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Determinants of Foreign Direct Investment Growth: Kenya's Manufacturing Sector

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Abstract

The FDI indicators in Kenya show a mixed signal and although institutional indexes for Kenya have been worsening over the years, foreign direct investment inflows (FDI) though sluggish has been on the rise. While many theories of FDI have been put forward, mostly ownership, location and internationalization (OLI), the extent to which institutional determinants influence growth of FDI in the Kenyan manufacturing sector has not gotten adequate attention. The combination of institutional determinants and OLI framework in determining flows of FDI has been avoided in this sector. This study using FDI inflows in the Kenyan manufacturing sector and governance indicators data performed a cross-sectional analysis for the period 2009-2013. The findings indicated significant positive relationship between governance and FDI growth which implies that governance determines growth of FDI in the Kenyan manufacturing sector. The evidence presented confirms that a good political climate and good corporate governance are important for foreign investment to flow into a Country.

Keywords: foreign direct investment; corporate governance; political risk; manufacturing sector

1. Introduction

The main argument of this research is that ownership, location and internalization (OLI) (Dunning, 1980), together with institutional determinants influences flow of Foreign Direct Investment (FDI) in a country. In the last two decades, FDI has been a major source of investment capital in developing countries and an important issue in international finance since the globalization of capital markets. FDI is defined as the net inflows of investment to acquire a lasting management interest taken as 10% or more of voting shares in an enterprise operating in an economy other than that of the investor. It is the sum of equity capital, reinvestment of earnings, long-term and short-term capital as shown in the balance of payments (World Bank, 2013).

In Kenya, the largest number of investment projects undertaken by Chinese, Indian and other investors is in manufacturing and infrastructure (UNCTAD, 2009); 80 per cent of these investments are market-seeking which informed this study to concentrate on manufacturing sector. Increasing foreign investment in Kenya can lead to the attainment of sustained growth and development through mobilization of international financial resources (UNCTAD, 2012; World Bank, 2013). Given the unpredictability of aid flows, the low share of Africa in world trade, the high volatility of short-term capital flows, and the low savings rate in Kenya, the desired increase in investment can be achieved through an increase in FDI inflows, at least in the short-run.

1.1 Foreign Direct Investment Trends

Africa has never been a major recipient of FDI flows with the highest level observed in the period 2002-2003 where share of global FDI was 2.5% (UNCTAD, 2004). Inflows to Africa declined in 2011 to $42.7 billion caused largely by the fall in North Africa; in particular, inflows to Egypt and Libya, which though major recipients of FDI, came to a halt owing to their protracted political instability (UNCTAD, 2012). Kenya, the strongest and most diversified economy in the East African region has been a poor performer in attracting FDI over the past decade. However, all indications are that FDI will continue to flow and Kenya will catch up with its East African Community (EAC) partners (UNCTAD, 2012).

A study done by Rodrik (2008) attributes low performance in FDI inflows to a country to skepticism to the virtues of free trade and investment which Kenya also had after gaining independence. Most if not all of East African countries imposed trade restrictions and capital controls in the early 1970's and 1980's as part of a policy of import-substitution industrialization aimed at protecting domestic industries and conserving scarce foreign exchange reserves. This inward-looking development strategy discouraged trade as well as FDI and had adverse effects on economic growth. During the period between years 2000 and 2007, the average FDI inflows in millions of US dollars for Kenya rose significantly to $119 million yet the corruption index had plummeted to 1.6 (Transparency International, 2012). To attract more FDI, the Kenyan Government has made the attraction of FDI a clear policy priority and to this end established Kenya Investment Authority as a semi-autonomous agency in 2004 to promote investments in Kenya. Since then, FDI inflows to Kenya have seen a steady increase, reaching US$ 141 million in 2009 and US$ 133 million in 2010(UNCTAD,2011).

1.2 Determinants of FDI in Kenya

There is a lot of literature written on determinants of FDI in Africa; however the present study focuses on the extent to which a combination of institutional policy and traditional determinants of FDI determine growth of FDI in the manufacturing sector of the Kenyan economy. The studies done have not given enough emphasis to institutional determinants; the literature on FDI in Kenya is also fairly recent and limited (Kinuthia, 2010). Through review of earlier literature the current research has identified and examined the extent to which elements of governance (proxied on democracy and political risk) determine growth of FDI inflows in the Kenyan manufacturing industry.

