve Foreign Direct Investment in your organization.

**Section D**

**Relationship between culture and Foreign Direct Investment**

1) do you think culture has effects on Foreign Direct Investment of the firm

Yes

No



2) If yes, how?

.....  
.....  
.....

3)

Have the effects of culture brought high costs in the practice of Foreign Direct Investment in the firm.

Yes

No

If yes, how?

4) What are some of the negative consequences that have resulted from effects of culture on FDI?

## INTERVIEW GUIDES

How often does the organization sensitize employees on culture?

Do you keep records cultural elements that affect your organization?

What are some cultural elements that you know?

Has the factors affecting the performance of FDI dealt with in order to improve performance of the firm?

Which particular areas have the organization improved on during the performance of their duties after identifying factors affecting FDI?

What are some of the negative consequences that have resulted from effects of culture on FDI? How costly has effects of culture on FDI brought to your organization?

**Thank you.**

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**KAMPALA  
INTERNATIONAL  
UNIVERSITY**

Ggaba Road, Kansanga \* PO BOX 20000 Kampala, Uganda  
Tel: +256 (0) 41 - 266 813 \* Fax: +256 (0) 41 - 501 974  
E-mail: admin@kiu.ac.ug \* Website: <http://www.kiu.ac.ug>

**OFFICE OF THE DEAN  
SCHOOL OF BUSINESS AND MANAGEMENT**

Date: 4<sup>th</sup> June, 2009

Our Ref: KIU/SBM/RL/002-05/09

THE HUMAN RESOURCE MANAGER,  
UNILEVER KENYA.

Dear Sir/Madam,

**RE: JAMES K. NG'ETICH REG.NO.BIB/9722/61/DF**

The above mentioned is a bonafide student of Kampala International University pursuing a Bachelor of International Business Administration under the School of Business and Management of the University.

He is currently conducting field research and the title of the Research project is "EFFECTS OF CULTURE ON FOREIGN DIRECT INVESTMENT" A CASE STUDY OF UNILEVER - KENYA . As part of his studies (research work) he has to collect relevant information through questionnaires, interviews and other relevant reading materials.

The purpose of this letter is to please request you to avail him with the necessary information he may need.

All and any information shared with him will be used for academic purposes only and we promise to share our findings with your institution.

Any assistance rendered to him in this regard will be highly appreciated.

Yours Sincerely,

**DR. ALFRED NUWAGABA  
DEAN SCHOOL OF BUSINESS AND MANAGEMENT**