EFFECT OF PROFIT REPARTRIATION PRACTICES ON PERFORMANCE OF MULTINATIONAL CORPORATIONS LISTED ON NAIROBI SECURITIES EXCHANGE MARKET KENYA

BY

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ABSTRACT

Developing countries grapple with the problem of profit repartriation due to lienient transfer pricing policies, illicit outflows in subsaharan africa have grown form $12.1 billion to $ 68.6 billion between 2003 and 2012, whereas developing economies have lost $ 6.6 trillion over the same period. Despite enactment of tighter regulation especially on transfer pricing Multinational corporations (MNCs) have continued to engage in the illicit practices. On other hand Multinational corporations (MNCs) have not been perfoming at an optimal capacity as depicted in their profits and return on investments. There is mixed literature and results on profit repartriation practices on MNCs. Therefore, the study sought to assess the influence of profit repartriation practices on performance of Multinational Corporation listed on Nairobi Securities Exchange in Kenya.specifically the study sought establish the role of, transfer pricing, royalty payment, interest payments and re-invoicing on MNCs performance. The study had transfer pricing, royalty payment, interest payments and re-invoicing as independent variables and peromance as the dependent variables. The study was anchored on Keynesian and Signalling effect theory. Descriptive research design was adopted. The population was 23 MNCS listed on the securities exachange and a sample of 20 companies was purposively selected. interest in the study consited all the MNCs quoted in the NSE. The study thus picked 23 MNCs. Data was collected using semi structured questionnaires and personal interview. Data analysis was done through descpritve stastics and inferential startistic was thriugh pearsons correlation. The research found that there a signifact relationship between the independent variables and dependent where interest on loans with an r= 0.81, royalty payments r=0.5685, transfer pricing r= 0.4637 and re-invoicing r= 0.4957. The study noted that profit repatriation by MNCs leads to their poor perfomance with negative effects to the host country.The study recomends for tougher rules by the host countries to minimise profit repatriation and ensure there is a correct reporting system by MNCs to maximize the benefits. The study would go along way in improving on policy formulation and implementation and for academicians an avenue for further study.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Multinational corporations (MNCs) are incorporated or unincorporated enterprises which comprise parent enterprises and their foreign affiliates (UNCTAD 2007). The Origin of Multinational Corporations (MNCs) in Kenya dates back from 1963 to 1980 when most MNCs originated from Great Britain, Western Europe and the USA. From 1980 onwards, many MNCs have come from Asia Pacific- Japan, South Korea, and China. Very few have come from other developing countries like India and South Africa. The MNCs access the Kenyan market through inward Foreign Direct Investment (FDI) which allows firms to control management and all other policies of the company due to the level of investment. The FDIs include existing MNCs that reinvest their earnings in the country or bring in fresh investment funds from abroad. The second approach is outward FDIs where the MNCs that operate in Kenya would expand their operations to the neighboring countries using Kenya as a base and can export funds earned in Kenyan operations and reinvest in neighboring countries. Generally all MNCs in Kenya seek free markets, peace and security, good infrastructure, availability of commercial services and availability of both managerial and ordinary manpower, (Nzomo, 2009).. MNCs derive profits by using a strategy of internationally seeking enhanced differentiation and reduced costs (Caves, 1996). To achieve this, they place different stages of their production in places with cheap affordable inputs and differentiate their products. MNCs derive maximum profits by selling these products in both local and international markets. MNCs are listed in Kenya to comply with the regulation.

1.1.1 Profit Repatriation

Profit repatriation is the conversion of foreign currency into one's own currency and use in the foreign country. Profit repatriation can be in various forms; transfer pricing, royalty payments, interest payments on financing and re-invoicing centre's. These are processes which minimize tax and increase profits of the parent company. These processes depict MNCs as making low profits and thus not attractive to invest in. Most MNCs perform lower than the local companies listed on Nairobi Securities Exchange (NSE, 2013).These MNCs report lower profits than they actually generate. In accounting, profits can either be retained or paid out as dividends to shareholders. The majority shareholder makes major decisions in regards to the direction of the corporation among them dividend payout. The can decide a higher dividend payout to themselves or can also declare no dividends.Distribution of dividends and retention of earnings for growth are in conflict(Bar-Yosef & Huffman, 1986).A high dividend payout may be harmful in the long term. In case of an expansion of MNCs or a loss incurred by it, retained earnings are used to cover the same. With a high dividend payout, the company has to borrow either from the financial institutions or shareholders.In the recent past, the amounts of profit repatriations by the MNCs is raising concerns regarding the extent to which the offshore remittances affect the amount of retained earnings and level of investments of the MNCs in their host countries (Nordberg, 2008).The revenue earned by the parent company in such foreign locations can be huge but can sometimes be of little use to the parent firm if there are strict profit repatriation legalities (Baker et al. 2001). In spite of the obvious pitfall of taking profits back home, many companies opt for profit repatriation. A major incentive is to increase their cash position and its appearance as an asset on the balance sheet. Repatriation also helps companies to cover liabilities and to ensure timely dividend payments. Therefore, profit repatriation entails taking away the money earned in one country and injecting it into another country's economy, thus boosting their local demand it also boosts FDI and thus the general growth of the host country like employment and income levels (Baker et al. 2001).General managers view these requirements as an unnecessary and undesirable constraint added on top of the already contradictory multiple business objectives, which the transfer pricing system must satisfy (Miesel et al., 2002).Several studies have also focused on profit repatriation activities and the related effects on the size and probability of multinationals' investments at typical tax havens. Hines and Rice (1994), Grubert and Slemrod (1998) as well as Desai, Foley and Hines (2006) analyze the effects of profit repatriation activities on US investments in tax havens. Thus, previous empirical analysis provides evidence for significant profit repatriation and also for significant investment effects on affiliates, which are used as targets of shifted profits. However, empirical studies dealing with the expected corresponding investment effects in high-tax countries are still rare. Grubert (2003) finds that US multinationals with higher-than-average profit repatriation activities choose locations with extreme tax levels. These companies prefer locations in countries, which exhibit either extremely low or extremely high tax levels. The preference for tax-havens stems from the need for locations as tax shelter subsidiaries. By contrast, the higher attractiveness of high-tax locations for multinationals can be explained by competitive advantages as a result of profit repatriation opportunities. With regard to investment levels at existing locations of multinational groups, Buettner et al. (2006) confirm for German multinationals negative effects of thin-capitalization rules, which constitute a restriction on profit repatriation by means of inter-company finance, on investment levels. There is no evidence of the influence of profit repatriation on Kenyan MNC's

1.1.2 Perfomance of Multinational Corporations

In order to determine the true value of firm, investors need credible, substantive, and timely value relevant information from firm (Ogden, Jen and O'Connor, 2003). The share price is determined by true value of MNCs by perfomance. According to the efficient market hypothesis (Fama, 1970) stock prices fully reflect all available information and change when new information arrives in the market. Perfomance can be measured trough profit or return on investments.The main indicators of performance in an organization include profit margins and return on investment (Johnston and Clark, 2001).Profit is the value obtained after deducting the cost from revenue generated. MNCs invest in other countries to minimize on the cost thus increasing the profit margin(Nordberg, 2008).Return on investment (ROI) is an indicator of a company's profitability compared to its total investment. It shows the efficiency of a company's management in utilising its investment to generate earnings or income. It is a ratio of annual net income to average total investment and thus calculated by dividing the company's annual earnings or profit by its total investment. Total assets include cash in the bank, accounts receivable, non-current assets including property, equipment, inventory and furniture.

1.1.3 The Nairobi Securities Exchange (NSE)

The Nairobi Securities Exchange (NSE) was formed in 1954 as a voluntary organization of securities brokers and initially called the Nairobi Stock Exchange Limited. In July 2011 the name was changed to the Nairobi Securities Exchange Limited. The change showed the strategic plan of the NSE to grow into a full service securities exchange supporting trading, clearing and settlement of equities, debt, associated instruments and derivatives. In September 2011, it was changed from a company limited by guarantee to a company limited by shares and in 2014

Capital Markets Authority (CMA) approved the listing of the NSE stock through an initial Public Offer (IPO). Currently, NSE is one of the most active securities markets in Africa.