The literature on determinants of FDI does not say much about how institutional determinants like corporate governance might affect the FDI decision (Jackson, 2008). Recent studies are recognizing the importance of non-traditional factors such as globalization and governance (Dikova, 2007) mainly because FDI in developing countries is shifting from market-seeking and resource-seeking which are horizontal to more vertical efficiency-seeking FDI (Campino, 2010). In all these studies, the role of governance elements still remains largely neglected mainly due to the lack of quality data on corporate governance measures and indicators. Analysis shows that governance framework will depend on the legal, tax, regulatory, and institutional environment in a country (IMF, 2011; UNCTAD, 2012).

Previous studies on determinants of FDI in developing countries including Kenya have largely tested Dunning's eclectic paradigm of ownership, location and internalization (OLI) advantages; (Asiedu, 2002; Kinuthia, 2010; Mutenyo, 2008; Ndung'u & Ngugi, 1999; Obwona, 2001; Onyeiwu, 2005). The studies have concentrated on analyzing the effects of ownership of firm specific advantages (both tangible and intangible) of multinational firms over the local firms on FDI inflows to a country. Aharoni, (1966), Basi (1963), Jensen (2003) show support for political stability and democratic governance as determinants of FDI. Campos and Kinoshita (2003) and Gastanaga et al. (1998) agree on the importance of quality of institutions in determining FDI. Studies show these institutional factors include political, legal, regulatory factors and global market interactions (Busse, 2004; La Porta, 1997; Makola, 2003; UNCTAD, 2003). The motivation of the present study was to examine how FDI growth is determined by among other variables the institutional determinants like governance as supported by mentioned studies elsewhere. Better institutional functions (low corruption, political stability, and legal system reliability) influence on the different types of capital flows where examined was found to encourage FDI (Asiedu, 2006; Mishra & Daly, 2007; Naudé & Krugell, 2007). Other studies also found that the strength and impartiality of the legal system, popular observance of law, strength and quality of bureaucracy, and government stability have a direct effect on FDI.

Elsewhere in developing countries, Busse and Hefeker (2005) find that institutional functions, namely government stability, internal and external conflict, corruption and ethnic tensions, law and order, democratic accountability of government, and quality of bureaucracy, are highly significant determinants of FDI inflows. Daude and Stein (2001) find that better institutional functions have an overall positive effect on bilateral FDI. However, their study finds that some institutional functions have more influence on FDI than others; these include government stability, law predictability, and quality of regulations and policies. Wei (2000) focusing solely on corruption found that corruption acts as a tax deterrent to FDI. Campos et al. (2003) observes that issues of property rights, rule of law, corruption, governance and political security are important factors in influencing foreign investment.

Alfaro et al. (2004) concludes that low institutional quality is the leading factor in explaining the slow capital flows from rich to poor countries. Exploring the determinants of countries' external capital structure, Faria and Mauro (2009) find that the share of FDI and portfolio equity in countries' total external liabilities is positively influenced by quality of institutional functions. Kraay and Nehru (2006) posit that improvement in policies and quality of institutional functions largely reduces the probability of debt distress. Lane (2004) finds that better institutional function quality increases the level of external debt. Mina (2006) and Mina and Martinez-Vazquez (2006) show that better contract enforcement and institutional stability increase the level of international lending a country can attract. Institutions play an important role in supporting markets and transactions by protecting property rights, enforcing contracts, and facilitating collective action to provide physical and organizational infrastructure. They create order, reduce uncertainty in the exchange of goods and capital, and help determine transaction and production costs (Dixit, 2009; North, 1997; Rodrik, 2004). Studies confirm that investors are mostly influenced in their decision by market factors, political factors and in some cases tax policy in FDI location decisions (Agodo, 1978; Lim, 2001; Root & Ahmed, 1979). Hines (2004) finds that on average 1% point reduction in the effective tax rate would increase FDI by approximately 2%. Efficiency seeking FDI in the export oriented manufacturing sector, is found more responsive to tax relief (Blomstrom & Kokko, 2003; Kransdorff, 2010).

Earlier studies (Globerman, 2003; Shleifer & Vishny, 1996; Talamo, 2011) show there are gaps in research done on corporate governance elements in the world although governance can be a major determinant of FDI in a country. This study considered governance elements (both corporate and political) as determinants of FDI and which were investigated. Studies elsewhere show that investors would be very keen to invest in countries where good governance is upheld (Globerman, 2003; Talamo, 2011). This study emerged to fill the gap in the literature on the relationship between FDI flows and the FDI determinants.

