Kampala International University
School of Business and Management

The Effects of Regional Economic Integration on Industrial Growth

Case Study: Diversey Kenya Limited

By

Timothy Warui Njuguna

BIB/2855/31/DF

Supervised by: Mr. Ruteganda Michael

A Research Project submitted to the School of Business and Management of Kampala International University in partial fulfillment for the award of Bachelors Degree in International Business Administration.

July/August 2006.

DECLARATION:

I Timothy Warui Njuguna declare that this report is my original work and has never been submitted to any University for any award. Where the works of others have been cited, acknowledgement has been made.

Signature..... Date..31st....August..06.

TIMOTHY WARUI NJUGUNA

BIB/2855/31/DF

APPROVAL

I certify that the work submitted by this candidate was under my supervision.

Supervisor..... Date.....31/08/06

MR. RUTEGANDA MICHAEL

DEDICATION

I Thank God and my family who gave me the ability, time, finances and all it took too complete this report.

I therefore dedicate this work to the family of Mr. & Mrs. John Njuguna.

ACKNOWLEDGEMENT:

I wish to acknowledge the unconditional support and love extended by the various people in their capacities since this idea was borne. I wish to thank my supervisor Mr. Ruteganda Michael for all the help and guidance he gave me from the time I started with the preparation of this study to the time this research was accepted.

My special thanks to God for enabling me to endure this process till the end.

My appreciation also goes to my friends who gave me moral support throughout my years at school; Mr. Michael Waithaka, the Massade family, Mike Owiny, Victor Karanja, Dheggo Khavemera, and my family. God bless you all.

Table of Contents:

CHAPTER THREE

CHAPTER FOUR

CHAPTER FIVE

LIST OF ABBREVIATIONS

EAC	East African Community
REI	**Regional Economic Integration**
NGO	Non-Governmental Organization
EFTA	European Free Trade Association
NAFTA	North American Free Trade Association
EU	European Union
FDI	Foreign Direct Investments
GATT	General Agreements on Tariffs and Trade
WTO	World Trade Organization
EC	European Community
BASF	The wolrds leading chemical company

Abstract

This research report is about Regional Economic integration and its relevance to Industrial growth. The problem identified was that despite the renewed talks on reviving the East African trade bloc, firms have continued to operate within nation boundaries and have therefore not enjoyed to the optimal level, the benefits affiliated to mass production.

The purpose of this study was to analyze the role that *REI* has played towards the growth of industries in East Africa and the world at large.

The research used analytical and exploratory research designs purposely to obtain qualitative data. Literature was obtained from various secondary sources including text books, journals, news papers, company reports, and the internet, on the major variables of the study in line with the research objectives.

Findings indicate that firms are mainly constrained by internal factors like ownership and management. External factors like poor government support through elimination of cross border trade barriers and competition from similar industries also exist. It was also identified that *REI* has played a great role in facilitating industrial growth through financial and non-financial support programmes.

CHAPTER ONE:

1.0 Introduction

This chapter talks about the background of the study, statement of the problem, the purpose of study, objectives of study, the conceptual framework, and the scope of the study.

1.1 Background of Study

The study of regional economic integration is a dynamic, multi-faceted area of inquiry, which combines a number of disciplines, perspectives, time periods and other numerous factors that promote regional growth. Economists alternate between examining one issue through the eyes of a single discipline and looking at the same issue through the lens of a number of disciplines to arrive at a holistic view of qualitative and quantitative growth and development. The study of regional economic integration and its effect on the growth of firms looks at actual and potential growth rates in Diversey Kenya Limited from a multi-disciplinary perspective, affording readers, researchers and practitioners a better understanding of the multiplicity of issues facing industrial growth, and of emerging policies and techniques aimed at addressing these issues. The study also focused on both traditional planning topics such as economic development, management and control of growth, and the impact of these growth systems on industrial growth including transfer treatment of conceptual issues embedded in industrial growth policy and planning theory.

With regard to the case study-JohnsonDiversey creates award-winning innovations that help increase the productivity of customers.

For example, the combination of two of our innovations won the best-in-show innovation award at the 2006 ISSA/Interclean show in Amsterdam.

The company combined Jonmaster, a microfibre cleaning system, and iMap, an internet-based managment system, into the Jonmaster Auditing System. The ISSA//Interclean judges called it "the system with the greatest potential impact on the cleaning industry.

Johnson Polymer, an affiliate plant of JohnsonDiversey EA limited, is one of the world's leading producers and suppliers of water-based resins. Resins are important raw materials for the production of coatings in the automotive, wood, packaging and printing industries. Johnson Polymer's water-based product range complements BASF's existing portfolio, which concentrates mainly on high-solids and UV resins. BASF is the worlds leading chemical company. It makes chemicals, plastics, performance products, agricultural products, and fine chemicals including crude oil and natural gas.

The global market for water-based resins is growing at an average of 5 percent per year. In recent years, Johnson Polymer has grown faster than the market and has been profitable. Roughly 60 percent of sales, which were approximately $360 million in 2005, are generated in North America. Johnson Polymer has 430 employees and operates two production sites in the United States and one in the Netherlands, as well as technical centers and offices in Asia Pacific.

"This transaction is a further important step in strengthening the company's technology and innovation driven specialty business with performance products. The deal will further improve its position in a profitable, fast-growing business and open up new areas for innovation," said Diversey's Board member Dr. Andreas Kreimeyer. "The acquisition of Johnson Polymer expands our high-growth coating resins business. We are supplementing our expertise in this area with water-based technologies from a customer-focused company with a highly qualified team," added Patrick Prévost, President of Diversey's Performance Chemicals division. At the same time, Diversey will strengthen its market presence, particularly in North America, and will therefore be able to offer its customers a wider range of technologies from a stronger regional base.

1.2 Statement of the Problem

Despite Diversey's substantial market share and good corporate image, it has experienced a slack in growth as a world-class industry in the East African markets, judging from the recently re-negotiated and re-instated East African trade pact put in place to fuel regional economic integration. The trade bloc put in place trade policies and strategies to foster industrial growth in the three East African economies.

Therefore, there was need to reallocate human resources and technological policies in a current dynamic mode, to the daily running of the firm, to ensure that the firm was not left out in the Globalization move. Globalization calls for intense competition among market leaders and followers, in the provision of better/improved goods and services to target markets.

1.3 Purpose of Study

The main purpose of this study was to assess the effects of economic integration to the growth of firms in regions, and how Diversey Kenya Limited can harness opportunities to realize the economies of scale from regional economic integration as such. Areas of concentration in this respect were reduced across border trade barriers, like the mobility of labor, which resulted to higher productivity and the achievement and maintenance of a market leader position.

1.4 Objectives of Study

The specific objectives of study were:

- To evaluate the impact of economic integration on the growth of Diversey Kenya Limited.
- To ascertain other factors, apart from economic integration, that affected the growth of Diversey Limited.
- To identify ways of integrating firms economically, and the effect of such integration on growth.

- To establish a relationship between economic integration, and industrial growth.

1.5 Research Questions/Hypothesis

The questions below helped the researcher to focus his attention on a specific area of study.

- Can economic integration lead to the growth of firms, e.g Diversey Limited, regardless of the impending questions about cut-throat competition in the markets, and the threat of coming up of a '*trade fortress*' in the East African region?
- What is the relationship between regional economic integration and industrial growth with regard to limited corporate resources?
- What other factors relating to political, economic, and technological aspects affect the growth of firms in East Africa?

1.6 Significance/Justification of Study

Top Management

The board of directors and other top management officials like chief executive officers were able to get the first hand information on why their firm has not been able to adjust accordingly to trade.

The Finance and Operations Departments

In addition to the above departments, *research and marketing* departments were able to integrate by sharing vital information and thus create efficient and effective avenues for better utilization of scarce resources.

The Ministry of Finance Trade and Industry

This sector was able to determine the relationship between regional economic integration and industry growth for better policy formulation.

Scholars and Professionals

This study was also relevant to Diversey Limited by facilitating assessment on how economic integration affects the growth of industries and the necessity of creating focused objectives that will enable the firm to competitively grow and thus foster national growth. The study assisted scholars and professionals in research, as secondary data for references when doing projects and assignments. The findings went a long way in assisting and informing the business community on the importance of growth fostered by economic integration and the use of modern technology and strategy and the effect of these variables on industrial growth. The study enabled the researcher to acquire more skills, knowledge and experience regarding industrial growth and regional economic integration.

1.7 Conceptual Framework

The study concentrated mainly on economic integration and its link on qualitative and quantitative industrial growth of the company, Diversey Limited.