According to the Economic Survey, 2010, Kenya's equity markets recorded marked improvement in activity in both primary and secondary markets. Market capitalization rose by 40 % in 2010, exceeding the Ksh 1 trillion mark, with an average return of 36% based on the NSE 20 Share Index. As a result, it was among the best performing equities exchange in Africa after the Uganda Securities Exchange, which recorded an index return of 53%. As a capital market institution, the Securities Exchange plays an important role in the process of economic development (NSE, 2013). The Nairobi Securities Exchange incorporates both variable income securities and fixed income securities. Variable income securities are the ordinary shares. They do not have fixed rate of dividend payable. Their dividend is dependent upon both the profitability of the company and the decision of the Board of Directors. Fixed income securities include treasury and corporate bonds, preference shares and debenture securities. They have a fixed rate of interest or dividend, which is predetermined and not dependent on performance of the company. (NSE, 2013).

The capital market plays a critical role in the economy by facilitating mobilization of resources to finance long term investments. This promotes economic growth in the country. Capital NSE is the only stock exchange in Kenya and has double responsibility for development and regulation of market operations to ensure efficient trading. MNCs do activities which reduce their reported profits in one country and thus declare low profits or decide no dividend payout so as to increase its retained earnings. In Kenya, for instance, a lot of studies have been performed on performance of MNCs listed on NSE but a few studies have been done on the effects of profit repatriation. Muhoro (2004) and Ngigi (2006) found conflicting results on the application of value and growth styles at the NSE. Mutiso (2010) studied the relationship between amount of retained earnings and the profitability of firms quoted at the NSE. The study established that there exist a gap between profit repatriation and the performance of these MNCs. MNCs repatriate profits in various forms of transfer pricing, re invoicing, interest on Intra Company financing and royalty payments. This leads to poor performance of the shares at the NSE. The MNCs face challenges to raise funds through NSE. The study therefore seeks to explain the effects of profit repatriation practices by MNCs on performance of companies listed on NSE.

1.2 Statement of theProblem

Profit repatriation is not only a Kenya challenge but also the world at large. Countries and their citizens do not enjoy the foreign direct investments. Profits derived from one country and transferred to another country through transfer pricing, royalty payments, re invoicing and Intra Company lending. Thus, they report lower profits than their actual profits. With lower profit the dividends reduce and this makes their shares not attractive and performs poorly in NSE.

Investors who participate in the capital markets expect that their investment will bring a high return in the future which will compensate for the related risks and expenses. Thus, they evaluate the investment; they calculate the benefits and the costs at the same time, which is the net present value calculation. However, firms that sell their shares to investors will receive more funds if stock prices are high, so that these firms can grow and produce values or assets in the economy.The stock prices play a signaling role in the distribution of the economic resources from investors to firms.From a broader perspective, in order to efficiently allocate the funds in society, it is important that the stock market valuation process and prices is correct. The incorrect value of the stock today or tomorrow can be harmful in ten or twenty years and therefore impact the economy and society in terms of uneven allocation of resources. Today's and tomorrow's lower or higher than true value of the stock can be harmful in ten or twenty year's economy and society in terms of asset allocation thus value creation.

1.3Objectives of the Study

It has both the main and specific objectives.

1.3.1 Main Objective of the Study

The main objective of the study was to assess the influence of profit repatriation practiceson the performance of Multinational Corporations listed on Nairobi Securities Exchange Market.

1.3.2 Specific Objectives of the Study

i) To determine the effect of transfer pricing on profit margins and return on investment.

ii) To establish the role of royalty payments on profit margins and return on investment.

iii) To find out the effect of interest payment on profit margins and return on investment.

iv) To investigate the role of re-invoicing centres on profit margins and return on investment.

1.4 Research Question.

i) What is the effect of transfer pricing on the performance of MNCs listed on Nairobi Securities Exchange in Kenya?

ii) What is the role of royalty payments on the performance of MNCs listed on Nairobi Securities Exchange in Kenya?

iii) What is the effect of interest payment on the performance of MNCs listed on Nairobi Securities Exchange in Kenya?

iv) What is the role of re-invoicing centres on the performance of MNCs listed on Nairobi Securities Exchange in Kenya?

1.5Scope of the Study

The study focused on the assessment of the relationship between profit repatriation practices and performance of MNCs listed on NSE in Kenya for the period between 2010 to 2013. The study focused on profit repatriation practices like transfer pricing whi, re invoicing, intra company loans and royaltypayments. The main indicators of performance was profit margins and return on investment. The researcher targetedmanagers involved in the implementation of the profit repatriation policies at the selected MNCs in Kenya in the capital city of Nairobi

1.6 Significance of the Study

This study will benefit shareholders, the potential investors and the management teams of the MNcs in Kenya. They will understand the impact of profit repatriationboth current andfuture dividends and invest wisely in the NSE. The management teams will understand the impact on the Kenyan market on the decisions they take to facilitate profits repatriation.

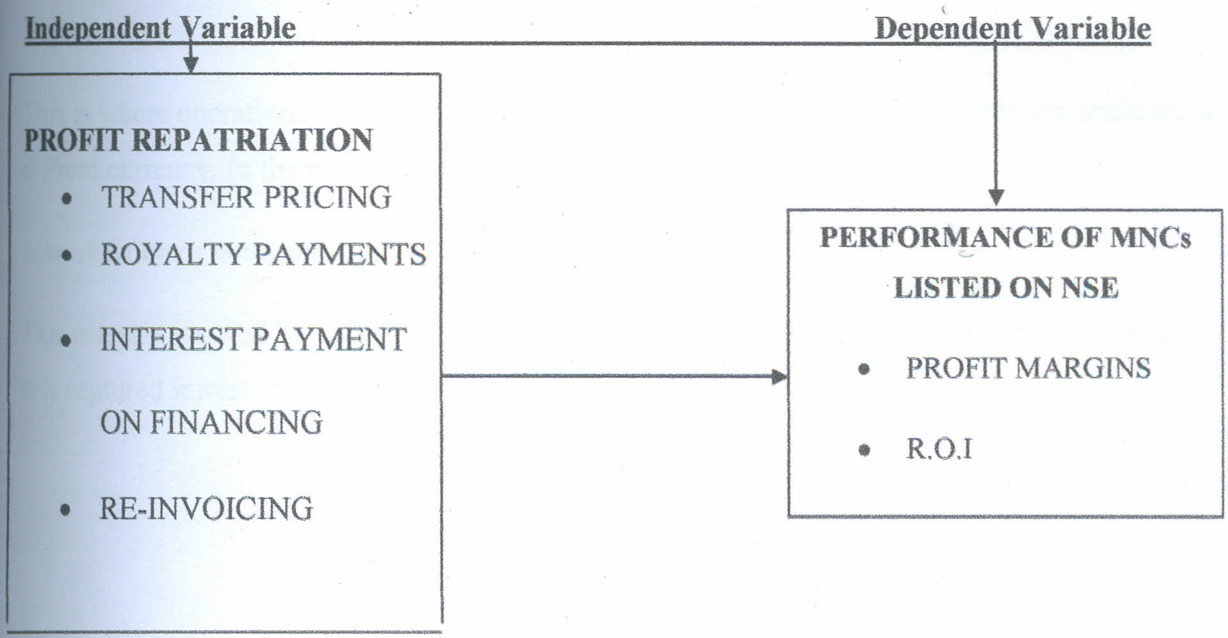
The study is also beneficial to Kenya revenue Authority and the treasury to identify loopholes and factors which lead to tax evasion. This will help them seal and collect more taxes to benefit the country.

The study will be a reference material to future scholars and widen their knowledge. The findings of this study will also be used by the general public to increase their knowledge on MNCs and their practices.

1.7 Conceptual framework of the Study.

The researcher conceptualizes how profit repatriation practices affect the performance of MNCs. Various methods through which MNCs repatriate profits include transfer pricing, royalty payments, interets payment of financing and re-invoicing centers.

Indicators of performance of MNCS include the profit margin and return on investment. The amount repatriated affects dividend payout policy of the organization. Good perfoming MNCs have a good dividend payout and this leads to better perfomance of the share on NSE.



Source: Self Conceptualization (2014)

1.7.1 Dependent Variable

Perfomance

The dependent variable is the perfomance of the MNCs which is measured by the profits reported. The data was obtained from the respondents and verified by use of secondary data. It is measured by the revenue less the cost.

