PERSPECTIVES OF HOTEL INVESTORS ON KENYA'S COMPETITIVENESS AS A TOURISM INVESTMENT DESTINATION

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DECLARATION

"This Thesis is my original work and has not been presented for a Degree in any other University."

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DEDICATION

I dedicate this doctorate thesis to

Emmanuel and Esther, the two small cheerful angels in my life;

To Cicilia, the love of my life;

and

To Your glory my Ever-present Helper, my Lord, and My God.

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ABBREVIATIONS AND ACRONYMS

BITs	Bilateral Investment Treaties
CPI	Corruption Perception Index
DFI	Development Financial Institution
EAC	East African Community
ERSWEC	Economic Recovery Strategy for Wealth and Employment Creation
EU	European Union
FDI	Foreign Direct Investment
FIPA	Foreign Investment Protection Act
FSA	Firm Specific Advantages
GCI	Global Competitive Index
GDP	Gross Domestic Product
GoK	Government of Kenya
GSB	Growing Sustainable Business
IATA	International Air Transport Association
ICSID	International Centre for Settlement of Investment Disputes
IEF	Index of Economic Freedom
IFC	International Finance Corporation
IMF	International Monetary Fund
IPC	Investment Promotion Council
IUCN	International Union for Conservation of Nature
JICA	Japan International Cooperation Agency
KenInvest	Kenya Investment Authority
KAHC	Kenya Association of Hotel Keepers and Caterers
KNBS	Kenya National Bureau of Statistics
KTB	Kenya Tourist Board
KTDC	Kenya Tourism Development Corporation
LDCs	Less Developed Countries
MIGA	Multilateral Investment Guarantee Agency
MNC	Multi-National Corporations
MNEs	Multi-National Enterprises

MOT	Ministry of Tourism
MoTW	Ministry of Tourism and Wildlife
NGOs.	Non- Governmental Organizations
OFDI	Outward FDI
OLI paradigm	Ownership, Location, Internalization Paradigm
SMEs	Small and Medium-sized Enterprises
SSS or 3Ss	Sand, Sun and Sky
SWOT	Strengths, Weaknesses, Opportunities and Threats
T&T	Travel andTourism
TCE	Transaction Cost Economies
TNC	Trans National Corporations
TTCI	Travel andTourism Competitive Index
TTF	Tourism Trust Fund
UNCTAD	United Nations Conference on Trade and Development
UNDP	United Nations Development Programme
UNESCAP	United Nations Economic and Social Commission for Asia and the Pacific
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNICC	United Nations International Chamber of Commerce
UNWTO	United Nations World Tourism Organization
USAID	United States Agency for International Development
WAIPA	World Association of Investment Promotion Agencies
WB	World Bank
WEF	World Economic Forum
WTTC	World Travel and Tourism Council

DEFINITION OF TERMS

1. **Hotel investors in Kenya**: any hotel company or group that runs a 3 to 5 star hotels in Kenya

2. **Foreign Direct Investment**: foreign private investors within a country

3. **Domestic investors/ local investors**: any local resident or registered firm that has invested or intends to invest in the same country

4. **Investment Destination Competitiveness**: the relative capability of a country/ destination to attract and retain investment

5. **Leading global hotel brand**: any globally renowned hotel company

6. **Kenya's Vision 2030**: Kenya's blue print for socio-economy developemnt through which the country expects to achieve a middle- level economic status by the year 2030.