The researcher identified ***ECONOMIC INTEGRATION*** as the *independent variable* and ***INDUSTRIAL GROWTH*** as the *dependent variable.*

From the above statement, the researcher identified the importance and the impact of economic integration on industrial growth. The study therefore covered Diversey's annual sales turn over for the year 2003 and general performance in terms of products offered in the markets. This study was chosen because substantial research has been conducted on it.

1.8 Scope of study

The study was carried out on the company's main branch that is located in Nairobi, Kenya. This is because the area consists of the biggest percentage of activities/operations that pertain to production and distribution, with regard to the East African region.

The study lasted for a period of two months, between July 2006, and August 2006.

CHAPTER TWO:

2.0 Literature review

2.1 Introduction

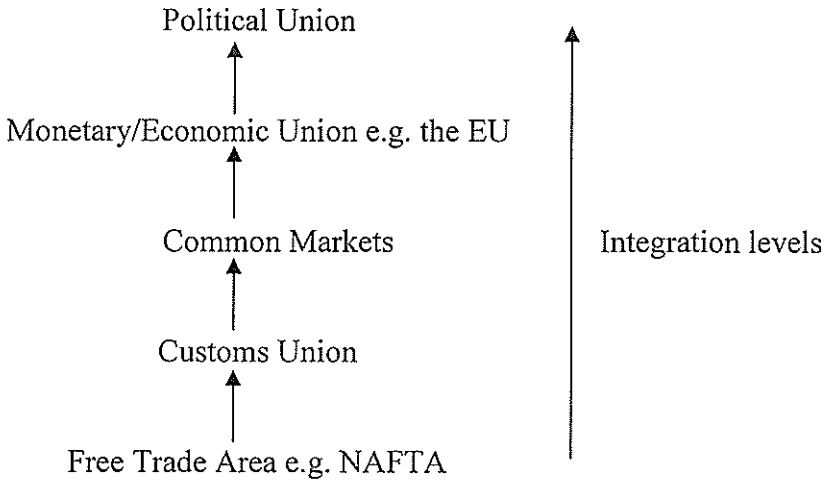
Economic integration is crucial in development and trade liberalization. Examples of trade blocs formed to promote economic integration include The East African Community (EAC); The European Economic Community (EEC); Common Markets for East and South African States (COMESA), etc. The main objective of these trade blocs is to foster regional economic integration through;

a) The gradual abolition of tariffs and import quotas on all products traded among member states.
b) The establishment of a common system of tariffs applicable to all goods received from nations outside a common market.
c) The eventual free movement of capital and labor within the market
d) The creation of common policies with respect to a number of other economic matters of joint concern, such as agriculture, transportation, and restrictive business practices

Motives for the creation of a common market such as the East African Community are both political and economic to encourage the growth of industries. The primary economic motive is to gain the merits of freer trade for members. While it is difficult to determine the extent to which EAC's prosperity in fostering industrial growth has been due to economic integration, it is clear that the integration creates mass markets that are essential to common market industries, if economies of large-scale production are to be realized. More efficient production from a large-scale market permits domestic industries to realize lower costs that small-localized markets have historically denied them.

On the other hand, a peaceful and increasingly prosperous common market makes member nations better potential customers for exports from non-member states.

2.2 Levels of Economic Integration



Several levels of economic integration are possible in theory. The diagram above illustrates the different levels from the least integrated- *free trade area*, to the most integrated- *a political union.*

2.2.1 Free Trade Area

In a free trade area, *all barriers to the trade of goods and services among member states are removed.* In such an area, no discriminatory tariffs, quotas, subsidies, or administrative impediments are allowed to distort trade between member countries. Each country is however allowed to determine its own trade policies with regard to non-member states. Therefore, tariffs placed on the products of non-member countries may vary among member countries of a trade bloc. Some of the most enduring free trade areas in the world are: the European Free Trade Association (EFTA); the North American Free Trade Association (NAFTA); and the European Union (EU).

2.2.2 Customs Union

A customs union is one step further along the road to full economic and political integration. A customs union eliminates trade barriers between member countries and adopts a *common external trade policy.* The establishment of a common external trade policy requires administrative skill and equipment to oversee trade relations with non-

members. An example of such is the current version of the *Andrean Pact* (between Bolivia, Columbia, Ecuador, and Peru). The Andrean Pact aims to establish free trade between member states and to impose a common tariff of 5% to 20%, on products imported from outside.[1] The EAC can be vaguely fitted into this category. *The first East African Cooperation development strategy (1997-2000), concentrated on laying the ground work for regional integration. The second strategy (2001-2005), focused on the implementation of the Treaty for the establishment of the East African Community. The priority in the 2001-2005 strategy was the establishment of the customs union. The protocol on the customs union was signed in 2004 and it became operational on 1st January 2005.[2] The third EAC development strategy is to be implemented between the years 2006-2010.*

2.2.3 Common Market

Like a customs union, the theoretical common market has no barriers to trade between member countries and will incorporate a common external trade policy. Unlike a customs union, a common market *allows factors of production to move freely between member states*. Thus, labor and capital are free to move because there are no restrictions to immigration, emigration or cross border flows of capital between member countries. Hence, a much closer union is envisaged in a common market than in a customs union. The EU is among the very few if not the only successful common market ever established. Establishing a common market demands a significant degree of harmony and cooperation on fiscal, monetary, and employment policies. *MERCOSUR*, the South American grouping of Brazil, Argentina, Paraguay, and Uruguay, hopes to set itself up as a common market.

---

[1] "Free-Trade Area for All", *The Economist,* January 4, 1991. p63.
[2] The East African News, *New EAC Chief vows to revive road project,* June 5-11, 2006.

2.2.4 Economic Union

This entails even closer economic integration and cooperation than a common market. Like the common market, an economic union involves the free flow of products and factors of production between member countries and the adoption of a common external trade policy. Unlike a common market, a full economic union *requires a common currency, harmonization of the member's tax rates, and a common monetary and fiscal policy*. Such a high degree of integration demands a coordinating bureaucracy and the sacrifices of significant sovereignty to that bureaucracy. There are no true economic unions in the world, but the EU is moving in this direction, especially due to the introduction of a common currency, the Euro.

2.2.5 Political Union

A political union *answers queries on how to make a coordinating bureaucracy accountable to the citizens of member nations*. The EU is still the best example in this perspective. The European parliament has directly been elected by citizens of EU countries since the late 1970's. In addition, the council of ministers (the controlling decision making body in the EU), is composed of government ministers from each EU member state.

2.3 The Case for Regional Integration

This includes both political and economic aspects that foster or hinder regional integration.

2.3.1 Economic case

Theories of international trade predict that unrestricted free trade will allow countries to specialize in the production of goods and services that they can make most efficiently. This results in greater **World Production** than would be possible with trade restrictions. Opening a country to free trade thus stimulates economic growth which in turn fuels dynamic gains from trade. In addition, FDI can transfer technological, managerial and marketing know-how to host nations. Given the central role of knowledge in stimulating economic growth, opening a country to FDI is also likely to stimulate technological growth. In sum, economic theories suggest that free trade and investments is a positive-sum game, in which all participating countries stand to gain.

Given this, the theoretical ideal is the absence of barriers to the free flow of goods, services and factors of production among nations. However, a case can be made for government intervention in international trade and FDI. Since many governments have accepted part or all of the case for intervention, unrestricted free trade and FDI have proven to be an ideal. Although international institutions such as GATT and WTO have been moving the world toward a free trade regime, success has been less than total. In today's world of many nations and many political ideologies, it is very difficult to get all countries to agree to a common set of rules.

Regional Economic Integration is an attempt to achieve additional gains from the free flow of trade and investment beyond those attainable under international agreements such as GATT and the WTO. It is easier to establish a free trade and investments regime among a limited number of adjacent countries than the cross continental communities. Problems of coordination and policy harmonization are largely a function of countries that seek agreement. The greater the number of countries involved, the greater the number of perspectives that must be reconciled, and the harder it will be to reach an agreement.

2.3.2 Political Case

Linking neighboring economies and making them increasingly dependent on each other creates incentives for political cooperation and reduces the potential for violent conflicts between the states. In addition, by grouping their economies, the countries can enhance their political weight in the world. Europe has for example suffered two devastating wars in the first half of the last century, both arising from unbridled ambitions of the states. These considerations under lay the formation of the EC which was the fore-runner of the EU. Europeans believe that after the world war two, European nations were no longer large enough to hold themselves up in *World Markets and World Politics.* The need for a united Europe to deal with world hegemons loomed large in the minds of many of the EC founders.[3]

2.4 Impediments to Integration

Despite the story on economic and political arguments for integration, it has never been easy to achieve and sustain. This is because Economic Integration has its costs, even though it benefits the majority. While a nation as a whole may benefit significantly through a free trade agreement, certain groups may lose. In the EAC customs union for example, Uganda and Tanzania stand to lose in the initial stages of its implementation if barriers to the free flow of goods and services are totally extinguished. This is because the Kenyan economy has better leverage in terms of trade and industry development.