This variable was measured by requesting the respondents to indicate the average profit by the MNCS.

1.7.2 Independent Variables

Transfer pricing

This is cost element in one subsidiary and a revenue element in the other departnment. We are considering it as a cost element.

Royalty Payments

This is a cost element measured by the amount transfered to royalty payments. The payments are captured as expenses in accounting

Re invoicing

This is where operations are centralized and the costs are centralized. Payments are made via a diffrent currency. In the model the researcher standardized to use Kenya Shillings.

Intrest on intra company loans

This is a cost incured by the MNCs. It is intrest on the loan borrowed from the parent company. It is captured intrest expense in accounting.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents the literature review and contains the general literature, specific literature overview.

2.2 Theoretical Review

There are two theories that provide an explanation of the basis upon which profits are generated by firms and the effects of the MNCs performance listed on NSE. Also they show the expected relationship between the owners of investments and the profits made from the investments. The theories include Keynesian theory, resource based view, signaling effect theory and efficient market hypothesis theory.

2.2.1 Keynesian Theory

This study will be guided by Keynesian theory that explores one aspect of the relationship between the system of production and the macroeconomic structure, namely, the role ofProfitability in determining investment demand and the level of economic activity. Within the system of production, wages are a cost: the lower are profits per unit of production, the lower the stimulus to investment. In a Keynesian view of the macroeconomic structure, however, wages are a source of demand, hence a stimulus to profits and investment. In this view, aggregate demand provides the way out of the dilemma that high wages pose for the system of production. If demand is high enough, the level of capacity utilization will in turn be high enough to provide for the needs of both workers and capitalists. The rate of profit can be high even if the profit margin and the share of profit in output are low and the wage rate correspondingly high.

Profit squeeze presents a problem for this Keynesian solution. How do we reconcile the argument that profit squeeze was a major cause of the decline in growth rates that took place in the 1970's with Keynesian doctrine on the role of aggregate demand in reconciling the requirements of the system of production and those of the macroeconomic structure? MNCs want to maximize the posible profit. They also avoid tax by legal means thus rendering a country poorer than found.

2.2.2 Signaling Effect Theory

According to the Signaling Effect theory, managers use the change in cash dividends distributed rates as a means to deliver information to investors about the company (Denis et al., 1994). Supporters of this theory believe that the increase in the cash dividends rate is an effective means of delivering information to investors because competitors cannot follow the company's policy unless they have the same capacity to achieve future profit (see: Charest, 1978, Asquith and Mullins, 1983).

When Miller and Modigliani (1961) introduced their hypothesis about the Irrelevance Proposition about the effect of a company's cash dividend policy on the company's market value, one of their assumptions is that all investors have the same information and ability to understand and analyze the available information. Therefore, all investors have the same outlook concerning the company. Also, investors and managers have the same information and therefore they have the same expectations for the company. In practice, however, because of what is known as asymmetric information, (Bhattacharya, 1979), investors have different expectations and information with respect to the company's future profits and risks. Furthermore, by virtue of their position within the company and the nature of their work and career interests and duties, the managers have better and more accurate information and expectations than external investors regarding the company's profits and performance. As managers have information that may not be available to external investors, they can use the change in the cash distributed dividends rate as a way to deliver such information to investors to reduce the information gap between managers and investors with the aim of creating a greater demand for the company's shares, thereby influencing the company's market value and shareholders 'wealth. With the knowledge of profit repatriation practices, the managers can forecast the perfomance of the MNCs listed on NSE.

2.3 Review of Empirical Studies

MNCs have deviced various ways to repatriate profits legaly and avoid taxes at the domiciled country. Profits are repatriated in the following legally acceptable ways; transfer pricing, royalty payments, leading and lagging payments, financing structure and parallel intercompany loans.

The Origin of Multinational Corporations (MNCs) in Kenya dates back from 1963 to 1980 when most MNCs originated from Great Britain, Western Europe and the USA. From 1980 onwards, many MNCs have come from Asia Pacific- Japan, South Korea, and China. Very few have come from other developing countries like India and South Africa. The MNCs access the Kenyan market through inward Foreign Direct Investment (FDI) which allows firms to control management and all other policies of the company due to the level of investment. The FDIs include existing MNCs that reinvest their earnings in the country or bring in fresh investment funds from abroad. The second approach is outward FDIs where the MNCs that operate in Kenya would expand their operations to the neighboring countries using Kenya as a base and can export funds earned in Kenyan operations and reinvest in neighboring countries. Generally all MNCs in Kenya seek free markets, peace and security, good infrastructure, availability of commercial services and availability of both managerial and ordinary manpower, (Nzomo, 2009).

China is the global business hub today and is ranked very high on the FDI targets list. This is because China has slowly and successfully liberalized its economy and laws to suit FDI needs. For example, today one can legally repatriate up to 90 percent of the annual profits from China, provided one fulfill certain norms made by the Chinese Government. For the profit repatriation permission, one need to set up local offices in China, filed for the fourth quarter tax returns (to finalize your net profit) and create a reserve account of at least 10 percent of the total net profit. The rules change according to certain things, like if the business is a joint venture or if one is enlisting the aid of a consultant, (Patil, 2012). Misieta explains profit repatriation in form of transfer pricing and state that, managers view legislation to reduce transfer pricing requirements as an unnecessary and undesirable constraint added on top of the already contradictory multiple business objectives, which the transfer pricing system must satisfy (Miesel et al., 2002).

In Kenya, a lot of studies have been performed on performance of MNCs listed on NSE but a few studies have been done on the effects of profit repatriation. Muhoro (2004) and Ngigi (2006) found conflicting results on the application of value and growth styles at the NSE. Mutiso (2010) studied the relationship between amount of retained earnings and the profitability of firms quoted at the NSE. The study established that there exist a gap between profit repatriation and the performance of these MNCs. MNCs repatriate profits in various forms of transfer pricing, re invoicing, interest on Intra Company financing and royalty payments. This leads to poor performance of the shares at the NSE. The MNCs face challenges to raise funds through NSE. The study therefore seeks to explain the effects of profit repatriation practices by MNCs on performance of companies listed on NSE.

2.3.1 Transfer Pricing

Transfer pricing is a major concer for MNCs as might be higlighted by the fact that approximatelty 80% of Fortune 1000 must select transfer pricing strategies requiring array of financial legal and operational considerations (Eccles, c 1985:2). In addittion, intra trade accounts for about 55% of the international trade between the EU and Japan, 40% of the trade between the EU and US, 80% of the trade between Japan and the US (Stewart, 1993). A large proportion of the international trade is actualy intra MNC and occurs among subsidiaries of the MNCs. They rely on internal transfer prices to value their intra-firm flows. More to that, transfer pricing is a concern to the government and regulatory agencies becauseof the manner in which MNCS prices these intra-firm flows of tangible and intangible assets(Eden& Boos, 2003) across national boundaries impacts the distribution f tax income among countries. But transfer pricing is also important for the majority of multidivuisional firms, even if they did not carry out international operations.Transfer pricing may occur in departments, divisions subsidiaries and affiliates(Cravens, 1997: Eden & Boos,2003) Firms need to organize production in sub units thus transfer prices accross multiple divisions in a hierachy (Lawrence & Lorsch, 1967). As Hayek (1937) noted, divsion of labour is inevitable with division of knowledge thus specialization. A clear transfer pricing system is important for divisional managers to be accountable for revenyues and costs(Brickley, Smith & Zimmerman, 2001)

Kanwal and Kapoȏr (2008) in their paper attempted to analyze empirically the determinants of profit repatriation policy of the Indian information technology sector. For the pooled data for seven years, 2000 to 2006, they found cash flows, corporate tax, sales growth and market-to-book value ratio do not explain the dividend payment pattern of the Information Technology (IT) sector. It has been argued that the inducements for MNCs to resort to transfer pricing manipulations in less developed countries (LDCs) are stronger than in more developed countries (Plasschaert, 1985; and Chudson, 1985) and the threat of fiscal losses is persistent in less developed countries (Brean, 1979). MNCs shift profits from these countries to circumvent the adverse impact of relatively stringent regulations on foreign investments imposed by these governments (Plasschaert, 1985), and to minimise the perceived financial risks from operations in relatively uncertain environments (Al-Eryani, 1987). LDCs are also more vulnerable to transfer pricing manipulations due to inadequacies in their institutional infrastructure to monitor the intricacies of this issue (Lall, 1973; Brean, 1979; and Plasschaert, 1985). Despite the significance of transfer pricing to LDCs, limited studies are available to provide empirical evidence on this problem.

