Challenges Facing MNCs towards Improving Socio-Economic Development of Residents in Nandi County

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Abstract:- A Multinational Corporation (MNC) is an enterprise that engages in foreign direct investment and owns and controls activities in more than one country. MNCs have multiple facility subsidiaries, a common strategic vision and resource pool with foreign nationals placed in key management posts. Quintessentially, studies show that MNCs can hamper economic growth as well as serve as agents of imperialism in the economies where they operate, contrary to expectations, where residents and governments expect positive development in the economies of the regions where they operate. The study sought to evaluate the effectiveness of MNCs towards the socio-economic development of residents of Nandi County. However, the study found out that, MNCs in Nandi County were facing a number of challenges. The study concludes that there are factors hampering the effectiveness of MNCs towards the socio-economic development of the residents of Nandi County. Unfavorable weather, fluctuating tea prices and wages as well as union demands have hampered too the effectiveness of MNCs' work in Nandi County.

Key Words: Multinational Corporations, socio-economic development, Nandi County

I. INTRODUCTION

A Multinational Corporation (MNC), also called a Transnational Corporation (TNC), is an enterprise that engages in foreign direct investment and owns and controls activities in more than one country. It typically has multiple facilities subsidiaries with a common strategic vision and resource pool and often places expatriates in key management posts. An MNC can also be defined as a firm that owns or controls income-generating assets in more than one country (Erwee, 2007), (Fieldhouse, 2000). Okoth (2012a), defines Transnational or Multinational Corporation (T/MNC) as an enterprise which manages production establishments or delivers services in at least two countries. It is also a company engaged in economic activities and opportunities beyond its borders, and which lobbies foreign governments about trade (Okoth, 2012a). In 2016, Mbukwa defined MNCs based on their activities and ownership. He defines a multinational corporation as “an enterprise that engages in Foreign Direct Investment (FDI) and owns or controls value adding activities in more than one country” (Mbukwa, 2016). These MNCs can be either public companies, with shares traded in stock exchanges or private companies such as Cargill. Their structure usually comprises a ‘parent company’ based in the country of origin, which exerts very strong influence on subsidiaries in foreign countries like those in Africa and other Global South regions. Okoth (2012a), says that MNCs have played a more predatory than constructive role in enabling Uganda to maintain good diplomatic relations with its neighbors (Okoth, 2012a). In Kenya for example, despite various forms of interventions and economic policies the country continues to perform poorly (Tirimba & Macharia, 2014). This continues to be despite the long regime of MNCs. Unfortunately, for Kenya, the manufacturers are the MNC subsidiaries with global interests that often conflict with the national desire. A study to determine the MNCs’ perpetuation of poverty that was conducted in the cities of Kenya indicated the prevalence of poverty by regions. National percentage stood at 52%. Urban prevalence of absolute poverty is overwhelming despite the fact that MNCs operate in major urban centers. Kisumu had the highest percentage of absolute poverty, food poverty and hardcore poverty respectively. Urban food poverty was at an average of 35% while overall poverty was at 45% (Müller, et al, 2005). This clearly indicates that indeed MNCs are not really helping the country to get out of poverty.

In Nandi County, Multinational corporations have been operating particularly in the agricultural tea sector. But lately they have dominated discussion on political economy particularly in cases whereby the members of the County Assembly insist that the lease period of these MNCs should not be renewed upon expiry. It is thus, against this backdrop that this study endeavored to examine multinational tea corporations and their influence on the socio-economic status of the residents of Nandi County.

II. METHODOLOGY

Decisions regarding what, where, when, how much, by what means concerning an inquiry or a research study constitute a research design. A research design is the arrangement of conditions for collection and analysis of data in a manner that aims to combine relevance to the research purpose with economy in procedure(Kothari, 2004). The study was conducted using a descriptive survey research design. This design was preferred since it helped the researcher obtain the overall picture of the respondents including their; attitudes, experiences and opinions regarding MNCs and how they
influence their general wellbeing. The study was conducted in Nandi County. The county was chosen because among the counties which are home to tea MNCs in Kenya, it has the highest poverty index of 47.4%. This is contrary to the expectations that MNCs improve the economic status of its host country. The county is located in the North Rift part of Kenya. The County is home to 752,965 people and occupies an area of 2,884.4 Km². It borders Kakamega County to the west, Uasin Gishu County to the North East, Kericho County to the South East, Kisumu County to the South and Vihiga County to the South West, (KNBS, 2010). There are six sub-counties in Nandi county which include; Nandi North, Nandi Central, Nandi South, Tinderet, Chesumei and Nandi East. Among managers, 3 senior managers and 7 middle level managers were interviewed as were 29 national government administrative officers and 3 county government officials. Among the workers, 185 permanent and 40 casual workers were sampled. Seventy two tea farmers were sampled among 723. The total participants sampled were 339.