Similarly, as a result of the 1994 establishment of NAFTA, some Canadian and US workers in industries such as textile which employ low cost, low skilled labor lost their jobs as firms moved production to Mexico. The promise of significant net benefits to the Canadian and US economies was little comfort to those who lost jobs.

A second impediment to integration arises from concerns over **National Sovereignty**. In the East African community, the three economies in question will for example have to

[3] D.Swann, *The Economics of the Common Market,* 6th ed (London penguin books, 1990).

come up with favorable fiscal and monetary policies not to mention trade and governmental issues that will suit all three economies. This will probably be hindered by the differing gross domestic and gross national product statistics. Another tricky area would be the varying values of currencies against the dollar in the three economies. Talking about national interests, the NAFTA Treaty provides a good example where Mexico's concerns about maintaining control of its oil interests resulted in an agreement with Canada and the US to exempt the Mexican oil industry from any liberalization of foreign investment regulations achieved under NAFTA.

2.5 The case against Regional Economic Integration

Some economists fear that the benefits of *REI* have been oversold, while the costs have been ignored. They point out that the benefits of *REI* are determined by the extent of trade creation, as opposed to trade diversion[4]. **Trade Creation** occurs when high cost domestic producers within a free trade area are replaced by low-cost external producers within the free trade area. **Trade Diversion** occurs when lower cost external suppliers are replaced by higher cost suppliers within the free trade area. A regional free trade agreement will benefit the world only if the amount of trade it creates exceeds the amount it diverts.

Suppose a free trade area is eventually created within East Africa, scrapping all trade barriers between the member states, but maintaining tariffs on imports from the rest of the world, and then Kenya began importing textiles from Tanzania, would this change be for the better? If Kenya previously produced all of its own textiles at a higher cost than Tanzania, then the free trade agreement has shifted production to the cheaper source. According to the theory of **Comparative Advantage,** trade has been created within the regional grouping, and there would be no decrease in trade with the rest of the world. The change would therefore be for the better. If however Kenya previously imported textile

[4] J. Bhagwatti, Regionalism and Multi-lateralism: "*An overview, Columbia University discussion paper 603,* dept of economics, Columbia University, New York: Augusto de la torre and Margaret Kelly, *"Regional Trade Agreements",* occasional paper 93. (Washington DC: Interantional Monetary Fund, March 1992); and J. Bhagwatti, "Fast Track to Nowhere, "*The Economist,* October 18, 1997, pp. 21-24.

from China, which produced them more cheaply than Tanzania or Kenya, then trade would have been diverted from a low-cost source- which would be a change for worse.

In the theory, the WTO rules should ensure that a free trade agreement does not result in trade diversion. These rules allow free trade areas to be formed only if the members set tariffs that are not higher or more restrictive to outsiders than the ones previously in effect. Othrewise, regional trade blocs whose markets are protected from outside competition by high non-tariff barriers could emerge. In such a case, the trade diversion effects might outweigh the trade creation effects. The only way to guard agaist this possibility, is to increase the scope of the WTO, so that it covers non-tariff barriers. There is no sign that this scenario will occur any time soon, but the risk still remains that *REI* will result in trade diversion.

2.6 Implications of *REI* on business opportunities

The creation of single market offers significant opportunities because markets that were protected from foreign competition are opened. For example, in Europe before 1992, the large French and Italian markets were amongst the most protected. These markets are now much more open to foreign competition in the form of both exports and direct investment. Similarly, one could suggest that the telecommunications giants CELTEL and MTN, have better been able to penetrate the East African region since the establishment and implementation of the bloc from the year 1997 to date.

From a general point of view, the author of "Fortress Europe" suggests that *to fully exploit such opportunities, firms within trade blocs should set up subsidiaries.* For our case in question, Johnson Diversey should move in this direction with regard to Uganda and Tanzania. Companies ignoring such as a move will consequently run the risk of being shut out of trade blocs, in our case, the East African community, by non-tariff barriers. An example is shown by the entry of European firms to the EU in form of direct investments, to form a single market. From 1985-1989, about 37% of the FDI inflows

into industrialized countries was directed at the European Commission (EC). By 1991, this figure had risen to 66%[5].

Additional opportunities arise from the inherent lower costs of doing business in a single market. Free movement of goods across borders, harmonized product standards, and simplified tax regimes allow firms based in the EU and NAFTA countries to realize potentially enormous cost economies by centralizing production in these locations where the mix of factor costs and skills is optimal.

However, even after the removal of barriers to trade and investment, enduring differences in culture and competitive practices often limits companies' ability to realize cost economies by centralizing production in key locations and producing a standardized product for a multi-country market. Consider a case of *Atag Holdings NV*, a Dutch maker of kitchen appliances that is profiled in the accompanying "Management Focus." Because of enduring differences between nations within EU's single market, Atag still has to produce various "national brands," which limits the scale economies.

2.7 Threats imposed by *REI* on business opportunities

REI also presents a number of threats to industry growth among them, competition between industries in the business environment. The lowering of barriers to trade and investment is likely to lead to increased price competition throughout a trade bloc. For example, before 1992, Volkswagen golf cost 55% more in Great Britain than in Denmark and 29% more in Ireland than in Greece[6]. Such price differentials vanish in single market. To survive in a tough a single market environment, firms must rationalize their production and reduce their costs or else be at a severe disadvantage.

A further threat but this time to firms' outside trade blocs arises from the likely long term improvement in the competitive position of the many firms within the trade blocs. This was particularly relevant in the EU, where many firms were limited in their ability to

---

[5] "World Economic Survey," *The Economist,* September 19, 1992. p 17.
[6] E.G. Friberg, "1992: Moves Europeans are Making," *Harvard Business Review,* May-June 1989, pp 85-89.

compete globally with North American and Asian firms by a high cost structure. The creation of single market increased competition in the EU, and transformed many EU companies into efficient global competitors.

A final threat to firms outside trading blocs is the threat of being shut out of the single market by the creation of a **"Trade Fortress".** The change that *REI* might lead to a fortress mentality is most leveled at the EU. This is because, although the free trade philosophy underpinning the EU theoretically argues against the creation of any 'fortress' in Europe, there are signs that the EU may raise barriers to imports and investments in politically sensitive areas, such as autos.

CHAPTER THREE:

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter covered the description of the methodology used in the study. It contains a survey of the population research design techniques used in data collection, including an analysis and the limitations to the study.

3.2 RESEARCH DESIGN

The researcher used qualitative design, guided by use of questionnaires and interviewing.

3.3 PROCEDURE

The researcher first carried out a pilot survey and questionnaires were then sent out to the selected respondents and collected after two weeks. At the time of collection, the researcher interviewed the respondents and visited written literature about regional economic integration from the library and the internet. The data collected was coded, tabulated and analyzed. A report and recommendations was thereafter made.

3.4 SAMPLE SELECTION

The sample was drawn from the growth and development data of Diversey Limited using random sampling. This sample included both hard and soft copies sent via the internet.

3.5 DATA COLLECTION

The research was carried out based on two types of data sources:

a) Primary data- which involved interviewing Diversey's personnel
b) Secondary data- which involved the analysis of secondary data information from the library and the internet

The researcher used interviews and questionnaires as the main research instruments.

3.5.1 INTERVIEWS

Interviews were used to get the historical background of the areas of study. This included the year when Diversey Limited was set up, its mission and goals, product creations, implementation strategies, among many other factors.

The researcher also used telephone interviews and mail interviewing methods.