A few studies attempt to provide evidence of pricing manipulations in LDCs. Lecraw (1985) examines MNCs operating in the ASEAN countries and finds that most firms use non-market price for intra-firm exports and imports. Lall (1973) also finds that, compared with world market prices, MNCs in Colombia over-price their imports by 33% - 300% in the pharmaceutical sector, and by 24% - 81% in the rubber and electrical industries. Natke's (1985) study of the import prices of MNCs operating in Brazil during 1979 reveals that MNCs pay higher prices on imports than local firms and the prices of MNCs' imports also exhibit greater variability. Rahman and Scapens (1986) investigate the import prices of ten pharmaceutical items in Bangladesh, and find over-pricing of imports by MNCs from affiliates by 78% to 600%. They argue that transfer pricing abuse accounts for the low profitability of MNCs in the country.

2.3.2 Royalty Payments

A parent company can charge its subsidiary with royalties, for the usage of the parent's trademarks and copyrights. These royalties can serve as effective means for profit repatriation. The best part about royalties is that they are not considered as profit transfers and hence, lie outside the purview of profit repatriation restrictions (Baker et al. 2006).Juhmani (2011) in his study of Malaysia listed companies for food industries under the consumer products sector showed that variables having a strong relationship with profit repatriation are not necessarily the determinants of the amount of profit repatriated decision such as profit-after-tax that has the strongest relationship with dividend per share. The study further confirmed the fact debt-to-equity ratio and past dividend per share were the important determinants of the amount of profit repatriated. Hartman (1985) pointed out that taxes on dividend repatriations should not affect investment decisions of affiliates when the investment is financed by retained earnings. In effect, just as with the "new view" of dividend taxes, if companies choose between paying a dividend now and in the future, then as long as the tax rate is expected to remain unchanged, it plays no role in the choice of dividend payment now.

Grubert (1998) takes a different approach. If companies can choose the form in which income is repatriated, then the Hartman hypothesis may again not hold, at least with respect to dividends. For example, if the tax price of royalties is low, then a high fraction of income repatriated may be as a royalty; an increase in the tax price of royalties relative to the tax price of dividends would lead to an increase in dividend repatriations. Grubert therefore examines tax return data from 1990 on payments of royalties, interest and dividends from foreign affiliates to US parents, taking into account the tax price of all three. The results indicate that the form of repatriation is strongly influenced by the relative tax rates on the three forms. For example, the overall tax rate on dividend repatriation negatively affects the payment of dividends and positively affects the payment of royalties and interest. The same results apply to the tax rates on royalties and interest, which suggests that these three forms of payment are seen as substitutes for each other. Grubert explains the difference from the results of Altshuler et al (1995) as being due to the inclusion of the tax price of royalties and interest, as well as dividends. By contrast, and consistent with the Hartman hypothesis, Grubert(1998) finds no significant impact on the overall size of repatriated flows;that is, retained earnings are not affected by the relevant tax rates.

2.3.3 Interest Payment on Financing from Related Companies

Funding an international business with a loan from the parent company, can help the subsidiary to repatriate its profits. This is better than equity because interest payments are tax-deductible on the subsidiary side while dividends are not. Even for the parent company, loan repayments are non-taxable in the hands of the parent company, unlike dividends which are taxed. Repatriation restrictions can only be evaded through this if the repatriation is controlled by for example, the parent not being seen as charging an overly excessive interest rate (Eriotis, 2005).

Al-Malkawi (2007) studied the determinants of corporate profit repatriation policy in Jordan for a period between 1989 and 2000. Size, age and profitability of the firms were found to be the determinant factors of corporate dividend policy in Jordan. The findings provided strong support for the agency costs hypothesis and were broadly consistent with the pecking order hypothesis.

2.3.4 Re-invoicing

Re-invoicing acts as invoicing intermediaries between two parties, can be set up in countries that have low capital controls. Non repatriable cash flows can be converted into repatriable cash flows, when the payment to the parent company is routed through them (Mitton, 2004).Ferris et al. (2006) examined the influence of corporate profit sharing policies of companies in UK. He found that the current year's earnings is the foremost factor affecting the dividend behaviour of a firm and concluded that Indian companies follow a stable cash dividend policy. Kanwal and Kapoor (2008) further examined the profit repatriation policies of companies in the information technology sector in India. They explored various factors such as profitability, cash flows, corporate tax, sales growth and growth opportunities that have an impact over the dividend policies of such companies. They reported that only cash flows indicating liquidity and beta indicating risk are the foremost determinants. A re-invoicing centre is a separate corporate subsidiary that manages in one location all transaction exposures from intercompany trade. Goods that are produced by the manufacturing subsidiary are sold to the distribution subsidiary via the re-invoicing centre. The title of the goods passes to the re-invoicing centre but the goods themselves pass directly to the distribution centre. The re-invoicing centres role therefore is to handle the paperwork involved with the transactionTo avoid accusations of profit shifting through transfer pricing most re-invoicing centres 'resell' at cost plus a small commission for their services.

2.3.5 Profit Repatriation and performance on MNCs

This can be established with both parties (the parent and the subsidiary) buying and selling from each other. This is a barter system with no payments and so to repatriate profits, the subsidiary must sell the parent higher value goods than it receives from the parent. Profits are repatriated to the amount of the difference in value of the goods sent and received (Fama and French, 2001).

Gill et al. (2010) analyzed the American service and manufacturing firms and found that the profit sharing ratio is a function of profit margin, sales growth, debt-to-equity ratio and tax. For the services industry, the dividend payout ratio was found to be a function of profit margin, sales growth, and debt-to-equity ratio. For manufacturing firms, the profit sharing ratio was found to be a function of profit margin, tax and market-to-book ratio.

2.4 Summary

The literature in this study aims to highlight the effects of profit repatriation on perfomance of MNCs listed on the NSE. The study is guided by the Keynesian theory which explores one aspect of the relationship between system production and macroeconomic structure. Resource based view theory also guiding this study stipulates that resources and capabilities can vary significantly across firm and finally the Signaling effect theory which shows that management uses payment of cash dividends as a way of communicating to investors. Empirical review highlights profits reaction on quantitative and qualitative effects of profit repatriation.

This chapter also discusses in depth the inverse relationship between profit repatriation and perfomance of MNCs listed on NSE. We further discuss the role of disclosures in ensuring timely relay of information thus averting mispricing of stock and ultimately reducing cost of capital.The empirical literature has identified a number of determinants of profit repatriation among various organizations in the global financial markets. The main determinants that have been identified include transfer pricing, royalty payments, leading and lagging payments, financing structure and parallel intercompany loans. However, the profit repatriation policy has not been evaluated as one of the determinants of performance among companies and thus creating a research gap filled by assessing the effects of profit repatriation practices on the performance of MNCs in Kenya.

CHAPTER THREE

METHODOLOGY

3.1 Introduction

This chapter describes the methods that were used in the collection of data pertinent in answering the research question. It is divided into research design, study population, sample design, data collection and data analysis methods.

3.2 Research Design

This study will adopt both qualitative and quantitative research designs. Much of the project entails quantitative design because of the fact that there are quantitative measurements of the variables in the performance indicators. In this study descriptive research design was adopted. Descriptive Research is the investigation in which quantitative data is collected and analyzed in order to describe the specific phenomenon in its current trends, current events and linkages between different factors at the current time(Kothari 2004).

3.3 Study Area

The ideal setting for any study is one where a researcher has interest in, one which is easily accessible and one that allows the researcher's immediate rapport with the respondents (Kothari, 2004). The research site for this study wasthe headquarters offices of the selected MNCs in the Republic of Kenya based in the capital city of Nairobi.

3.4 Target Population

Target population is defined as the population to which a researcher will generalize the result of a study. Mugenda and Mugenda (2003) describes the target population as a complete set of individuals, cases or objects with common characteristics to which the researcher wants to generalize the results of the study.