![Map of the Study Area-Nandi County](image)

**Figure 1.1 Map of the Study Area-Nandi County**

Source: Field Data, 2019

### III. FINDINGS

As much as the MNCs could be trying to improve the socio-economic status of residents in Nandi County, they have not been as effective as they are expected to. This has been caused by a number of challenges faced by the MNCs. These challenges are: frequent strikes by the workers, insufficient skilled manpower, government policies, political interference and poor road network.

In as much as the MNCs would have wanted to improve the socio-economic status of the residents, frequent strikes by the workers derail them. Whenever the workers down their tools, there is a lot of wastage in the company which is brought about by the absence of the workers. The green leaves in the farms are supposed to be harvested at specific stages, when these workers are not plucking the green leaves, they overgrow and end up going to waste. The green leaves delivered by the farmers also goes to waste because there will be no workers in the processing plant. The green leaves are highly perishable and therefore if they are not handled well after plucking, they go to waste. This increases the cost of production for the MNCs and once the cost of production goes up, this affects their profits. This in turn makes them reduce the amount they could have spent for CSR (Interview with top level manager at Chesumei Trading Centre, on 7/5/2019, Nandi County).

The researcher observed that MNCs, are a contributing factor to these strikes. The workers down their tools because they are agitating for better salaries and working conditions. What most of the workers earn, as seen earlier, is barely enough to enable them provide basic needs for their households. Some
of them are working without protective gear. This exposes them to health risks.

The findings of this study are in tandem with Blanton & Blanton (2009) who suggest that low-tech industries are more likely to be characterized by mostly low-skilled workers, who are the most vulnerable, least protected and unheard workers, who are subject to more abuses compared to skilled workers (Blanton & Blanton, 2009). There is the well-known example of the labour abuses that emerged in the 1990s in Nike’s supplier factories, which included long hours, forced overtime, hazards from toxic chemicals, physical punishments, and so on (Litvin, 2003).

Traditional forms of colonialism are giving way to new forms: neo-colonialism (Frank., et al 2008). At the forefront of this type of exploitation are the MNCs. In their search for profit, these companies allegedly exploit LDCs for cheap labour, cheap raw materials and new markets. The search for new markets encouraged Western companies to expand in size and market their products globally.

These MNCs imported raw materials from the LDCs and exported manufactured goods back to them. After World War II, increasing numbers of companies started to produce manufactured goods in the LDCs, taking advantage of cheap labour, relaxed health and safety laws and low taxes. Simpson and Sinclair point out that MNCs now dominate the capitalist world economy and many have greater economic and political power than LDCs (Simpson & Sinclair, 2004).

The frequent strikes sometimes extend for long periods of time forcing the MNCs to lay off the workers. They end up hiring new workers who do not have the necessary skills and experience. The high turnover of the workers coupled with the unskilled casuals hired to bridge the gap of those laid off has proved to be costly to the MNCs.

In view of the prevenient postulation, one of the respondents reasoned that:

These unskilled workers have low output and will need to be closely supervised and sometimes learn on the job. In most cases when an employee is learning on the job, they make many mistakes which end up being costly to the MNCs. Such mistakes may include frequent breakdown of the machines and equipment which will require frequent repair or replacement. The quality of the products is also not guaranteed because those handling them do not have the necessary skills. However, the MNCs have contributed to this challenge by employing unskilled workers. They avoid employing qualified workers with the necessary skills because they are not willing to engage in formal contracts with them. A qualified workforce will also demand higher salaries which the MNCs are not ready to pay (Interview with top level manager on 10/5/2019, at Nandi Central ,Nandi County).

These findings agree with a study by Domar (1994) that 1.8 billion people, or more than half of the global labour force, are working without a formal labour contract and social security (Domar, 1994).

Even during good times with robust growth rates, in many developing countries informal employment increased in some regions with the existence of MNCs (Abdullah, 1997). The MNCs have been perceived as the agent of the western state in Africa. To the multilateral organizations, especially the WTO and the Bretton Woods Institutions, they have been a Trojan horse (Okoth & Were, 2018).