ABSTRACT

Kenya's social-economic development goals envisages an almost complete turnaround to her tourism industry including a number of high-capital investments. However, concerns exist as to the country's ability to attract such investment into her tourism industry with a number of reports showing the country as not being investor-favourable. In line with this concern, this study sought to explore the perspectives held by the hotel investors on the country's competitiveness as a tourism investment destination. The study was carried out in both Nairobi and the Kenya's coast circuit encompassing Mombasa Island, South Coast and North Coast. Further, the study adopted a cross-sectional survey based on an embedded study approach that involved 24 hotel companies operating 3 to 5 star hotels in Kenya, 5 investment consultancy firms, and 2 government investment promotion agencies. Primary data were collected using both interviews and unstructured questionnaires. Thematic data analysis was used to analyse the data. The identified themes were coded for further descriptive and inferential statistical data analysis. The study further revealed five main categories of factors cited by the three respondent groups as being determinants of the choice of an investment destination by the hotel companies in Kenya. These ranked as follows: (1^{st}) Political and Regulatory factors (34%), (2^{nd}) Economic factors (38%), (3^{rd}) Marketing-related factors (28%), (4^{th}) Destination resource endowment (21%), and (5^{th}) Infrastructure (16%). In addition, the study found out that the most significant source of information for investment decision making was feasibility studies (cited by 95.8 % of all respondents). This was followed by the government reports on the performance of the tourism industry (58.3%) and the media reports from both the local and international media organizations (identified by 41.7%) of the respondents). The study found out that though the fully-owned subsidiary mode was the most preferred (75%), only a weak positive correlation existed between the mode and the local chain ownership type (R=0.19) and the local independent ownership type (R=0.20). On Kenya's investment climate, the study found out that though the country was perceived as having strengths in key areas necessary to the success of hotel investments including a relatively stable political environment, government support for the sector, availability of qualified manpower and, infrastructure; the country was perceived as having the following key weaknesses: (1) High cost of doing business (25.5 %); (2) Political instability/uncertainty (15.3%); (3) Unfavourable business-related policies (13.6%); (4) Infrastructure (9.3%; (5) Corruption (9.3%); and (6) Insecurity (8.5%). In terms of the future investment plans, majority of the respondents (43%) indicated that they looked forward to establishing new hotel units within the country. The other major future investment plans were indicated as "concentrating on the current business" (25%) and "expanding operations into the East African region" (21%). The study further found out that the Kenyan Coast and Nairobi were the most popular hotel investment destinations. This study thus recommends that the government, together with other industry stakeholders, champion efforts geared towards attracting and retaining hotel investments. Specific attention should be focused on addressing the constraints limiting the competitiveness of the country as a tourism investment destination. More so, there is need for action to be taken to open up all tourism-rich regions in the country for both tourism and related investments. Further, deliberate efforts should be dedicated to ensuring the success of EAC integration as a means towards expanding investment opportunities for local tourism investors.

CHAPTER 1: INTRODUCTION

1.1 Background to the Study

The benefits and costs accruing from tourism development are well recognized in Africa. Despite the mounting criticisms of the negative effects of tourism development, there is a groundswell of evidence that many sub-Saharan African countries have taken policy measures to promote their tourism sector with the intention of attracting more investment so as to maximize its potential as a growth sector (Dieke, 2003; UNCTAD, 2008). However, the local tourism industries in Africa are still characterized by a large number of small and medium-sized enterprises (SMEs) (Dieke, 2003).

Though these SMEs serve useful functions in tourism (such as the development of linkages, providing personalized service, among others), most of them are faced with numerous challenges, with many of them operating at the margin of survival (UNCTAD, 2008). They also lack the requisite experience to run tourism business along modern management principles. Further, the nature of tourism demand renders them uncompetitive as they are unable to capitalize on the advantages that accrue from the economies of scale. Again, their limited resource base makes this objective hard to achieve (Dieke, 2003). The solution to the above challenges lies in the developing countries' complimenting the SMEs with foreign direct investment (FDI) in order to grow their tourism industry.

1.1.1 Tourism in Kenya

In Kenya, the tourism sector has been one of the key economic drivers generating approximately 10% of the country's GDP and 9 per cent of total formal employment. In 2011 for instance, the sector's contribution to the country's GDP rose by 32.8 per cent from KSh 73.7 billion in 2010 to KSh 97.9 billion (KNBS, 2012). Further, according to World Bank, the tourism industry's contribution to Kenya's economy as a percentage of the total exports has always stood above 15%, climaxing at 22 % in the year 2007 (World bank, 2012). In the year 2010, the sector contributed 18.2% of all the country's export revenues (see figure 1.1).