The population of interest in this study consisted of 20 multinational corporations quoted at the Nairobi Stock Exchange (N.S.E). The target population for this study comprise of 23 Multinational Corporations listed at the Nairobi Securities Exchange Market as shown in Appendix III. These firms are preferred because they are likely to exhibit elaborate relationships between the study variables since they are highly competitive and varied in nature

3.5 Sampling Frame

According to Moore et al (2012), a sample is a random selection of element of a population for which inferences are drawn to represent the entire population. The total number of the MNCs listed are twenty three (20) as of June 2013 as shown in Appendix III. A sample of institution will be selected from the population. Stratified sampling techniques will be used to select these MNCs, where the population is divided in the sub categories of agricultural, mining, banking, manufacturing and automobile. From each category two MNCs are puposively selected to constitute the sample. This will ensure equal representation of all sectors in the NSE.These MNCs are leading firms in Kenya in terms of capitalization and compliance to statutory requirements as required by the capital markets authority, (Letting 2011).

3.6 Data Collection

Creswell (2002) defines data collection as means by which information is obtained from the selected subjects of an investigation. The study will utilizeboth primary and secondary data for the period 2007 to 2013.

The data will be collected using semi structured questionnaires and personal interviews administered to the employees. It will also be collected using open-ended and close-ended questionnaires given to the accountants in the MNCs sampled; the data will be verified and supplemented by using information provided by the institutions in their published annual reports. Primary data shall be used to gather information about the modes of profit repatriation by MNCs. Other sources of secondary data include books, annual reports, financial journal, internet and review of available literature.Follow up will be done through telephone as well as personal visits

3.6.1 Sources and type of Data

The study relied on both primary and secondary data. The secondary data were collected from companies' annual reports and Capital Markets Authority reports. The primary data was collected through a semi-structured questionnaire adopted from similar strategic management studies with modifications. It focused on the data related to the general information, level of profits repatriation, scheme of profits repatriation and effects of profits repatriation while secondary data addressed the constructs of firm financial performance which included net profits, return on equity, and dividends for the years 2013

3.7 Data Analysis

Both qualitative and quantitative data will be collected. Quantitative data will be descriptive as the researcher will use correlation analysis to determine the relationships of the variables. According to Mugenda & Mugenda (2003), data analysis is the process of bringing order, structure and meaning to the mass of information collected.Quantitative data was analysed by use of descriptive statistics and inferential statistics.Descriptive statistics used change and measures of variability about the mean to be used werestandard deviation. Pearson correlation was used for inferential statistics.The findings were presented by use of frequency tables and bar graph.Qualitative modes of data analysis provide ways of discerning, examining, comparing and contrasting, and interpreting meaningful patterns or themes (Margaret & Anne, 2009). The data was then be displayed to provide an organized, compressed assembly of information that permited conclusion drawing.To study the variables, coefficient of variation using Karl Pearson coefficient of variation r was used.

$r= n\sum XY-(\sum X)(\sum Y)\div(\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2})$

$P.Er=0.6745((1-r^2)\div\sqrt{n})$

$r^2= r*r$

n – is the number of pair of observations

X – is the independent variable

Y- is the dependent variable

r- It is the Karl Pearson correlation coefficient

r^2- it is the coefficient of determination

P.Er- It is the error term

CHAPTER FOUR

RESULTS AND DISCUSSIONS

4.1 Introduction

The chapter presents a detailed description of the data, analysis and results within the framework of objectives of the study. Analysis and interpretation of the results is based on overall result findinds.The main objective of the study will be to establish the effects of profit repatriation practices on the performance of Multinational Corporations listed on Nairobi Secuties Exchange. The chapter ends with a summary of key findings emanating from the study results. The results were presented in tables and bar-charts.

The study targeted 23firms of Multinational Corporations listed on Nairobi Secuties Exchange. Therefore 23 questionnaires were sent out but 20 were returned,86.9% of response rate and 13.1% of unresponsive, meaning 20 were found to be valid for the purpose of this analysis. This results presented are therefore, based on the responses received from the 20 firms..

4.2 Distribution of the study firm by nature of Multinational Corporations

The results of the study on nature of Multinational Corporation were shown in the table below.

Table 4.1The nature of your MNC

		Frequency	Percent	Valid Percent	Cumulativ e Percent
Valid	Agriculture	4	20.0	20.0	20.0
	Automobiles &Accessories	2	10.0	10.0	30.0
	Banking	2	10.0	10.0	40.0
	Commercial & services	3	15.0	15.0	55.0
	Energy &Petroleum	5	25.0	25.0	80.0
	Insurance	2	10.0	10.0	90.0
	Manufacturing & Allied	2	10.0	10.0	100.0
	Total	20	100.0	100.0	

Source: field data 2015

As shown in Table 4.1, the firm's Energy &Petroleum represents 25% of Multinational Corporations listed on Nairobi Secuties Exchange. The sector with the second largest is

Agriculture which was 20 %. Commercial & services sector had 15% and the rest had 10 % each.

4.4.1Role of Respondents in the firms

The results of the study of respondents in the firms were shown in the figure below

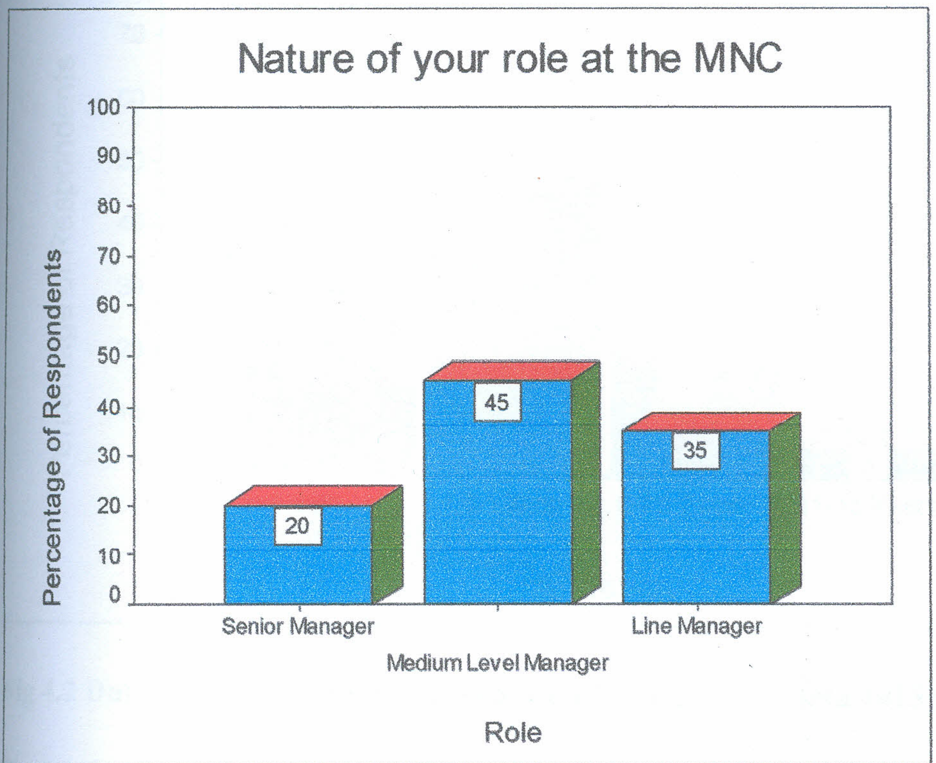


Fig:4.1 Roles of Respondents (Source: field data 2015)

Fig 4.1, it shows that the majority of respondents were medium level managers amounting to 45% of the respondents,line managers were 35% and senior managers were 20% of the respondents. This shows that majority of the respondents were in management positions and were in position to understand their transfer pricing on the performance, the role of royalty payments on the performance; the effect of interest payment on the performance and the role of re-invoicing centres on the performance of MNCs listed on Nairobi Securities Exchange in Kenya.