Contrary to the expectation of most countries, the MNCs’ transfer of technology is of no economic significance to the host state. What passes as technology transfer is not that the technology transferred is appropriate but that it is available (Ake, 2002). The technology so transferred is often obsolete, archaic, expensive and often unsuited to the application and demands of the host state.

Political interference and government policies were also found to be challenges that are making the MNCs ineffective in improving the socio-economic status of residents in Nandi County. In Nandi County, the political leaders have been urging the government not to renew the land leases after they expire. This was after the Conversion of the freehold titles and 999 years land leases to 99 year leases with effect from 25th August 2010 in line with the Land regulations 2017 and the 2010 constitution without compensation. The Constitution of Kenya, 2010, changed the ownership of the land leased to non-Kenyans, the MNCs being one of them from the initial 999 years to a period of 99 years. The political leaders feel that these parcels of land were taken away from Kenyans unfairly during the colonial rule. They have in fact decided to seek compensation from the British government to the residents of Nandi and Kericho counties, where the tea MNCs are located. This may end up discouraging the MNCs from future investment especially in heavy machinery and making permanent investment. They may start looking for exit strategies, and other countries where they can shift base if need be. In so doing, the MNCs will have little or no interest in making investment in either the education, health, water or road infrastructure. This in effect does not have a positive influence on the socio-economic status of the residents.

Those who view multinational firms as engines of economic development maintain that multinational firms contribute resources that are generally not available or insufficiently available, namely: capital, technology, managerial and marketing skills and create jobs and alleviate balance of payment deficits of their host states through import substitution industrialization (Chukwuemeka., et al, 2011). Reports also indicate that foreign direct investment contributes to economic growth through technology transfer...
with the multinational firms transferring technology either directly to their foreign owned enterprises or indirectly to domestically owned and controlled firms in the host country (UNCTAD, 2000).

The modernizing influence of the MNCs and the associated foreign direct investment (FDI) have been a recurring theme in the economic development and developmental state discourses (Dabour, 2000); (Meysn & Musamba, 2010). MNCs and FDI have been linked to promotion of trade and development, technology transfers, human capital enhancement, competition and enterprise development (Bloningen, 2006); (Cohen, 2007)

On the other hand, the special characteristics of MNCs can cause conflicts with national governments, because governments are territorially bound and politically committed to defending the interests of their citizens, whereas firms are not territorially bound and are legally committed to defending the interests of their stockholders or stakeholders. Most importantly, multinational corporations may seek goals or follow policies that are valid from the firm’s international perspective but are not necessarily desirable from a national perspective (Gilpin, 2001). Political interests and Government policies are therefore seen by the MNCs as a challenge to their effectiveness in influencing the socio-economic status of residents, whereas the political leaders and the government use this as a way of defending the interests of their citizens. According to Simpson & Sinclair (2004), the MNCs are not accountable for their actions in law. Many have been accused of interfering in the internal politics of LDCs to ensure that local élites supportive of their activities retain power (Simpson & Sinclair, 2004).

MNCs may interfere in the politics of the home and host states. There are several ways in which they might attempt to influence politics in host countries. In the most extreme case, they might overthrow an unfriendly government or keep a friendly regime in power. They might intervene in elections through legal or illegal campaign contributions or take action to support or oppose particular public policies (Hashimu & Ango, 2012)

Frynas (1998) offers a perspective in focusing on political instability and its relations with business in Nigeria. The author finds that an unstable elite and frequent government changes play in the favour of oil companies by preventing the administration from passing and enforcing a petroleum policy to regulate and control the industry’s operations (Frynas, 1998). Clark (2010) supports this by arguing that the interest of MNCs is not tied with the nation they are operating. They are therefore not in a position to assist these nations in solving their economic problems.

Mcphail (1988) asserts that because of the size of MNCs they could be used to undermine the sovereignty of states through political manipulations. The proponents of this view argue that MNCs could be used as a foreign policy instrument of its home government, by converting their economic power into political might (Mcphail, 1988). As noted by Chukwuemeka and Obingene (2002) MNCs can plot drastic actions against any government that dares to oppose its interest in the economy for instance, in 1970, ITT meddled seriously in Chilean politics by campaigning against the elections of the late Salvador Allende Gassen because of his Marxist convictions, and when elected the company plotted his brutal overthrow and murder (Chukwuemeka & Obingene, 2002).