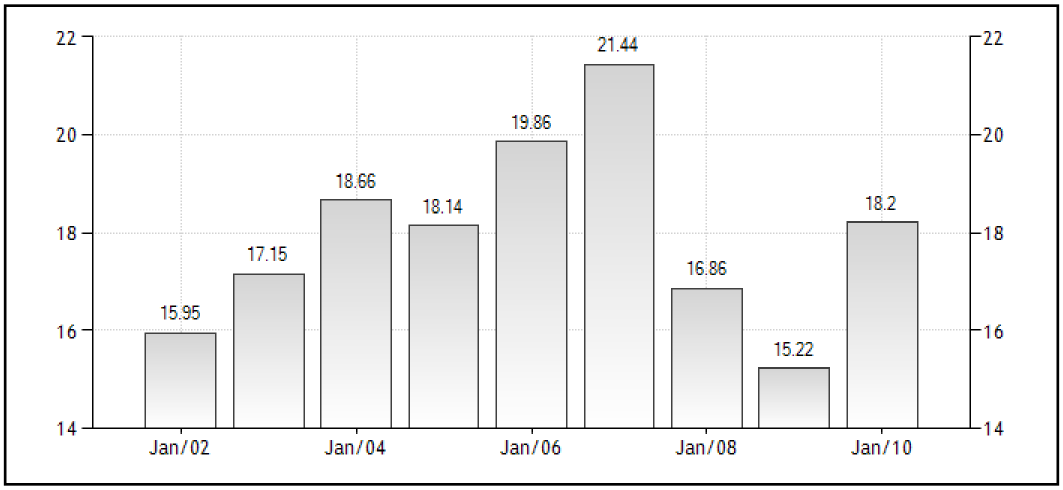

Figure 1.1: Kenya: International Tourism Receipts as a percentage of Total Exports (Source: World Bank, 2012)

Further, due to its many linkages to other sectors (including agriculture, manufacturing, banking and finance, wildlife, entertainment and handicrafts), tourism has great potential to generate employment and wealth (GoK, 2007). Such realities have seen the sector being given strategic importance in the country's socio-economic development agenda. For instance, the Economic Recovery Strategy for Wealth and Employment Creation (ERSWEC) 2003-2007 (GoK, 2003) and the *Vision 2030* (GoK, 2007), have recognized the contribution of the tourism sector to the country's economic growth, environmental sustainability and creation of job opportunities.

To ensure that tourism optimizes its contribution to the country's socio-economic development, the Kenyan government has formulated several policies and strategies including: the National Tourism Master Plan (JICA/MoTW, 1995); Tourism Policy (GoK, 2009); MoT Strategic Plan 2008-2012 (GoK, 2008); the Tourism Bill 2010 (GoK, 2010), and the Vision 2030 (GoK, 2007).

Key among the envisioned strategies include the diversification of the country's tourism product (in addition to the traditional beach and safari products), developing and opening up new tourist circuits and source markets (including investing in lodges and hotels to cater for visitors on the new circuits) (UN International Chamber of Commerce (UNICC), 2005, p. 40). Within the Vision 2030 for instance, Kenya aims to be one of the top ten long-haul tourist destinations in the world, offering a high-end, diverse, and distinctive visitor experience.

In view of the strategic position that the tourism industry occupies in Kenya's economy, the government has taken several steps aimed at guiding the development of the tourism sector. Key among these steps has been the formulation of a number of legislative and policy initiatives aimed at spearheading the development of the sector in general, and promoting investment within the sector.

Some of such policies and legislations include: The Sessional Paper No.8 of 1969 (GoK, 1969) that defined the growth targets that it hoped to achieve in the years ahead as well as outline the areas where the Government would participate jointly with the private investors in developing the tourist industry), the National Tourism Policy, 2009 (in which the Government recognizes the importance of attracting foreign investment in order to achieve the growth and development objectives of the tourism sector with particular attention being paid to investment incentives for previously neglected regions and well-organized community-based tourism projects), the Investment Promotion Centre Act of 1986 (that established the Investment Promotion Centre (IPC) for the purposes of assisting and facilitating investments in Kenya), and the Investment Promotion Act 2004 (that transformed Investment Promotion Centre (IPC) to Kenya Investment Authority with an expanded mandate in executing its role of investment promotion, investment facilitation and policy advocacy).

Other tourism sector-specific legislations were incorporated in relevant regulations, such as the Transport Licensing Act, the Land Control Act, the Hotels and Restaurants Act and the Tourism Industry Licensing Act. Such policy and legislative initiatives notwithstanding, the country's tourism policy has been criticised as being characterized by inconsistency, poor coordination, lack of a vision and overall development strategy, poor implementation and, inadequate integration and harmonization with related sectoral policies and national development priorities (Kareithi, 2003; Ikiara, 2001).

Such notable weaknesses thus puts to question the feasibility of such initiatives to drive tourism development in the country.

1.2 Problem Statement and Purpose of the Study

The main drawbacks to achieving the goals for Kenya's tourism industry has been noted as the lack of tourism infrastructural capacity coupled with limited investment capital in the sector. These have thus contributed to the limited bed capacity; deteriorated infrastructure; 'tired' hotels infrastructure; and shortage of future investment capital in the sector. A fact that has been clearly recognized in the country's Vision 2030 (GoK, 2007) and the Ministry of Tourism's industry SWOT Analysis (GoK, 2008).