2. Statement of the Problem

Manufacturing in Kenya has been on the decline for a considerable period of time with its contribution to GDP stagnating at 10 % from 1960's. The performance of manufacturing sector is affected by low capital injection, limited access to finance and poor institutional framework which has resulted in limited FDI into the country (UNCTAD, 2012). The challenge facing Kenya is how to attract more FDI in dynamic products and sectors with high income elasticities of demand away from the primary sector. Although institutional indexes for Kenya have been worsening over the years, FDI inflow though sluggish has been on the rise (TI, 2012; UNCTAD, 2012). This evidence posed a problem and necessitated an examination of what determines the growth of FDI in Kenya. Earlier studies mentioned in the background have rarely included institutional determinants in their analyses. The importance of institutional determinants in FDI studies cannot be underestimated considering that research done elsewhere found political instability, democratic governance and quality of institutions significant in influencing FDI (Aharoni, 1966; Basi, 1963; Campos & Kinoshita, 2003; Gastanaga, 1998; Jensen, 2003, OECD, 2012).

The Kenyan context is of particular interest for the development and testing of FDI theory due to its high level of governance risk, complex tax regime and the low levels of FDI attracted in the last ten years (UNCTAD, 2012). Evidence shows Kenya is a poor performer in FDI growth in EAC despite the fact that it is the strongest and EAC's most diversified economy. This observation was supported by the fact that extensive research has not been undertaken on determinants of FDI in the Kenyan manufacturing industry and where such research has been done; traditional determinants were mostly analyzed (Kinuthia, 2010; Mutenyo et. al, 2012). Unlike other countries in Africa (Nigeria, South Africa, Ghana, Egypt and Libya) which have benefited from extensive research on determinants of FDI in many sectors (Abdulla, 2010; Asiedu, 2002; Binh, 2002; Rogmans, 2012); Kenya and her manufacturing sector is lagging behind, this necessitated further analysis. This argument is supported by Akinlo (2004) who argues that extractive FDI might not be growth enhancing as much as manufacturing FDI. Research by UNCTAD (2010) also supports this view that FDI in manufacturing is under severe strain due to the drying up of international financial resources. The problem emanated from the fact that the literature available on the determinants of FDI has left gaps while addressing growth of FDI inflows in Kenya and more so in the manufacturing sector.

3 Theoretical and Literature Review

Theoretically, the linkage between FDI, capital formation and economic growth tends to be positive. This is supported by the neoclassical theories and endogenous growth theories that underline that FDI promotes economic growth in a capital scarce economy by increasing volume and efficiency of physical investment (Lucas, 1988; Romer, 1986). Casson (1990) has suggested that the theory of FDI is a logical intersection of three distinct theories: the theory of international capital markets, which explains the financing and risk-sharing arrangements; the theory of the firm, which describes the location of headquarters and trade theory, which describes location of production and destination of sales.

3.1 The Resource- Based Theory

Summarizing multiple MNCs' incentives, Behrman (1972) proposed and developed a typology of FDI. This classification is based on industrial organization theory and corporate governance. According to this theory, MNCs aim to possess resources that are rare, unique and limited so as to beat their competitors in various performance indicators. The resource-based theory explains how organizations achieve sustainable competitive advantage (Caldeira & Ward, 2003)

3.2 Agency Theory

Agency theory, developed by Michael Jensen and William Meckling (1976), has been applied in examining the nature of the relationship in a firm that exists between the principal and the agent (Bradley et al., 1999; Denise, 2001). In an agency relationship, the principal hires and retains the agent because of the agent's specific talents, knowledge and capabilities to increase the value of an asset. This encourages efficient allocation of resources. However, the agent enjoys only part of the outcomes of his efforts (Denise & McConnell, 2003). When shareholders are risk-averse, they should favor a less risky FDI portfolio of the firms they have ownership stakes in (Jensen & Meckling, 1976). A basic factor in the survival and success of the corporate form of organization is the control and monitoring of agency problems (Fama & Jensen, 1983).

3.3 Industrial Organization Theory

The reasons given by Hymer (1960) for the internalization of companies are of two kinds: variables related to the company's dimension and ownership of specific assets like scale economies, diversification and knowledge accumulation and variables derived from the existence of market failures. From this classification of variables, two groups of theories can be distinguished in the literature: those formed within industrial organization (Caves, 1971; Hirsch, 1980; Kindleberger, 1969) and those focusing on the internalization process (Buckley & Casson, 1976; Hennart, 1989; Rugman, 1981).