The other challenges are:

A. Unfavorable weather

Climate change has had adverse effects not only on the tea sector but on all aspects of life. There has been adverse climatic conditions in many parts of the world. Long periods dry spells, (La Nino), followed by sudden and prolonged seasons of heavy rainfall (El Nino). This sudden change if climate has made it difficult for the meteorological departments to give accurate weather forecasts. This has had an adverse effect on the farming seasons and production of both food and cash crops. Animal farming has equally been adversely affected.

Tea production has experienced problems coming from weather vagaries. The very high temperatures during the prolonged dry spells do not allow the green leaves to grow. The growth rate of tea during this period drastically goes down and even the little that is harvested has very low moisture content. This in the long run produces poor quality products. When the rains finally come, they are sometimes too heavy, and with hailstones. These heavy rains cause leaching of the fertilizers in the soil, while the hailstones leave the leaves torn or sometimes clear the leaves from the tea plant. This leads to poor quality of the green leaves which in the long run leads to poor products. This also causes losses to the MNCs and the farmers who had invested in the farm inputs (Interview with tea farmer at Chemusai on 11/05/2019,Nandi County).

As canvassed in the foregoing finding, there is an interrelatedness of climatic variations affecting tea growing in Nandi County and MNCs’ destructive ventures. Hence, many MNCs have been accused of environmental destruction and pollution and playing a major role in the eviction of native people from their land. Moreover, some have been accused of marketing drugs and pesticides banned in the West (Simpson & Sinclair, 2004).

B. Tea prices

Tea production in Kenya has been growing with the number of tea farmers increasing. This had led to a drop in the sale of tea at the auction. Whenever there is surplus production of tea, the prices are expected to fall. This is transferred to the
farmers who deliver their green leaves to the MNCs. This is despite the fact that the prices of the farm inputs have remained high. What this means is that the farmer has to bear the cost. In the end, the farmer is paid very little for the tea delivered to the MNCs and therefore remains poor as the earnings from the tea delivered to the MNC do not improve his/her socio-economic status.

In regard to the prevenient discussion, one of the respondents argued that:

More often than not tea prices fluctuate and this makes farmers suffer even when they have to contend with high prices of farm inputs. Some who are technologically and economically disadvantaged, hardly acquire these inputs because of high poverty levels and instead resort to remote methods of tea growing (Interview with tea farmer on 12/5/2019 at Nandi East, Nandi County).

The findings of this study are in agreement with Goncalves (2000), who is of the opinion that, all the talk of economic globalization is nothing more than a euphemism for neocolonialism a system under which the poverty of the people of underdeveloped nations will increase, while the rich nations continue to prosper through privileged access to assets, unequal trade practices and liberal investment policies that are most likely to push smaller, local firms into insolvency (Goncalves, 2000). In addition, the nature of Multinational Corporations is the maximization of profit at the lowest possible cost and the idea of investing in foreign land is not to better the locals but to exploit as much as possible in order to develop the home country (Ozoigbo & Chukuezi, 2011). Similarly, some scholars argue that it is not in the nature of the MNCs to solve social or economic problems of the host countries (Hashimu & Ango, 2012).

C. Wages and union demands

The wage negotiations remain unresolved for the Collective Bargaining Agreement years of 2014/15, and 2016/17 which creates uncertainty in the cost base and agitation, frustration and industrial action at the operational level. To mitigate the risk of escalating labour costs, the company’s efforts to develop more mechanized processes continue. To this end automated withering has been installed on a trial basis in the Chemomi factory and the area under mechanized tea harvesting has expanded and will continue to do so. The research and development initiative into new harvester technology continues with the engagement of a UK specialist engineering company to design and fabricate a new prototype.

As much as the union demands are a challenge faced by the MNCs in effectively influencing the socio-economic status of residents in Nandi County, the MNCs on the other hand are unwilling to negotiate better terms for their employees. The trade union’s mandate is to negotiate for better terms and working conditions for their members. The MNCs on the other hand are quick to lay off employees who agitate for better working conditions. The MNCs have resolved to reduce their workforce by introducing the tea plucking machines.

As much as this might look like the solution to the MNCs, the machines are still supposed to be operated by workers who do not have the required skills and knowledge to operate them. This might end up causing more conflicts as it is likely going to result into injuries and breakdown of the machines if not properly handled.