To overcome this challenge and realize the sectoral goal, the Vision 2030 proposes specific strategies including: (i) aggressively developing Kenya tourist product by establishing resort cities in key locations; (ii) achieving higher tourist revenue yield by increasing the quality of service and charges in country's premium safari parks, and by improving facilities in all under-utilised parks; (iii) creating new high value niche products (for example, cultural, eco-sports and water-based tourism); (iv) attracting high-end international hotel chains; and (v) investing in new conference facilities to boost business tourism.

The afore-noted initiatives and strategies imply high levels of investment capital requirements. However, evidence exists that in the recent years, the country has not generally been competitive as an investment destination and in particular, in attracting foreign direct investment (FDI) into the tourism industry (W.E.F, 2011a; Heritage Foundation, 2011; WB and IFC, 2011 and; W.E.F, 2011b).

This is the case despite having maintained an open door policy to foreign investment in addition to the numerous initiatives geared towards promoting and nurturing investments in the tourism sector since independence. Further, the domestic investors have not had a better environment either, with such challenges as neglect (Sinclair, 1990 and Jommo, 1997), political interests and state interferences (JICA and GoK, 1995) and rising overhead costs (Kareithi, 2003) taking toll on majority of them. Such a situation raises pertinent question as to what determines the choice of a tourism investment destination and how well does Kenya's investment environment meet such expectations.

It is worth noting that the investor mindset or the perception of the investor towards a country's investment climate influences the choice of the investment destination (Cole, 2007). However, though numerous studies have been carried out focusing on investment destination competitiveness (such as: Schoeman *et al.*, 2000; Asiedu, 2002; UNCTAD, 2005b and 2008), many of these studies have tended to concentrate on the foreign direct investment (FDI) with no focus domestic investors.

Secondly these studies have been carried out across several countries usually employing comparative analysis, devoid of an in-depth country-specific analysis; and thirdly, many of these studies have concentrated on the general economy with few considering the flow of investment within the tourism industry in particular (for instance, UNCTAD, 2005b, 2006, and 2008).

In the light of the aforementioned limitations, this study sought to explore on the determinants of tourism investment destination choice and critically examine the perspectives of the hotel investors on Kenya's competitiveness as an investment destination. This was considered instrumental in informing Kenya's tourism investment promotion initiatives as the government strives to position tourism as a leading economic sector.

1.3 Objectives of the Study

Overall, this study sought to examine the perspectives of hotel investors on Kenya's competitiveness as a tourism investment destination. This was done with the aim of providing a supply-side perspective on the country's competitiveness as opposed to the generic approach of assessing the competitiveness of a tourism destination employed by key measures of competitiveness.

To achieve this overall objective, the study specifically sought to

i. Investigate the factors that determine choice of investment destination by hotel investors in Kenya.
ii. Explore on the sources of investment information for the hotel investors in Kenya
iii. Investigate the preferred investment modes for hotel investment in Kenya

iv. Examine the perspectives held by hotel investors pertaining to Kenya's competitiveness as a tourism investment destination.
v. Interogate the future investment plans for the hotel investors in Kenya.

1.4 Significance and Anticipated Output of the Study

This study covered only the hotel companies that operate three- to five-star hotel facilities in Kenya. Being a key component of the tourism industry, it is expected that the hospitality subsector will play a leading role in any tourism development initiatives. It is also expected that this category of hotel companies will play a pivotal role in injecting the kind of investment capital requirements envisioned in Kenya's tourism development goals.

It is further expected that the findings of this study will, first and foremost, enhance the body of knowledge in the areas of tourism destination competitiveness and investment promotion as it seeks to provide a supply-side perspectives to tourism destination competitiveness.

In addition, it is expected that the results of this study will find significance among several tourism industry stakeholders not only in Kenya, but also among countries seeking to develop their tourism infrastructural capacity and by extension, competitiveness. In particular, in the Kenyan case, the findings of this study will be quite useful to the country's *Vision 2030 Delivery Secretariat* in its efforts to realize the envisioned tourism development goals especially, in attracting investment capital into the tourism sector. Secondly, the Ministry of Tourism, and particularly the Kenya Tourist Board (KTB) and the Kenya Tourism Development Corporation (KTDC) will also find the results of this study useful in their efforts to promote the country as a tourism destination with world-class facilities.