3.4 Governance as Determinant of Foreign Direct Investment

Governance consists of the traditions and institutions by which authority in a country is exercised. This includes the process by which governments are selected, monitored and replaced; the capacity of the government to effectively formulate and implement sound tax policies; and the state for the institutions that govern economic and social interactions among the citizens (World Bank, 2010).

3.4.1 Corporate Governance

Corporate governance is only part of the larger economic context in which firms operate that also includes macroeconomic policies (Owens & OECD, 2013). Globerman and Shapiro (2002) indicate that national political infrastructure and governance (political, institutional and legal environment) is a major factor influencing the flow of FDI and location's attractiveness. Adrian notes that forms of corporate governance are shaped nationally by economic, political and legal backgrounds, and by sources of finance in the countries concerned (Adrian, 1992). Corruption and low transparency has been found to hinder FDI inflows (Voyer & Beamish, 2004; Zhao et. al., 2003). In examining the impact of governance on FDI inflows, Khamfula's (2007) show that corruption is more harmful in an import substitution world like Kenya than in an export promotion one. Mwega and Ngugi (2007), using panel data of 43 countries with a Kenyan dummy found that FDI is determined by growth rates and quality of institutions. Mkenda and Mkenda (2004) find that governance though not significant is positively related to FDI inflows in Africa. According to Addison and Heshmati (2003) democracy increases FDI flows in developing countries.

Athukorala (2003) finds that lack of improved investment climate such as good governance, accountability and political instability hinders FDI and growth. Countries and firms can attract international investors and effectively compete by improving their governance (Wheller & Mody, 1992) and quality of taxation infrastructures (Wei Shang, 1997). Efficient legal systems, low levels of corruption and high degree of transparency enable quantitative impact on a country's ability to attract FDI (Alesina & Dollar, 2000; Hausmann et al., 2000; La Porta et al., 2000; Shatz et. al, 2000). Obstfeld and Taylor (2003) argue that the African governments can mitigate investment risks in Africa by changing their investment environment characterized by poor governance, limited rule of law and corruption. Talamo (2011) agrees that each country must establish a fair and transparent legal and judicial system in order to attract FDI. Stein and Daude (2000) evidence show that the quality of institutions has a positive effect on FDI flows and that countries that want to attract FDI should improve the quality of their institutions. Hausmann et al (2000), agree that better institutions lead to a reduction of share of FDI inflows and conclude that in comparison to FDI, other forms of capital flows are more sensitive to the quality of institutions. Reisen & Soto (2001) argue that the equity portfolio flows provide benefits such as lowering the cost of equity, increasing market liquidity and decreasing the agency costs by stimulating better corporate governance

Countries with responsible business practices and good corporate governance contributes to a healthy business climate that encourages domestic and foreign investment (CIPE, 2008). Thugge et. al (2011) posits that governance concerns remain an obstacle to Kenya fully exploiting its growth potential through FDI. Poor institutions lead to poor infrastructure (public goods) and a fall in FDI into a market (Blonigen, 2005). However some studies show that a weak corporate governance environment implies the presence of profit opportunities for domestic and foreign investors (Strange & Jackson, 2008; Sudarat, 2006). The relationship between corporate governance and FDI was expected to show a positive sign indicating that greater transparency, rule of law and good quality of institutions leads to more FDI inflows. Democracy and tax rate policy as a proxy for governance were used in this research.

3.4.2 Political Governance

Political instability reduces a country's attractiveness as a location of FDI; according to Dupasquier et al., (2008) political stability is inversely related to FDI inflows. Political events can disrupt the economic order, eliminate markets or even put past investment at risk, as in the case of nationalization and expropriation of foreign owned assets. Even in less radical situations investment is likely to suffer, because instability makes it difficult to predict cash flows (Iskander & Chamlou, 2000). Political risk is identified to be at the top of the managers' concerns prior to and after investment (Tu & Schive, 1995). However some studies have failed to establish a relationship between political risk and FDI flows (Chase et al, 1988). Schive &Tu, 1991conclude that political stability is precondition for FDI. This is consistent with Lucas' (1993) suggestion that events which generate political instability do reduce FDI. Kinuthia (2010) observes that the three main impediments to FDI inflow to Kenya are political instability, crime and insecurity, and institutional factors most notably corruption.