Although critics admit that MNCs may well have created jobs, they contended that multi-nationals, on the balance and when compared with domestic firms, do in fact destroy jobs because they employ capital-intensive technologies of third world countries. The so called technology the MNCs transfer to host third world countries is obsolete, overpriced, inappropriate and inconsistent with the factor endowment of host states. More fundamentally, MNCs create enclave economies (Eze, 2011).

These findings are in agreement with a study by Otokiti in Nigeria which revealed that challenges faced by multinational firms during entry into the Nigerian market include government regulations and policies, geographical location, language barrier, shortage of skilled labor, and low level of technological development (Otokiti, 2012). From a technology transfer perspective, weak levels of intellectual property protection in developing countries prevents both down-stream and up-stream technology transfer activities; the fear of the unauthorized use of proprietary knowledge prevents foreign companies from entering into technology transfer activities with local entities and on the other hand it also deprives local innovators of the opportunity to license their inventions to foreign entities (Awolusi, 2012).

According to Iyela (2009), corruption increases the cost of doing business and as such foreign investors would prefer to invest in countries with lower rates of corruption which is believed to derive maximum profits from their investments (Iyela, 2009).

The managers were also able to suggest solutions to these challenges. Nine (90%) of the managers were of the opinion that proper Collective Bargaining Agreements (CBAs) between the employer (MNCs) and the workers would solve the problem of frequent strikes. Only 1 (10%) did not mention it as a solution. Nine (90%) of the managers also felt that continuous training and capacity building of the employees could help address the challenge of insufficient skilled manpower as this could continuously improve their skills. Eight (80%) said that coming up with proper policies that would neither hurt the residents, state nor the MNCs would improve the MNC’s effectiveness in improving the economic status of the residents. Two (20%), however did not come up with this as a solution to the challenge. On the challenge concerning poor road network, 7 (70%) said cooperation and collaboration between the MNCs and the government would help improve the road network and continuously maintain
them in good condition. Three (30%) of the managers did not suggest this as a solution.

From the findings of the study one of the top level managers mooted that:

There is need of coming up with proper Collective Bargaining Agreements (CBAs) between the employer (MNCs) and the workers to solve the problem of frequent strikes, continuous training and capacity building of the employees could help address the challenge of insufficient skilled manpower as this could continuously improve their skills. There is also need for the government to put in place proper policies that would neither hurt the residents, state nor the MNCs. This will improve the MNC’s effectiveness in improving the economic status of the residents. Cooperation and collaboration between the MNCs and the government would also help improve the road network and continuously maintain them in good condition (Interview with top level manager at Nandi South on 14/5/2019, Nandi County).

The researcher contends that, for this suggestions to work and enable the MNCs to effectively improve the socio-economic status of the residents, all the parties involved, that is the Government, the MNCs and the residents will need to be willing to cooperate. For example, the workers have to be willing to undergo further training in order for them to gain more skills. The MNCs on the other hand need to be willing to allow the workers attend the trainings and sometimes sponsor the trainings. For the CBAs to work, the MNCs need to agree on wages that exploits neither the workers nor the MNCs. The Government on the other hand through the relevant ministry in charge of labour, should come up with policy guidelines that will guide both parties in negotiations.

All the managers (100%) who participated in the study, said that the management held meetings with the workers to discuss their working conditions, but 7 (70%) said that the meetings were held rarely, while only 3 (30%) said they are held quarterly in their company.

Six (60%) of the managers also said that the operations of the MNCs in the country improves the relationship between Kenya and the parent country of the MNCs through the trade that goes on between the two countries. Four (40%) however felt that the operations of the MNCs in Kenya have not had any change in the relationship between the two countries.

IV. CONCLUSION

The study concludes that, there are factors hampering the effectiveness of MNCs towards the socio-economic development of the residents of Nandi County. There are socio-cultural factors that affects consumer tastes. These include rampant corruption and robbery. Besides, industrial strikes also affects the effectiveness of MNCs towards bolstering the socio-economic welfare of the residents of Nandi County. Unfavorable weather, fluctuating tea prices and wages as well as union demands have hampered too the effectiveness of MNCs’ work in Nandi County.

V. RECOMMENDATION

The study recommends that the government should come up with clear policies and regulations that do not cause uncertainty in the operations of the MNCs. The policies and regulations should also ensure that neither the parent nor the host country exploits the other.

REFERENCES