4.2.2 How long have you worked in the current role with MNC.

The results of the study of how long respondents have worked in their current role with the firms were shown in the figure below

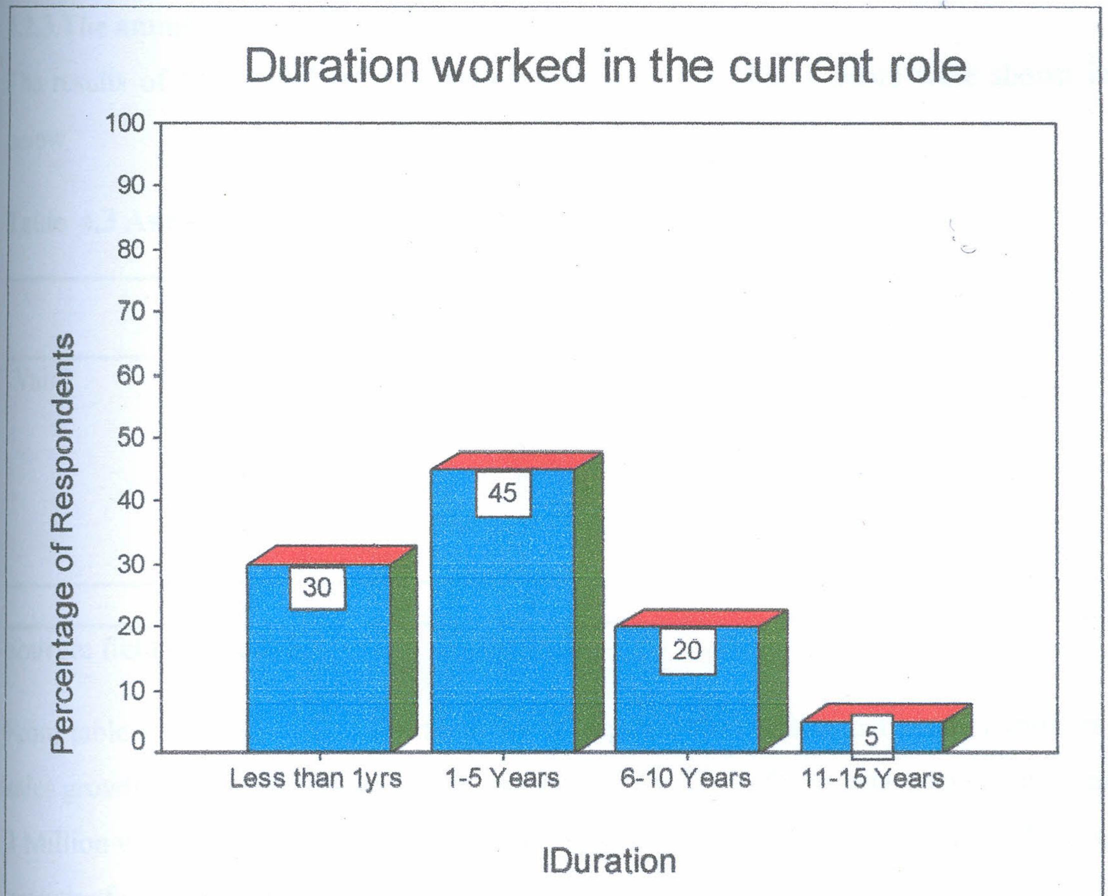


Fig 4.2 Duration worked in the current Role (Source: field data 2015)

Fig 4.2, indicates that 45% of the respondents for the firms had been working in the same role for 1-5 years , 30% had been working for less than 1 year ,20% had been working for 6-10 years and 5% had been working t in the same position for 11-15 years. Generally, this is an indication that the employees in the firms had a relatively high level of stability over time in the same role , thereby creating confident in the findings of the study.

4.2.3 The annual level of sales growth over the last 4 years

The results of the annual level of sales growth over the last 4 years were shown in the table below.

Table 4.3 Annual level of sales growth

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Less than Kshs.1Million	3	15.0	15.0	15.0
	Kshs 1M- Kshs 5M	5	25.0	25.0	40.0
	Kshs 5M- Kshs 10M	5	25.0	25.0	65.0
	Kshs 10M- Kshs 15M	5	25.0	25.0	90.0
	Over Kshs 15M	2	10.0	10.0	100.0
	Total	20	100.0	100.0	

Source: field data 2015

From table 4.3,it shows that the majority of organization make between 1 million -15million sales growth over the last 4 years who accounted for 25% of the respondents.Sales less that Ksh. 1 Million were supported by 15% of the respondents and 10% accepted that the level of sales had growth of over Kes 15 Million.

4.4.4Cash flows over the last 4 years.

The results of the study of cashflows over the last 4 years of firms were shown in the figure below

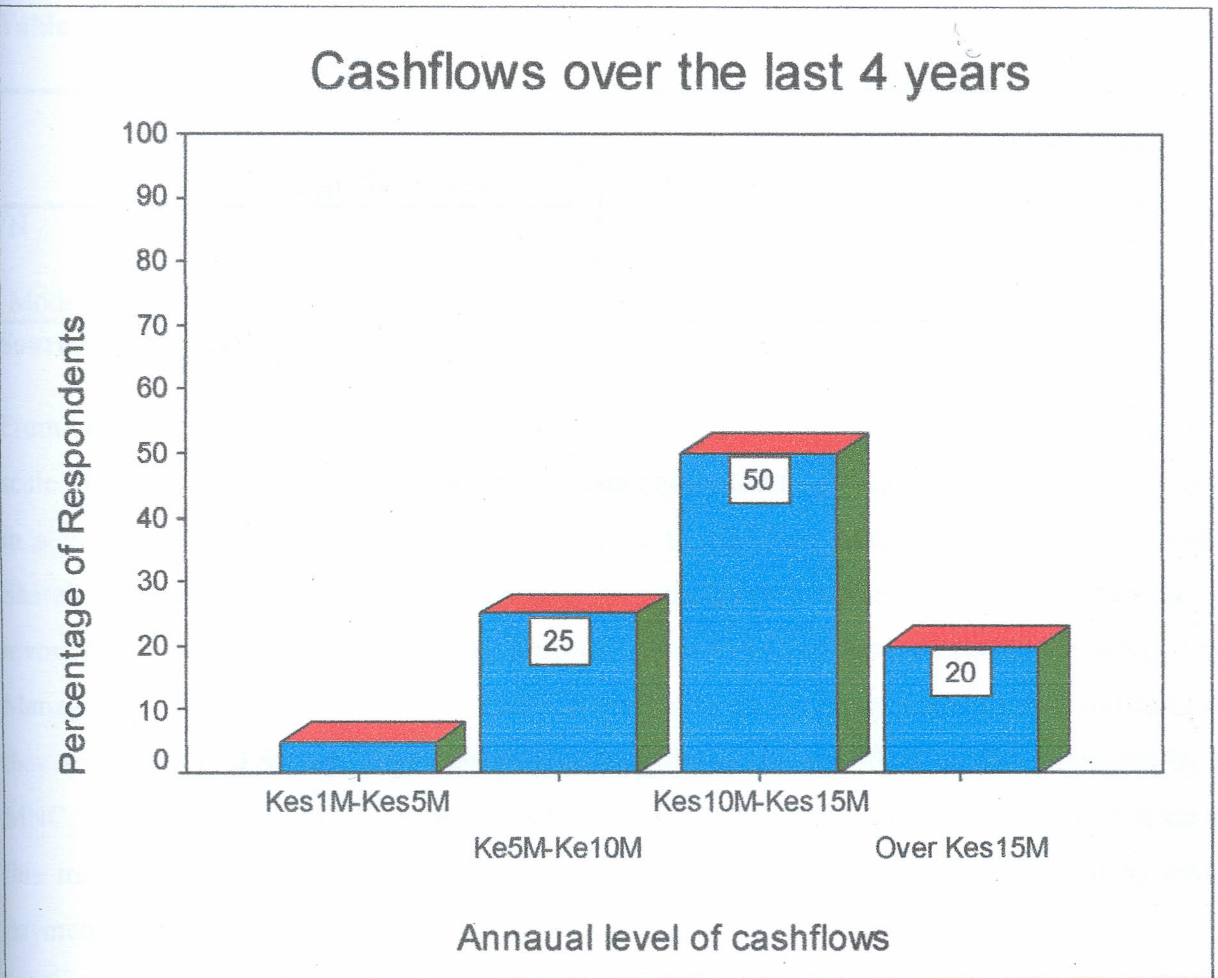


Fig 4.3 Cashflows over the last 4 years (Source: field data 2015)

Fig 4.3, indicates that 50% of the respondents for the firms accepted that the firm uses kes 10M-kes15M as cashflow,25% accepted they use between kes 5M -kes 10 Million, 20% uses over 15million and less than 10% uses kes 1M - kes 5M.