3.5.2 QUESTIONNAIRES

Questionnaires as a tool were used to gather some detailed information about the company. The researcher used mail questionnaires mainly because of;

a) a high degree of anonymity
b) token gifts enclosed to seek compliance
c) wider geographic regions to reach out to
d) larger amounts of data to obtain
e) respondents took more time to respond at convenience and administer replies electronically on request (refer to appendix B)

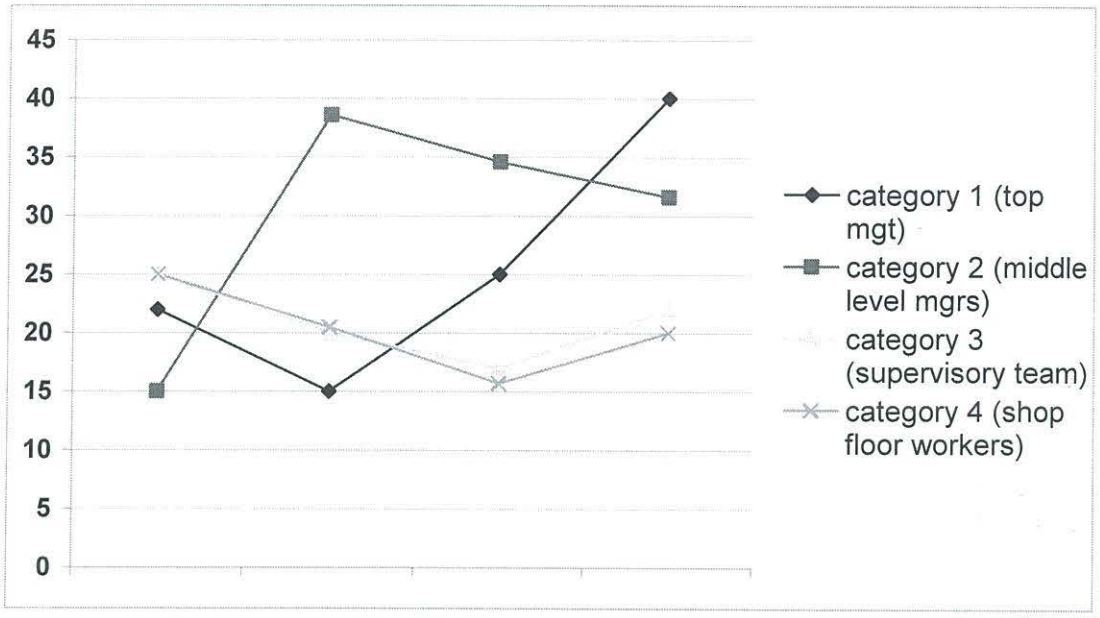
3.6 DATA ANALYSIS

Data was analyzed by use of;

- tables
- percentages
- average charts
- data editing

Data was analyzed for accuracy and consistency. The responses from the field formed the basis of evaluation for industrial growth.

Line Graph showing the preference of *REI* strategies in percentage by different groups in the firm.



X- axis: Level of preference with increasing popularity among workers

Y- axis: Percentage level of preference within the different categorical departments of the firm

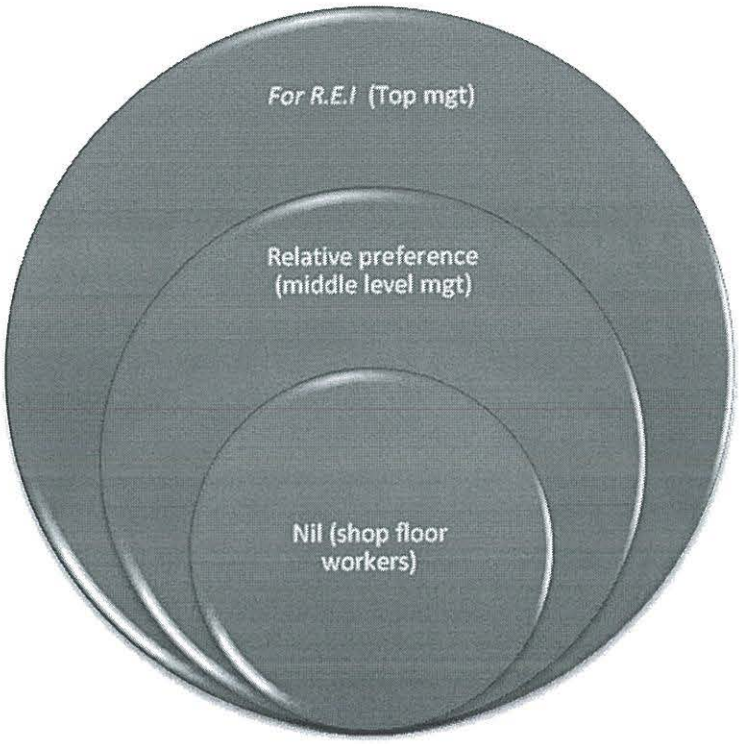
The above line graph shows the preference in percentage, of different categories of workers, with regard to the adoption of *REI* strategies. According to the data collected, levels of preference increase in hierarchical order within the organization.

Top management shows the highest level of preference to *REI,* with an initial percentage of 22%. Research showed that some individuals feared that cross border trade would render their services obsolete due to competition from otherwise more experienced workers from neighboring economies. *REI* is almost dropped at this level but later picks up to a leading level of 45%.

Middle Level managers have a relatively volatile pattern of preference. This was owed to potential opportunity created by *REI* to work abroad for some, and job insecurity risks perceived by others. This category held the lowest initial level at 15%, but due to increasing preference of working abroad, closed at a 33% high.

The **Supervisory and Shop floor workers** shared somewhat almost the same level of ideas mainly geared by the fear of unemployment arising from the adoption of modern technology, along with *REI* strategies.

Venn Diagram Representing Preference Views on the adoption of *REI* Strategies by Diversey Inc.



The above diagram represents the data presented in the line graph with order of preference for the adoption of *REI* strategies within the organization.

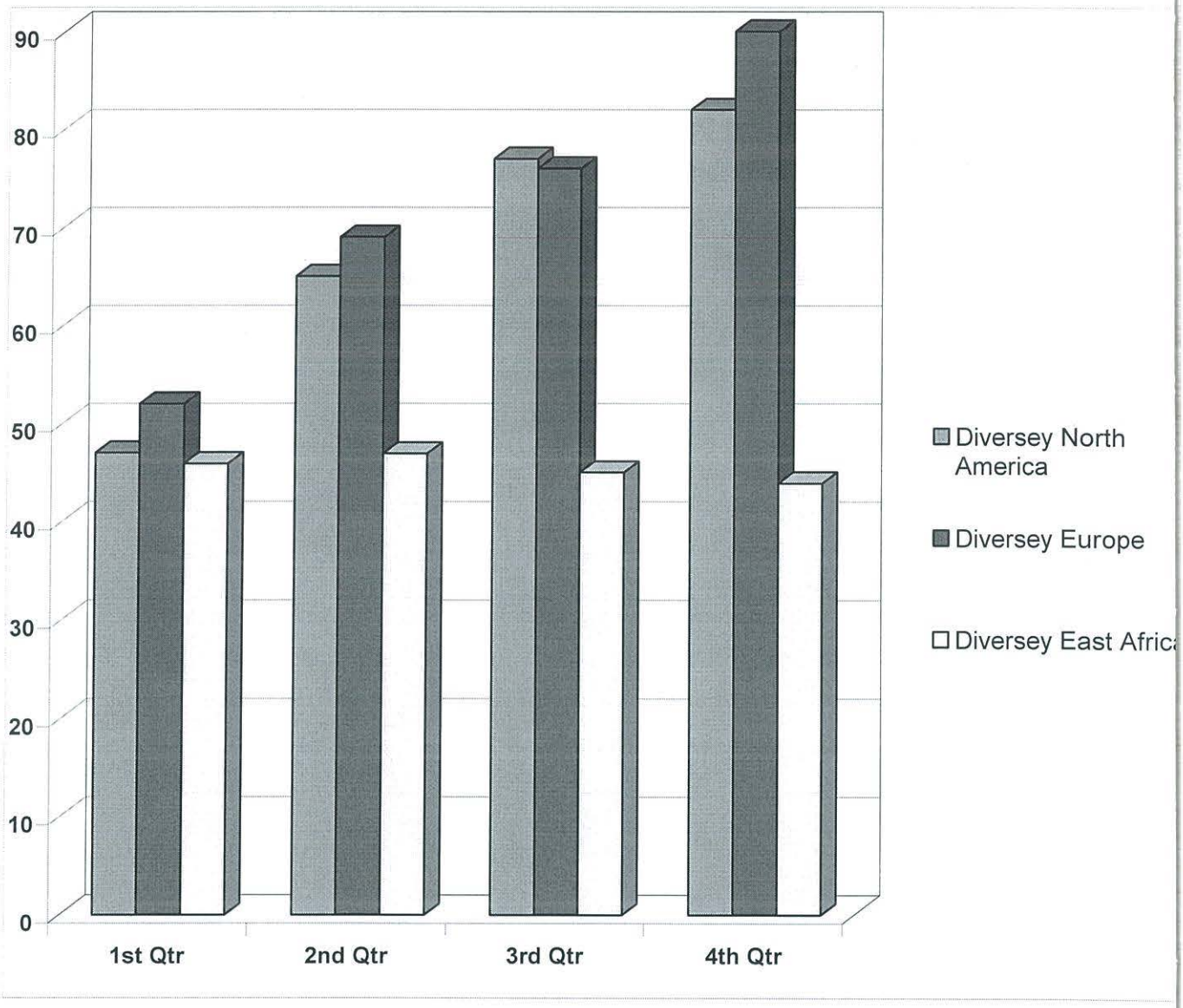
The biggest population of workers within the organization was for the idea claiming that economic integration would in the long run lead to higher standards of living to their communities. Further research showed that the ideology was fueled by higher education standards for the top hierarchical levels of the organization.