Political tensions have significant negative effects on trade (Longo & Sekkat, 2004). According to Obstfeld and Taylor (2003) political risk is the primary reason more capital is not flowing to Africa despite the incredible potential in terms of low cost labor and vast natural resources. Busse and Hefeker (2005) show in their study that some aspects of political stability like government stability and the absence of internal and external conflicts, matter significantly in determining FDI inflows. Busse and Hefeker (2005) posit that foreign investors are susceptible to changes in political stability of an economy. According to Dutta and Roy (2008), political stability is absolutely necessary for attracting foreign investors for it will ensure that there are less expropriation risks.

Nwankwo (2006) finds that political instability and transition to democracy discourage FDI inflows. Nunnenkamp and Spatz (2003) argue that FDI flows and political risk show significant correlation. Obwona (2001) agrees that political stability is a parameter in determining the flow of FDI. Ngowi (2002) points out that the main factors preventing an increased inflow of FDI in Africa is that most countries are regarded as high risk because they are characterized by a lack of political and institutional stability. The works of Jaspersen et al. (2000) and Asiedu (2002) showed political instability as a determinant of FDI. Political instability creates an unfavorable business climate which seriously erodes the risk-averse foreign investors' confidence in the investment climate and thereby repels FDI (Schneider & Frey, 1985). Wheeler and Mody (1992) found political risk to be statistically insignificant. The infrastructure in place in terms of managing political and economic risk in Kenya is high and in most of the cases scares away investors (Njoroge & Okech, 2011). Alesina and Dollar (2000) however found that FDI responds to economic incentives such as trade regime more than political incentives. Sachs and Sievers (1998) have also argued that political stability is one of the most important determinants of FDI in Africa. A political risk index (PRI) was employed to measure political governance.

The study thus tested the null hypothesis: H1: There is negative association between FDI growth and governance

4.0 Methodology

The research design adopted for this study is mixed descriptive and analytical survey intended to evaluate the determinants of FDI in Kenya. The use of triangulation gave the study reliability and consistency of research results sought for (Brewer & Hunter, 1989). The chosen design was intended to produce descriptions of sought for aspects of the target population, determine the relationships of the variables and generalize the findings descriptively to the target population. This design facilitated testing of the hypotheses that stimulated this study in the first place. The temporal time perspective was cross-sectional and unit of analysis was a firm. This design was expected to provide greater confidence in explaining relationships between variables and for making inferences to the population (Gill & Johnson, 2002). Survey was chosen because it is supported by earlier studies on FDI; a UN report states that survey based studies (questionnaire and/or interview) have played a useful role throughout the history of formal analysis of the determinants of FDI decision making (UN Statistical Institute, 2014). A combination of quantitative and qualitative research designs was used. The target population comprised of finance heads and managers of foreign controlled firms operating in Kenya in the manufacturing sector that met the designated set of criteria. The study targeted a population of 100 firms in the manufacturing sector with significant (over 10%) foreign investment; the firms were sourced from the Kenya Association of Manufacturers directory (KAM, 2014). Eighty one (81) firms were sampled from a population of 100 firms at ±5 percent level of precision.

Primary data was collected using a semi-structured questionnaire which sought to confirm open and closed ended questions. Interviews were also conducted using an interview guide schedule intended to elicit responses from the finance heads of the foreign controlled manufacturing firms. The instruments sought data on governance as a determinant of foreign direct investment inflows in to the sector. Secondary data was obtained from the World Bank published reports; International Country Risk Guide (ICRG) published by Political Risk Service (PRS); Central Bank of Kenya and UN reports. The data pertained to the governance indicators, FDI inflows and political risk for the years 2009 to 2013.

4.1 Model

This study applied Ordinary Least Squares (OLS) regression analysis to explain the causation between variables and the coefficients in respect of each variable. The main model in the study depicts the regression between foreign direct investment growth and governance indicators on the standard OLS model. The data was averaged annually to generate cross sectional indices for use with OLS. The OLS model is shown below;

$Y = \beta 01 + \beta 1X1 + \beta 2X2 + \varepsilon$

Where: X1 and X2 were the independent variables (corporate governance and political governance), Y was the dependent variable (growth of FDI), β01 is the regression intercept, β1and β2 represents the relation between the independent and dependent variables in equation and ε is the residual. The explanatory ability of the model was tested through R2 and F test.