4.5 Descriptive statistics

This section covers the descriptive statistics of company details. This includes effects of transfer pricing ,royalty payments,schemes of profits repatriation and their effects on the performance of the MNC.

4.3.1Establish the role of royalty payments on performance by MNCs

Decisions made by stakeholders relating to royalty payments by the MNC were displayed in the table below

Table 4.4

		Local Shareholders	Foreign Shareholders	Local Management Team	Foreign Management Team
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		5	3	5	4

Source: field data 2015

From table 4.4 the mode of local shareholders is 5 which is equivalent to very high in the likert scale.This indicates that majority of respondents accepted that local shareholders are involved in a very high level in decision making related to royalty payments by the MNC. Foreign Shareholders had a mode of 3 which is moderate in the likert scale and this indicates that they are invoved at a moderate level in making decision related to royalty payments by the MNC. Local Management Team had a mode of 5 which is very high in the likert scale and this indicates that they are invoved at a very high level in making decision related to royalty payments by the MNC. Foreign Management Team Team had a mode of 4which is high in the likert scale and this indicates that they are invoved at a high level in making decision related to royalty payments by the MNC.

4.3.2 Establish the role of royalty payments on Profits

Decisions made by stakeholders relating to which subsidiaries to pay Royalties were displayed in the table below.

Table 4.5

		Local Shareholders	Foreign Shareholders	Local Management Team	Foreign Management Team
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		4	4	5	3

Source: field data 2015

From table 4.5 the mode of local shareholders is 4 which is equivalent to high in the likert scale.This indicates that majority of respondents accepted that local shareholders are involved in a high level in making decisions on which subsidiaries to pay royalties by the MNC. Foreign Shareholders had a mode of 4 which is high in the likert scale and this indicates that they are invoved at a high level in making decisions on which subsidiaries to pay royalties by the MNC. Local Management Team had a mode of 5 which is very high in the likert scale and this indicates that many of responded agreed that stakeholders influencedecision making at a very high level on which subsidiaries to pay royalties by the MNC. Foreign Management Team had a mode of 3 which is moderate in the likert scale and this indicates that they are invoved at a moderate level in making decision on which subsidiaries to pay royalties by the MNC .

$r= n\sum XY-(\sum X)(\sum Y)\div(\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2}) = 0.754$

$P.Er=0.6745((1-r^2)\div\sqrt{n}) = 0.0286$

$r^2= r^*r = 0.568516$

The value of r has a strong positive correlation which is the royalty payments and profits. It is highly significant. Royalty payments explain 56.85% of the profits. Pofit repatriation through royalty payment increase profitability of the head branch and reduces profitability of the subsidiary MNCs listed on NSE. The stud differs with Baker's findings that the best part about royalties is that they are not considered as profit transfers and hence, lie outside the purview of profit repatriation restrictions (Baker et al. 2006). From the study the researcher identifies that royalty payments attribute to an effect of 56.85% of the MNCs profits

4.4.1Effect of transfer pricing on profit margins

Table 4.6

		Transfer Pricing	Royalty Payments	Intercompany Loans	Re-Invoicing Centres
N	Valid	20	20	20	20
	Missing	0	0	0	0
Median		5	3	3	3
Std. Deviation		.813	.686	.933	.875

Source: field data 2015

From table 4.6 the median of transfer pricing is5which is equivalent to very high in the likert scale.This indicates that majority of respondents accepted that MNC uses transfer pricing in determining its profits repatriation. It has very small standard deviation of .813 which indicates that many respondents had a common agreement on transfer pricing. Royalty Payments had a median 3 which is equivalent to moderate in the likert scale. This indicates that majority of respondents accepted that MNC uses Royalty Payments in determining its profits repatriation.It aslso have a very small small standard deviation of .686 which indicates that many respondents had a common agreement on transfer pricing.Intercompany Loanshad a median 3 which is equivalent to moderate in the likert scale.This indicates that majority of respondents accepted that MNC uses Intercompany Loansin determining its profits repatriation.It also have a very smallstandard deviation of .933 which indicates that many respondents had a common agreement on transfer pricing. Re-Invoicing Centres had a median 3 which is equivalent to moderate in the likert scale This indicates that majority of respondents accepted that MNC uses Re-Invoicing Centres in determining its profits repatriation.It aslo have a very small tandard deviation of .875 which indicates that many respondents had a common agreement on transfer pricing.

4.4.2Effects of profits repatriation on the size of profitsat MNC .

Decisions made by stakeholders relating to effects of profits repatriation on the size of profits at MNC were displayed in the table below

Table 4.9 Effects of profits repatriation on the size of profits at MNC

		Transfer Pricing	Royalty Payments	Intercompany Loans	Re-Invoicing Centres
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		2	3	4	3
Std. Deviation		.394	.851	.852	.759

Source: field data 2015

From table 4.9,mode of Transfer Pricing is 2 which is low from likert scale and it has a very small standard deviation of .394 which indicates respondents commonly agreed that transfer pricing has a low effects on profits repatriation on performance of the MNC affects. Royalty Payments has a mode of 3 which is moderate from likert scale and a very small standard deviation of .851 which indicates that respondents commonly agreed that that Royalty Payments has a moderate effects on profits repatriation on performance of the MNC affects. Intercompany Loans has a mode of 4 which is high from likert scale and a very small standard deviation of .852 which indicates that respondents commonly agreed that that Intercompany Loans has a high effects on profits repatriation on performance of the MNC affects. Re-Invoicing Centres has a mode of 3 which is moderate from likert scale and a very small standard deviation of .759 which indicates that respondents commonly agreed that that Re-Invoicing Centres has a moderate effects on profits repatriation on performance of the MNC affects.

$r= n\sum XY-(\sum X)(\sum Y)\div(\sqrt{}n\sum X^2-(\sum X)^2\sqrt{}n\sum Y^2-(\sum Y)^2) = 0.681$

$P.Er=0.6745((1-r^2)\div\sqrt{n}) = 0.0808$

$r^2= r^*r = 0.463761$

The value of r has a strong positive correlation which is the transfer pricing and profits. It is highly significant. Transfer pricing explain 46.37% of the profits. Profit repatriation through transfer pricing increase profitability of the head branch by 46.37% and reduces equally profitability of the subsidiary MNCs listed on NSE. The study is in agreement with Rahman and Scapens (1986) who investigated the import prices of ten pharmaceutical items in Bangladesh, and found over-pricing of imports by MNCs from affiliates by 78% to 600%. They argued that transfer pricing abuse accounts for the low profitability of MNCs in the country.

4.5.5Effects of profits repatriation on consistency of profits being repatriated.

Decisions made by stakeholders relating to effects of profits repatriation on consistency of profits being repatriated by the MNC were displayed in the table below

Table 4.10 Effects of profits repatriation on consistency of profits being repatriated

		Transfer Pricing	Royalty Payments	Intercompan y Loans	Re-Invoicing Centres
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		4	3	4	3
Std. Deviation		.587	.768	.587	.768

Source: field data 2015

From table 4.10,mode of Transfer Pricing is 4 which is high from likert scale and it has a very small standard deviation of .587 which indicates respondents commonly agreed that that transfer pricing has a high effects on consistency of profits being repatriated by the MNC. Royalty Payments has a mode of 3 which is moderate from likert scale and a very small standard deviation of .768 which indicates that respondents commonly agreed that that Royalty Payments has a moderate effects on consistency of profits being repatriated by the MNC .Intercompany Loans has a mode of 4 which is high from likert scale and a very small standard deviation of .587 which indicates that respondents commonly agreed that that Intercompany Loans has a high effects on consistency of profits being repatriated by the MNC. Re-Invoicing Centres has a mode of 3 which is moderate from likert scale and a very small standard deviation of 0.768 which indicates that respondents commonly agreed that Re-Invoicing Centres has a moderate effects on consistency of profits being repatriated by the MNC.

4.5.6Effects of intercompany loans on profits of the MNC.