The middle part of the Venn shows relative preference for the adoption of *REI,* therefore leaving top management with the most leverage in such decision making.

Shop floor workers seemed to have the little or no interest on the idea based on their educational levels and thus their understanding of *REI.* Research therefore showed no views on their preference to the adoption of *REI* strategies. Note: Similarly, as a result of the 1994 establishment of NAFTA, some Canadian and US workers in industries such as

textile which employ low cost, low skilled labor lost their jobs as firms moved production to Mexico.[7]

Corporate performance per quarterly annual periods for Johnson Diversey firms in East Africa, North America, and Europe.



X- axis: quarterly annual periods for the performance of Diversey companies.

Y- axis: percentage benefits realized from cross border operations within trade blocs.

[7] Timothy Njuguna, The Effects of Regional Economic Integration on the growth of firms, *Impediments to Integration. p.20.*

The above bar graph presents an illustration of the benefits realized by firms in different continents, after the adoption of *REI* within established trade blocs including the EU in Europe, NAFTA in North America, and the recently revived East African community.

Diversey Europe and North America seem to have reaped the greatest benefits from *REI,* research has shown. This was mainly due to the operations of the European Union which is so far the most successful Economic Union ever established, not to mention NAFTA. The EU is now heading to a political union with time.

Diversey East Africa lags behind in macro economic growth since the EAC has not fully established growth oriented policies for the three East African economies.

3.7 DEFINING THE TERMS USED

Research Problem: this refers to an issue or area in the field of study. E.g. the effects of *REI* on the growth of firms.

Variables: represent some characteristics, attributes, or property which can take on categories, levels or numeric values amongst people, organizations, events, objects, or institutions. E.g. Industrial growth and regional economic integration.

Independent Variable: represent factors, characteristics, attributes, or properties that can be said to have some influence on other factors in the problem statement. E.g. Regional economic integration.

Dependent Variables: are variables which represent factors, attributes, characteristics, or properties that change in response to previous changes in the independent variables. E.g. Industrial growth

Economics refers to the careful and thrifty management of resources such as money, materials, or labor. It could also mean variables pertaining to production, distribution, and use of income, wealth, and commodities. Thrifty management; frugality in the expenditure or consumption of money, materials and so on. It also means the management of the resources of a community, country etc, especially with a view to its productivity.[8]

Integration on the other hand means to make whole by bringing all parts together; unity. It could also mean an act or instance of incorporating or combining into a whole.[9]
The term Economic Integration therefore has a dual meaning in the literature of economics. The first is founded on the interdependence of industrial sectors in an economy and the vertical and horizontal integration of industries. The second meaning is the "joining together of economic activities, especially trade between several countries"- for example, through free trade areas, customs unions, common markets, and federations of national economies.[10] The first meaning is more economic while the second one has a concept of a "political economy." In this study, the term economic integration was used primarily from an economic sense.

Integration of economics and economic systems occurs when one or more local economic regions become an integral part of two different economic systems. In the absence of jurisdictionally imposed boundaries, adjacent economic systems integrate or merge, with some local economies being parts of each and held in common.

---

[8] The American Heritage Dictionary of English language, 4th e.d.
[9] Random House Webster's College Dictionary.
[10] Donald R. (1992), Dictionary of Economics. New York: Routledge

3.8 LIMITATIONS

The following are some of the main factors which affected the accuracy and quality of the study:

a) Inability to access valid and eligible data:

Professionals of the organization in question felt insecure to reveal important information for fear of breaking the terms and conditions of contract under which they were employed. Professionals were not convinced that the study was entirely for academic purposes. Some were under the impression that the data obtained from this study was to be used by competitors or legisltative bodies like government, to access corporate plans.

Some respondents were therefore unwilling to answer questionnaires or even participate in any kind of discussion in form of interviews.

The organization's management felt unconcerned thinking that the firm is heading in the right direction and therefore no need for change towards improvement.

Similarly, the researcher was victim to false to information due to the inability to constantly engage himself in face-to-face interviews. The inability to engage in such interviews was fueled by extra costs incurred by traveling to targeted areas of information.

b) Inadequacy of resources and funds

It was expensive in monetary terms because, for one to contact respondents, the researcher had to make phone calls, post questionnaires through mail, and even travel to Diversey Limited.

Stationery and miscellaneous expenses added to expenses in the budget.

c) Limited Time

Due to the nature of the researcher and the respondents, the researcher lost a lot of time on postponements which led to the overall shortfall in the time allocated to the research project.

3.9 SOLUTIONS

- The researcher budgeted within the limits of the available funds
- He drafted a time-table which enabled him to finish the research within the stipulated time
- The researcher acquired most of the data from the company's website- www.johnsondiversey@yahoo.com

3.10 EXPECTED OUTCOME

The researcher expected upon the implementation of regional integration strategies in the EAC, the company would be able to adopt growth-oriented policies, which were going to foster industrial development in line with technology dynamics, to penetrate the Ugandan and Tanzanian markets.

CHAPTER FOUR:

4.0 Introduction

This chapter covers a summary of the key issues obtains from the literature review. It is a comprehensive analysis of different views from different author in relation to the major variables of the study. The objective is to compare and contrast in a systematic way, the major ideas drawn by different scholars so as to draw meaningful conclusions and recommendations.

Additional discussions and interpretations have been made in relation to the research objectives and research questions as earlier stated in the study. These include: evaluating the impact of *REI* on the growth of Johnson Diversey globally; other factors apart from *REI* that affect the growth of firms; ways of integrating firms economically; and to establish a relationship between *REI* and Industrial Growth.

Presentation analysis and discussion of findings: *(Evaluating the impact of REI on the growth of Johnson Diversey globally).*

Curtis Johnson is the Chairman, JohnsonDiversey Inc, and a Graduate of Cornell University, BA Economics; Northwestern University, MBA Marketing/Finance. He Joined S.C. Johnson in 1983 and co-founded Wind Point Partners, L.P., a $126 million venture capital partnership in which the company was a major limited partner. Wind Point is now managing their fourth, $400M fund. In 1989, Mr. Johnson was named Director-Worldwide Business Development for S.C. Johnson Wax where he played a key role in the $1.2 billion acquisition of the Drackett company; In 1993, Curt was named VP & Managing Director - Mexican Johnson, a subsidiary of S.C. Johnson Wax, where he significantly increased sales and profits; In 1995, he became VP & Managing Director - Business Development, for the Professional and Polymer divisions of the company. In this position, he was responsible for developing a new vision and mission for these units and led the transformation programs; In 1996, he was named Chairman of Commercial Markets, Inc., overseeing both the Professional and Polymer businesses.

In 2002, Curtis Johnson led the initiative that resulted in the $1.6 billion acquisition of DiverseyLever, which at the time was the second largest company in the I&I market. This acquisition has more than doubled the size of Commercial Markets and positioned the company for industry leadership. Mergers and acquisitions made in Johnson Diversey have been made possible by the formation of trade pacts including the NAFTA in North America and EU in Europe.

4.1 General Findings *(other factors apart from REI that affect the growth of Johnson Diversey Inc.)*

There are a few easy ways for companies like JohnsonDiversey to make their presence felt in the markets of East Africa. For traders of cleaning appliances, and East Africa is indeed a very lucrative market. Companies dealing in products manufactured in the Far East (China, Korea, Thailand, Malaysia etc) will find a ready market for their products as East Africa is by and large a very price-sensitive market. It is a well known fact that customers prefer cheaply priced goods from the Far East rather than the expensive ones from Europe and America. You can promote your products and/or services in East Africa through many mediums:

The growing use and influence of the Internet can also be harnessed to promote business in the East African markets. Through posting business proposals on the Africa Business Classifieds, the Advertising Section carries a full page editorial about a company as well as pictures of a company's products. In addition to this, the company will also be provided with a direct link in the Business Links section. By promoting the company on the Africa Business Pages stakeholders can reap rich dividends.