5. Results and Discussions

The secondary data on FDI inflows, governance indicators and political risk rating was analyzed as obtained from UNCTAD, World Bank governance indicators and political risk index from International Country Risk Guide (ICRG) by political risk group (PRS). The dependent variable was computed from UNCTAD reports (2009-2013) and collaborated by various other reports from the Kenyan Government. The secondary data was collaborated by the primary data collected from the firms.

The descriptive statistics for the primary data collected showed that there is significant relationship between both corporate governance and FDI inflows in the manufacturing sector. Analysis of Variance (ANOVA) assesses the overall significance of the model. According to the table 1, $p < 0.05$ (i.e. 0.000), the model of the study sufficiently or significantly explains the variation in FDI growth in the Kenyan manufacturing sector. Research findings indicated that the model accounted for 55.6% of the variation in FDI growth in Kenya as shown in table 2. This finding implies that 44.4% of FDI growth was accounted for by factors outside the model. Findings also indicated that there was sufficient evidence that the model is useful in explaining the variation of FDI growth as it was significant at 95% confidence level (p=0.000). This compares favourably to the findings by Uwubanmwen et.al (2012), Antwi et.al (2013) among others in the developing economies. However the results also showed agreement with studies from developed world among them Igosina (2015), which confirms that governance is a significant determinant of the investment flows in both groups. However the findings were in departure from some studies done both in Africa and elsewhere that show that even if governance both political and corporate influence FDI inflows, the influence is not significant (Kuzmina et al., 2014; Saidi et. al, 2013).

5.1 Correlation Matrix and Multicolinearity Test

Violations of linearity, normality, outliers, heteroscedastic variance, autocorrelation and multicolinearity which would lead to faulty conclusions was tested for and controlled. The presence of correlations between more than two predictors is termed multicollinearity (Chatterjee & Hadi, 2012). A severe multicollinearity problem exists if the variance inflation factors (VIF) for the β's are greater than 10. This was addressed by calculating the coefficient of correlation between each pair of numeric independent variables in the model.

5.2 Regression Analysis and Hypothesis Testing

In determining whether there is relationship between growth of FDI inflows and governance, the study regressed the dependent variable FDI growth and explanatory variables corporate governance (measured using the governance indicators) and political governance (measured as political risk). The regression gave the results in form of the models. The regression results for governance on growth of FDI inflows which was expected to have a positive (+) sign was confirmed by the analysis. The R2 is gotten as 0.556. The F statistic is given as 12.285 with a P value of 0.0000 and the model that resulted is as follows:

$Y = 0.979 + 0.082X1 + 0.137X2$

5.3 Conclusions

In conclusion, foreign direct investment continues to play a key role in the Kenyan economy. Through the empirical analysis, the findings show that there is a positive relationship between the FDI and good governance, whether institutional governance or political governance. The relationships were further found to be significant. The policy implication of these findings is profound for the government policy makers, the political actors and the governance systems within the corporate world. The findings further emphasize the need to have proper and working governance structures in the endeavour to attract more FDI inflows and especially in the manufacturing sector. Creating conducive environment for attracting FDI in the manufacturing sector and by extension the country will increase the pace of economic development through creation of employment, creating markets for local raw materials, improvement of infrastructure and transfer of knowledge and skills to the sector and the country.

However there are negative effects to the local manufacturers who may lose the market to the foreign investors through creation of monopolistic tendencies in the market. This indirectly will make the domestic producer facing the difficulties to survive in the market in the long term as foreign companies can achieve economy of scale with advance technology. The government should come up with relevant policies which will ensure that FDI continues to flow while at the same time creating room for the local producers to benefit. Such policies could be in the line of joint ventures with foreign investors making it possible for transfer of skills and technology and sharing out the benefits. The government should as well enact policies geared towards maintaining political stability such that foreign investors do not have to keep adjusting their strategies every time a new political dispensation ensues. This would mean that the election cycle would not unnecessarily interfere with the running of manufacturing firms as well as attraction of new ones. Good governance to this end will enable fairly simple tax regimes to be put in place at all levels of government eliminating delays in setting up of foreign firms and to a greater extent eradicating bribery and corruption in whole which are high costs for investors.

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Table 1. ANOVA Test Results

	Sum of Squares	df	Mean Square	F	Sig. (p)
Regression	13.034	5	2.607	12.285	0.000
Residual	10.398	49	0.212		
Total	23.431	54			

Table 2. Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.746a	0.556	0.511	0.46065