$r= n\sum XY-(\sum X)(\sum Y)\div(\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2}) = 0.9$

$P.Er=0.6745((1-r^2)\div\sqrt{n}) = 0.0286$

$r^2= r*r = 0.81$

The value of r has a strong positive correlation which is the intercompany loans and profits. It is highly significant. Intercompany loans explain 81% of the profits. Profit repatriation through intercompany loans increase profitability of the head branch by 81% and reduces equally profitability of the subsidiary MNCs listed on NSE. The findings concur with Eriotis findings where intercompany loans reduce profits of subsidiaries and the parent should not being seen as charging an overly excessive interest rate (Eriotis, 2005).

4.5.7Effects of profits repatriation on Level of return on Investment of the MNC.

Decisions made by stakeholders relating effects of profits repatriation on Level of return on Investment of the MNC were displayed in the table below

Table 4.12Effects of profits repatriation on Level of return on Investment of the MNC

		Transfer Pricing	Royalty Payments	Intercompany Loans	Re-Invoicing Centres
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		4	4	4	3
Std. Deviation		.759	.718	.988	1.218

Source: field data 2015

From table 4.12 ,mode of Transfer Pricing is 4 which is high from likert scale and it has a very small standard deviation of .759 which indicates respondents commonly agreed that that transfer pricing has a high effects on Level of return on Investment of the MNC. Royalty Payments has a mode of 4 which is high from likert scale and a very small standard deviation of .718 which indicates that respondents commonly agreed that that Royalty Payments has a high effects on Level of return on Investment of the MNC.Intercompany Loans has a mode of 4 which is high from likert scale and a very small standard deviation of .988 which indicates that respondents commonly agreed that that Intercompany Loans has a high effects on Level of return on Investment of the MNC. Re-Invoicing Centres has a mode of 3 which is high from likert scale and a very small standard deviation of 1.218 which indicates that respondents commonly agreed that Re-Invoicing Centres has a moderate effects on Level of return on Investment of the MNC.

4.5.8 Effects of re invoicing on the profits of the MNCs

Table 4.14

		Transfer Pricing	Royalty Payments	Intercompany Loans	Re–invoicing
N	Valid	20	20	20	20
	Missing	0	0	0	0
Mode		4	4	4	3
Std. Deviation		.759	.718	.988	1.218

Source: field data 2015

From table 4.14,mode of Transfer Pricing is 4 which is high from likert scale and it has a very small standard deviation of .759 which indicates respondents commonly agreed that that transfer pricing has a high effects on the growth of return on Investment of the MNC. Royalty Payments has a mode of 4 which is high from likert scale and a very small standard deviation of .718 which indicates that respondents commonly agreed that that Royalty Payments has a high effects on the growth of return on Investment of the MNC.Intercompany Loans has a mode of 4 which is high from likert scale and a very small standard deviation of .988 which indicates that respondents commonly agreed that that Intercompany Loans has a high effects on the growth of return on Investment of the MNC. Re-Invoicing Centres has a mode of 3 which is high from likert scale and a very small standard deviation of 1.218 which indicates that respondents commonly agreed that Re-Invoicing Centres has a moderate effects on the growth of return on Investment of the MNC.

$r = n\sum XY-(\sum X)(\sum Y)\div(\sqrt{n\sum X^2-(\sum X)^2}\sqrt{n\sum Y^2-(\sum Y)^2}) = 0.7041$

$P.Er=0.6745((1-r^2)\div\sqrt{n}) = 0.07605$

$r^2= r*r = 0.49576$

The value of r has a strong positive correlation which is the re-invoicing and profits. It is highly significant. Re invoicing explain 49.576% of the profits. Profit repatriation through re invoicing increase profitability of the head branch by 49.576% and consequently reduces profitability of the subsidiary MNCs listed on NSE. The study confirms what Ferris et al. (2006) examined the influence of corporate profit sharing policies of companies in UK. He found out that re invoicing account for huge amount of the profits repatriation. However, This differs slighltly because nly 49.57% of profits.

4.5.9Profit repatriation on profit margin and return on investment

Table 4.15 t- Test

	t	df	Sig. (2-tailed)
Corporate Profitability	18.689	19	.000
Cash Flow	39.753	19	.000
Past Dividend	21.637	19	.000
Sales Growth	28.996	19	.000
Size of the Firm	17.967	19	.000
Float	19.176	19	.000
Taxation	19.675	19	.000
Market-to-Book Value	17.105	19	.000
Debt Equity Ratio	25.682	19	.000

Source: field data 2015

From table 4.15 all the factors have a p-value <.000 which indicates that they are significant effects on the a mount of profits to be repatriated at the MNC

4.5.10 Effects of the following factors on Return on Investment of the MNC

The effects of the factors on the amount of profits were displayed in the table below.

Table 4.16 t- Test .

	t	df	Sig. (2-tailed)
Corporate Profitability	21.637	19	.000
Cash Flow	28.996	19	.000
Past Dividend	17.967	19	.000
Sales Growth	19.176	19	.000
Float	19.675	19	.000
Taxation	18.689	19	.000
Market-to-Book Value	39.753	19	.000
Debt Equity Ratio	25.682	19	.000

Source: field data 2015

From table 4.16 all the factors have a p-value <.000 which indicates that they are significant effects on Return on Investment of the MNC.

CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATION

5.1 Introduction

This chapter discusses the results of the study in line with literature to establish the extent to which the results relate to existing knowledge. The study sought, to establish the effects of profit repatriation practices on the performance of Multinational Corporations listed on Nairobi Secuties Exchange.

5.2 SUMMARY

The research seeks to determine the effects of profit repatriation on perfomance of MNCs listed at NSE. It found ot that profit repartriation through intercompany loans attributed the greatest negative effect on the profits of the subsidiaries of MNCs listed on NSE. This leads to poor perfomance of the MNCs listed on the NSE. According to the respondents, intercompany loans affect greatly the profit. Most companies want to do intra company lending as oppossed to seeking funds from a financial institution. This has led to MNCs lend to each other with a relation. They minimize on the cvosts and maximize on the intra company profits.

The study also found out that royalty payments was the other major contibutor of profit repartriation by MNCs. This affected profits in a negative way of the MNCs listed at NSE. This consequenty affects the perfomance of these MNCs and leads to poor perfomance.

On how transfer pricing affects perfomance of MNCs, the respondents showed that transfer pricing has an equaly relative impact on the profits of MNCs. Transfer pricin was frequent in many MNCs though the repetition seemed to cover these transactions. Re invoicing was the lowest contributor in terms of percentage on the profits of the MNCs. The respondents displayed that re invoicing is not majorly by the headquaters but it was done at the cheapest centre.

5.3 CONCLUSIONS

The study concludes that profit repatriation through transfer pricing, re invoicing, interest on intra company loans and royalty payments reduce profits of multinational corporations listed at Nairobi Securities Exchange. These processes have an effect of reducing the profits leading to a lower reporting of the profits and thus poor performance of the MNCS at the NSE. From the research, we conclude that interest on intercompany loans is the major profit repatriation mode and has the greatest impact on the performance of the MNCs listed on NSE. The researcher concludes that re invoicing do not have a greater impact on the performance of MNCs listed on NSE.

5.4 RECOMMENDATION

The study has contributed to our knowledge on the effect of profit repatriation on the perfomance on MNCs listed on NSE.

The results demonstrate that there is interdependence between the perfomance of the MNCs and profit repatriation. For better perfomance of the MNCs in the NSE market, the rearcher noted that transfer pricing should be increased, reduce royalty payments, reduce intrest on intra company lending and reduce reinvoicing.

Future researchers should conduct a comparative study, replicating this study in a big population covering many industries. Such large population would be useful extension to this study and further enrich the findings to make them more generalizable

5.5 Limitations

The main limitation of the study was that MNCs owners were very suspicious that the research was aimed at capturing data to enable the relevant authorities to tax them efficiently, hence some of them refused to fill in the questionnaires.

Some accountants were very busy with theMNCs accounting work and did not give enough attention to the questionnaires while filling it.

Another limitation is that the data base does not allow us to capture the extraneous variables which may impact on the performance of the MNCs but cannot be quantitatively measured in the model. These variables include the social economic and political variables such as the government policies on SMEs and changes in the political environment.

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