Ways of integrating firms Economically and Establishing a Relationship between REI and Industrial Growth.

Finding the right customers in the market can be a time-consuming process. Being such a wide area, marketing one's products and services in East African markets is indeed a challenging task. However, for a successful marketing effort, it is imperative to identify

and associate with reliable and efficient business partners in the East African countries. There are a number of ways to go about identifying potential trade partners. A good starting point is via an organization that specializes in marketing and business promotion in the African markets. Such organizations have not only the necessary experience and expertise, but also the right contacts to help you in your marketing efforts.

Another useful tool to search for business associates is the Internet. Although the internet is not as widely used in many African countries as it is in the developed world, it nevertheless provides you with an opportunity to search for your business counterparts in several African countries. Dedicated websites like the Africa Business Pages (www.africa-business.com) provide useful information for those looking for business contacts in the African continent. However, before you launch yourself into a "search-and-target" operation, here are some pointers that will help you understand the mechanisms of the African markets and help you choose the right business partner for yourself.

CHAPTER FIVE:

5.0 Conclusions and Recommendations

This chapter deals with conclusions and recommendations identified during the course of study and highlights a few areas of further research that scholars could embark on in relation to *REI* and Industrial growth.

5.1 Conclusions

Large industrial companies or specialist manufacturers will often purchase their requirements directly from producers. This is especially the case for specific machinery or equipment or for bulk users of raw materials.

Most industrial sectors in African countries are dominated by a few very large, diversified groups, although the current trend towards smaller, more focused groups of operating companies has seen the unbundling of many of these large corporations. These large companies are however very important, not only because of their size and diversity but because they are significant end-users of raw materials and capital inputs.
Each group will have their own procurement systems to deal with imports and raw materials. This could be an in-house import department or the existence of an import company for the group that operates independently to supply the parent company and other customers. In addition to the large groups, there are numerous smaller manufacturing companies who may engage in direct procurement of certain raw materials and machinery.

Where there is no specialist importer or distributor for your specific product, you may need to sell directly to a wholesaler who services your market. A wholesaler does not usually have exclusive selling rights.
Wholesalers play a very important role in the distribution system in markets, in particular in supplying independent retailers and informal operators. Certain larger wholesalers, e.g. spare parts industry, are also utilized extensively by retailers in neighboring countries who will visit the wholesaler on a monthly basis to procure their requirements. For

certain products, particularly in the technology (computers industry), the major importers also operate as wholesalers. A further feature of the wholesale sector is that the large wholesalers are often owned by one of the major retail groups.

Large retail stores buy products directly from an overseas supplier. This is most often the case when there is exclusivity on a line such as a particular range of linen, clothing or kitchenware. Of growing importance in the East African market is the existence of house brands and especially cleaning products that are manufactured specifically for a retailer under their own label. A number of house brands available in many African retail outlets are imported from Asian countries.

A salient feature of the retail sector in East Africa is that it operates within a very competitive marketing environment. As a result, a few large groups dominate the retail sector. For example, in South Africa there are four major retail groups that dominate the foodstuff business, accounting for well over half of the formal retail sector.

In addition to the major chains and groups, there are a large number of independent retailers who cater to their own segments of the market. Once a list of potential partners has been identified using trade directories and other inputs, it is then necessary to contact each of the companies to assess their interest in doing business with you. It is advisable to get a specialist organization to do this on your company's behalf, as the process can be very time-consuming. It is advisable to mail your company's corporate brochure along with an indicative price list to your targeted business partners. An increasing number of companies are also using the internet to make contact with their business counterparts in many African countries. E-Mail marketing is thus emerging as a major tool in the promotion of direct trade.

However, it is worth reiterating the value of an in-market visit to establish contacts with prospective partners. As an exporter, a company would need to plan a visit to a market for a number of reasons. Initially this is an ideal way to meet potential importers of your product and to discuss conditions for payment and other business modalities. A visit to your targeted market also helps you to get an understanding of the way the market operates, what the market characteristics are, what your competitors are doing and whether or not their product is going to compete in terms of quality and price.

Lastly, since international travel is expensive, you need to plan your visit carefully so that you maximize your time in the market. However, before you finalize any agreement with an agent or distributor for your products in a country you need to study a few things.

First and foremost, you need to appoint an agent who knows your market well. Most of the business sector in African countries is relatively small and companies have established methods of procurement that differ from one sector to another. One tends to find that there are relatively few agents who serve a particular sector on an exclusive basis, but, because they are well established within the sector, they deal in many other sectors. For instance, a reputed foodstuff importer in Uganda may also be a major importer of automobile spare parts like tyres, batteries and ball bearings.
You also need to consider the aspect of regional distribution. Africa is a large continent with as many as 54 countries, talking about expanding operations beyond the East African boundaries. Smaller agents will tend to operate provincially, as they do not have the infrastructure or the wherewithal to support operations in other provinces or countries. If you decide to go this route you may need to appoint an agent in larger cities in order to cover all the major provinces. Large companies who take on agencies will often have an office in major cities in a region thereby making any agency agreement easier to control.

For certain products and services countries like Kenya, South Africa, Ivory Coast are known as trading hubs for their respective regions. One needs to consider whether an agent should handle business in the entire region on the company's behalf or whether he should concentrate on his country alone.

5.2 Recommendations

- Understand the areas of need and high profit. Consult with the Chamber of Commerce, the Embassy, or traders in the country of your interest.

- Educate yourself about East Africa from sources other than the Discovery Channel.

- Get information about your business interest from Chambers of Commerce or business consultants.

- Develop a sound business and marketing strategy.

- Identify reliable business partners in Africa either by yourself or through the Chamber of Commerce or the relevant Embassies.

- Visit the location if you intend to establish a company or an outlet.

- Follow up on every arrangement to make sure that conditions and terms are fully understood and are being implemented.

- Arm yourself with a lot of patience and keep an open mind because communication and correspondence from 'Africa' may not flow as smoothly or as fast as you may expect.

- Understand the cultural environment of the African country in which you intend to do business.

- Use a consultant, especially those that have a real understanding of East Africa. Be mindful of the three Ps of African businesses: Pensiveness, patience, and perseverance. Pensiveness demands the use of common sense. Success demands a lot of patience. Above all, you must persevere and be persistent but polite.

- Lucrative as it may be, the African market is not without pitfalls. Keep your guard up and insist on cash transactions as far as possible.

- Establish direct contacts with your business counterparts in East Africa by participating in trade fairs and exhibitions like the forthcoming 3rd AFRO BUSINESS TRADE FAIR which is being held in Kampala, Uganda just before Christmas season.

•Add your company to the Advertising Section of the Africa Business Pages.

The Advertising Section will carry a full-page editorial about your company as well as pictures of your company's products. In addition to this, a company will also be provided with a direct link in the Business Links section. By promoting your company on the Africa Business Pages you can reap rich dividends, an absolute essential for those targeting the African market. The cost for a full-page editorial with two pictures and direct links is US$ 200 for one year.

•Post your business proposals on the African Classified Advertisements section. This is an ideal way to get direct responses from your business counterparts in African countries. Employing the growing influence of Internet technology to promote your business in international markets is one of the most simple and effective promotional tool for forward-looking entrepreneurs.

5.3 Areas of Further Research

- The role of the Government in promoting Regional Economic Integration
- Globalizations challenge to Regional Economic Integration
- Regional Economic Integration and Foreign Direct Investment.

6.0 REFERENCES/BIBLIOGRAPHY

Charles W Hill, Global Business, Postscript 2003, p153-157.

D Swann, The Economics of the Common Market, 6th ed. London penguin books, 1990. p 247-250

Harvard Business Review, May-June, 1989. p76

The East African, June 5-11, 2006.

The Economist, September 19, 1992.

William R Barnes and Larry C Ledebur, THE NEW REGIONAL ECONOMIES, *The U.S Common Market and the Global Economy.* P. 157.

Eugene F. Brigham, Michael C. Ehrhardt, Financial Management: Theory and Practice with Thompson ONE (Harcourt college publishers series in finance)

Ross, Westerfield, and Jaffe, Corporate Finance, Irwin series in finance.

Philip Kotler and Gary Amstrong, Principles of Marketing, 11th ed.

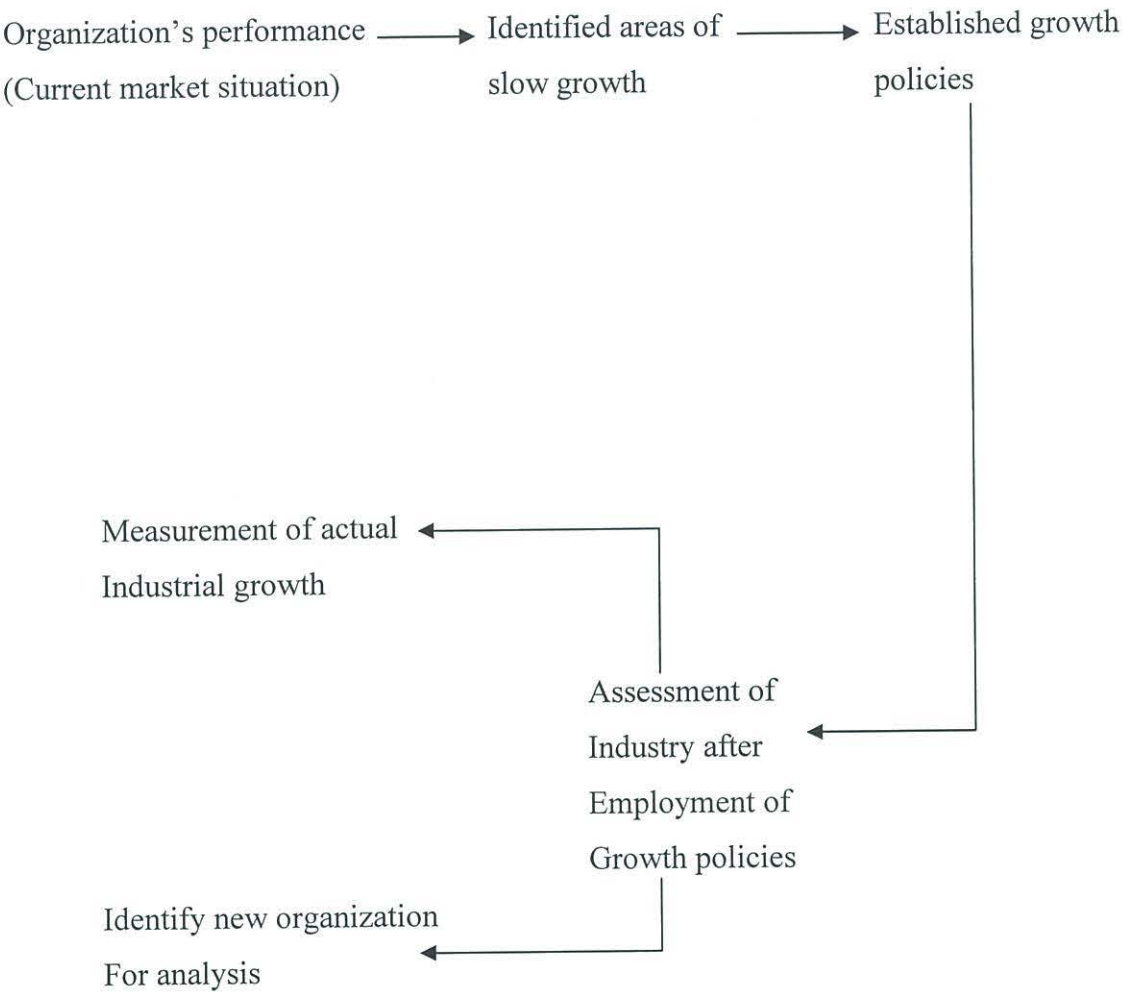
Roger A. Kerin, Steven W. Hartley, Eric N. Berkowitz, William Rudelius, Marketing w/ Power Web, (Mcgraw Hill/Irwin series in marketing).

7.0 APPENDICES

This contains the following information:

- Appendix A: Model for feedback on industrial growth fuelled by economic integration
- Appendix B: Data collection sample questionnaires
- Appendix C: Personal profile
- Appendix D: Area map
- Appendix E: Sampling (Statistical analysis)
- Appendix F: Graphical Interpretation
- Appendix G: Budget

APPENDIX A: MODEL FOR FEEDBACK ON INDUSTRIAL GROWTH



APPENDIX B: DATA COLLECTION SAMPLE QUESTIONNAIRES

THE EFFECT OF REGIONAL ECONOMIC INTEGRATION ON THE GROWTH OF FIRMS.

CASE STUDY: DIVERSEY KENYA LIMITED

The purpose of this questionnaire is to obtain views and information about the benefits that firms have realized from renewed regional integration policies and pacts. The information will help the researcher in academics and also help firms in operations through the researcher's conclusions and recommendations.

The information is meant for this research study and will be treated with utmost confidentiality.

Tick where possible

1. Name of the business Johnson Diversey East Africa Limited
2. Location of business Nairobi, Kenya
3. Legal status/ ownership of business

   Company (Public Company) [ ]

   Company (Private Company) [ ]

   Transnational [ ]

   Multi-national [ ]
4. Nature of the business manufacturing

5. Types of commodities dealt in Consumer goods

6. In your view, do you think that regional economic integration has led to increased production?

   Yes [ ]

   No [ ]

7. Please indicate the your preference for the adoption of Economic integration strategies by your firm

Yes [ ]

No [ ]

8. Main source of organizational revenue Sales turnover

9. What in your view is the main barrier to cross border trade?

   Management policy [ ]

   Government policy [ ]

10. Do you in your opinion think the introduction of cross border trade could lead to loss of jobs?

    Yes [ ]

    No [ ]

11. Limitations of scope occurring

    Funds [ ]

    Operations [ ]

    Resource endowments [ ]

12. Benefits accruing from cross border/regional trade

    Substantial

13. Approximate sales turnover figure per annum

    Over 2.9 billion dollars

14. In your view, does the East African Community contribute to increased sales volume? Yes

15. General remarks and contributions are welcome.

Thank you for your cooperation

APPENDIX C: PERSONAL PROFILE

Timothy Warui Njuguna

archwarui@yahoo.com

+254734541168/ +254725618230

P.O. BOX 15451-00100, Nairobi, Kenya.

Educational Background:

2003 March- 2006 august	Kampala International University **Bachelors Degree in International Business**
1997 Feb- 2000 November	Thika High School **Kenya Certificate of Secondary Education**

Professional Courses:

2001 Feb- March	Automobile Association of Kenya **Professional Driving Course**
2001 April- September	Wantech Computer College **Certificate in Basic Computer Applications**

Professional Experience:

2001 November- Dec	Nampak Kenya Limited **Casual Laborer**
2001 September to date	City & Guilds International **External Examinations Invigilator**

References:

Sophie Maguru
City & Guilds International
P.O. Box 278, Thika
Tel: +254-020223992/+254-0722785640
Email: pitmankenya@wananchi.com

Michael Waithaka
Johnson Diversey East Africa Limited
P.O. Box 64719-0620
Muthaiga, Nairobi.
Tel: +254-722-209668
Michael_waithaka@yahoo.com

Jude Massadde
Jubilee Praise International
P.O. Box 35375
Kampala, Uganda.
Tel: +256-772-664993.
juhamas@yahoo.com

DATE: 8th August, 2006.

SIGNATURE:

APPENDIX D: AREA MAP

Nairobi

Introduction

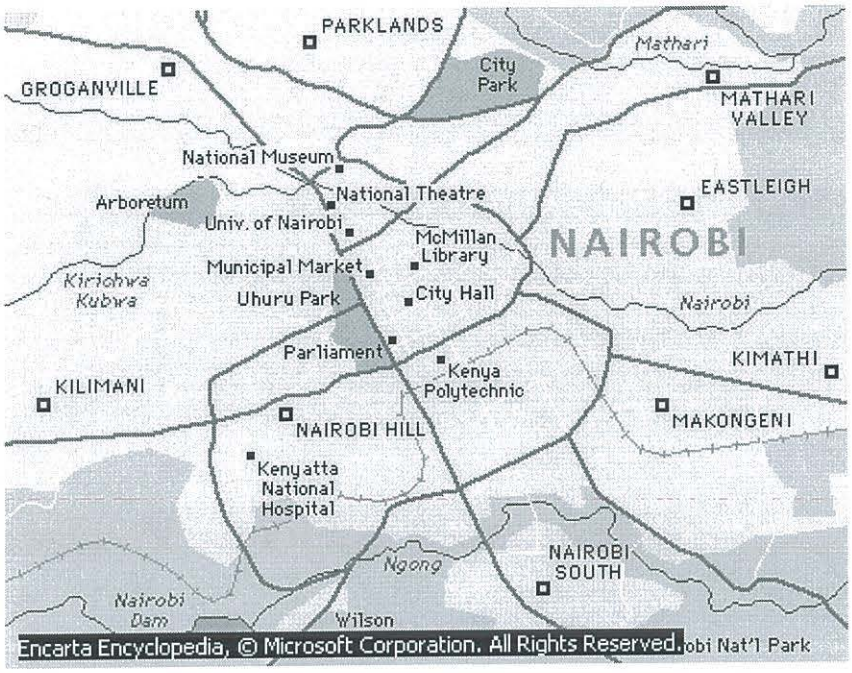
Nairobi, capital city of Kenya, in Nairobi District, situated at an elevation of about 1,660 m (5,450 ft) in the highlands of the southern part of the country. Nairobi is Kenya's economic, administrative, and cultural centre and one of the largest and fastest growing cities in Africa. Manufactured goods include processed food, textiles, clothing, building materials, and communications and transport equipment. The city also has a large tourist industry. There is a busy international airport and the headquarters for the United Nations Environment Programme is located there. The University of Nairobi (1956), Kenya Polytechnic (1961), and Kenya Conservatoire of Music (1944) are also there. Population 1,810,000 (1995 estimate).

II POINTS OF INTEREST

Nairobi National Park, a large wildlife reserve on the outskirts of the city, is a major tourist attraction. Other points of interest include the National Museum of Kenya, with a comprehensive display on early humans in Africa; the Parliament buildings; the law courts; the City Hall; the McMillan Memorial Library; the busy Municipal Market and nearby bazaar; the Kenya National Theatre; and Sorsbie Art Gallery.

III HISTORY

Located in an area once frequented by the pastoral Maasai, Nairobi was founded in the late 1890s as a British railhead camp on the Mombasa-Uganda railway. From 1899 to 1905 it served as a British provincial capital, and attracted many British colonials wishing to cultivate its nearby fertile highlands. In 1905 the city became the capital of the British East Africa Protectorate (called Kenya Colony from 1920 to 1963). In 1963 Nairobi became the capital of independent Kenya and annexed neighbouring areas for future growth. During the early 1990s, Nairobi suffered from civil unrest because of the growing popular opposition to Kenyan President Daniel Arap Moi. At the end of the decade, in 1998, the United States embassy in the city was the target of a terrorist attack, linked to the Al-Qaeda network, in which 219 people were killed.


PARKLANDS
GROGANVILLE
City Park
Mathari
MATHARI VALLEY
National Museum
National Theatre
EASTLEIGH
Arboretum
Univ. of Nairobi
McMillan Library
NAIROBI
Municipal Market
Kiriohwa Kubwa
Uhuru Park
City Hall
Nairobi
Parliament
KIMATHI
Kenya Polytechnic
KILIMANI
MAKONGENI
NAIROBI HILL
Kenyatta National Hospital
Ngong
NAIROBI SOUTH
Nairobi Dam
Wilson
Encarta Encyclopedia, © Microsoft Corporation. All Rights Reserved.
obi Nat'l Park

APPENDIX E: SAMPLING (STATISTICAL ANALYSIS)

Hypothesis Testing is a procedure based on sample evidence and probability theory used to determine whether the hypothesis is a reasonable statement and should not be rejected.

I.e. One statement about the performance of firms adopting Regional Economic Integration (*REI)* strategies have a growth rate of not less than "30%".

The other statement is that firms adopting *REI* strategies have a growth rate of Less than "30%".

The *Null Hypothesis* is a statement about the value of a population parameter

The *Alternate Hypothesis* is a statement that is accepted if the sample data provides evidence that the null hypothesis is false

E.g. *REI* is not the single main determinant of industrial growth in East Africa today.

The *Level of Significance* is the probability of rejecting the null hypothesis when it is actually true

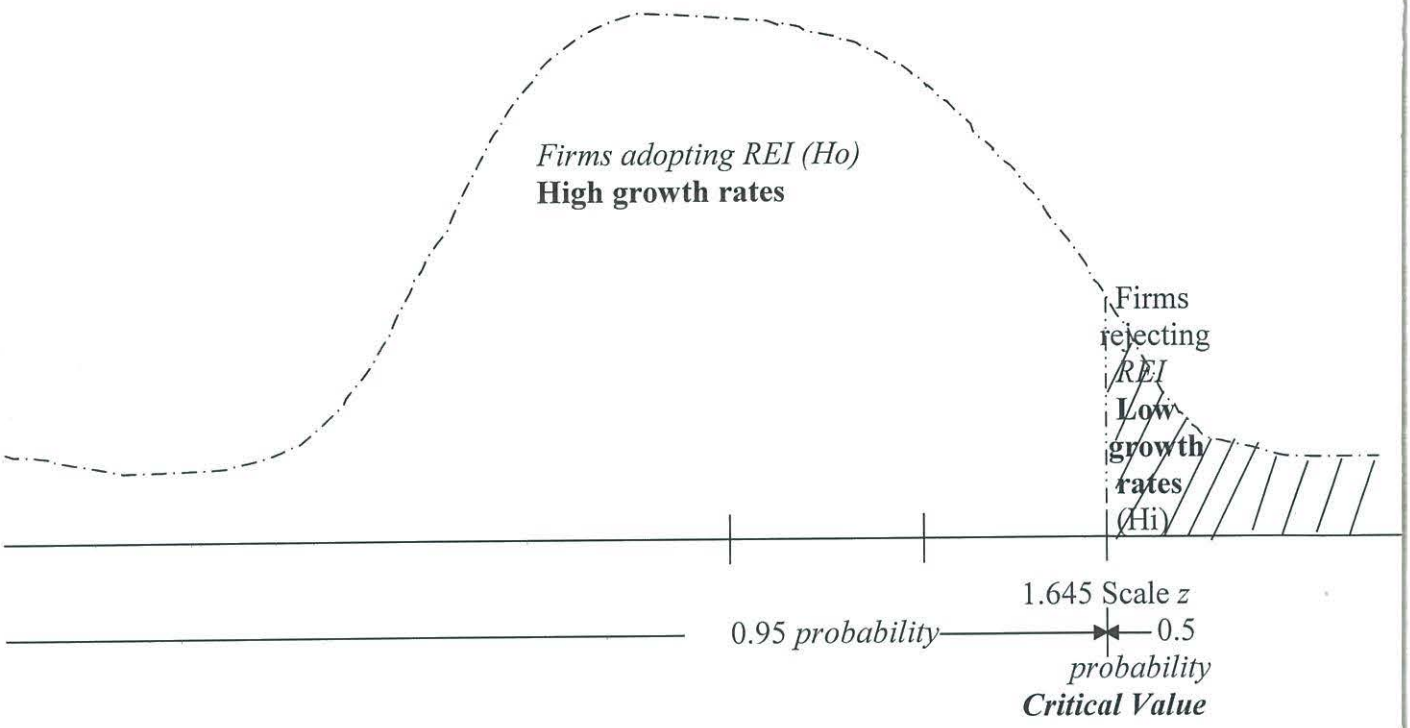
E.g. we shall reject the null hypothesis if the number of firms growing due to *REI* do not exceed 80% (or 0.05 as per illustration).

The *Test Statistic* is a value determined from sample information, used to determine whether or not to reject the null hypothesis.

E.g. the 80% level

Illustration

Sampling Distribution for the statistic *z,* for **Industrial Growth** fuelled by **Economic Integration.** I.e. Industries that have grown as a result of economic integration versus firms that have not embraced *REI.*



- The above diagram portrays the rejection region for firms with regard to *REI,* using the 0.05 Significance level, the standard normal distribution and the test statistic. The *one tail hypothesis test* is designed from the decision rule which is based on Ho and Hi, the level of significance, and the test statistic.

- The **Decision Rule** is a statement of the conditions under which a null hypothesis (*REI*) is rejected, and the conditions under which it is not rejected.
- The region or area of rejection indicates the location of the values (firms), whose probability of occurrence for a true null hypothesis (***REI***) is rather remote.

- **Critical Value** is the dividing point between the region where the null hypothesis (***REI***) is rejected, and the region where it is not rejected.

- **Hypothesis:** a statement about the value of a population developed for the purpose of testing- *the relationship between regional economic integration and industrial growth with regard to limited resources.*

APPENDIX G: BUDGET

ITEM	COST (USHS)
Stationery	10,000
Transport	70,000
Internet	50,000
Printing	25,000
Binding	10,000
Telephone charge	10,000
Miscellaneous	20,000
TOTAL	**195,000**