1.5 Scope and Limitations of the study

This study was undertaken for a period of six months and carried out in Nairobi and the coastal circuit of Kenya. Further, the focused only on the hotel sub-sector of the tourism industry. It is worthy pointing out that to fully explore Kenya's competitiveness as perceived by the tourism investors, it would have been ideal to examine the perspectives of all the sub-sectors of the tourism industry in the country plus those of the investors who may not have presence in the country. However, the amount of time and resources that would be required to undertake such an exercise proved beyond the reach of this researcher

Secondly, even within the hotel companies, the ideal situation would have been to interview the directors of such companies. However, this proved difficult to not only identify the directors, but also get them respond to the survey. To this end, the opinion of both the available directors and unit managers was included in this study.

Further to develop a supply-side destination competitiveness framework, data should be collected from not only all the sub-sectors of the tourism industry, but also across different destinations. This again was not possible given the limitations of time and financial resources available for this study.

Given the above constraints, it is advisable that any generation of this study's findings should be undertaken with caution.

1.5.1 Study Themes

This study was based on five pre-determined themes (however, other themes that emerged during the analysis of data were incorporated into the study). The main themes around which this study was carried out included:

a) Indicators for hotel investment destination competitiveness. This theme mainly focused on those factors that hotel investors considered as important determinants of the choice of investment location.

b) The hotel investor's perspectives on Kenya's competitiveness as a tourism investment destination. This theme consisted of two major sub-themes namely: the country-specific challenges faced by the investors (destination weaknesses), and the country-specific factors for investment success (the destination strengths).

c) The hotel investment decisions including such sub-themes as: the choice of investment mode, the preferred region for investment in Kenya, and the future business growth strategies.

d) Other areas of focus included the Sources of information for hotel investment decision-making in Kenya and,

e) Preferred investment modes for hotel investments in Kenya.

CHAPTER 2: LITERATURE REVIEW

2.1 Introduction

This chapter therefore presents literature review on the theories of destination competitiveness, nature of tourism investments; the determinants of investment destination choice; and presents the status of Kenya's tourism investment climate.

2.2 The Supply-Side Perspective of Tourism Destination Competitiveness-Theoretical Underpinning

Competitiveness is about producing more and better quality goods and services, which are marketed successfully to consumers at home and abroad (Newall, 1992). It is a general concept that encompasses price differences coupled with exchange rate fluctuations, productivity levels of various components of the tourist industry, and qualitative factors affecting the attractiveness or otherwise of a destination (Dwyer *et al*, 2001). Further, the World Economic Forum's Global Competitiveness index (W.E.F, 2011a) defines competitiveness as a set of institutions, policies and factors that determine a country's productivity level.

As pertains to destination competitiveness, several versions exist as to what the concept really is. d'Hauteserre (2000) defines destination competitiveness as the ability of a destination to maintain its market position and share and/or improve this through time. Hassan (2000), notes destination competitiveness as referring to a destination's ability to create and integrate value-added products that sustain its resources while maintaining market position relative to competitors.

Dwyer and Kim (2003) see destination competitiveness as being the relative ability of a destination to meet visitor needs on various aspects of the tourism experience, or to deliver goods and services that perform better than other destinations on those aspects of the tourism experience considered to be important by tourists. According to these authors, destination competitiveness relates to two components of a tourist destination: (1) competitive advantages and (2) comparative advantages.

When viewed within the context of a tourist destination, comparative advantage relates to inherited resources both natural and cultural, including climate, scenery, flora and fauna, while competitive advantage relates to created items such as the tourism superstructure, (that is, the additional created assets which rest upon general infrastructure and which serve visitor-oriented needs and desires such as hotels, attractions, transport network), the quality of management, human capital and government policies.

Different researchers over time have focused on diverse aspects of destination competitiveness. Crouch (2007: 2) identifies several of the destination competitiveness aspects focused on by different scholars. Such include: *diagnosing the competitive positions of specific destinations*, for instance: “the United States (Ahmed and Krohn, 1990), Sun/Lost City, South Africa (Botha, Crompton & Kim, 1999), cultural tourism in Toronto (Carmichael, 2002), Las Vegas (Chon and Mayer, 1995), a casino resort (d’Hauteserre, 2000), Australia (Dwyer, Livaic and Mellor, 2003), Hong Kong (Enright and Newton, 2004), Asia-Pacific (Enright and Newton, 2005), Canadian ski resorts (Hudson, Ritchie and Timur, 2004), South Australia (Faulkner, Oppermann and Fredline, 1999), South Korea and Australia (Kim, et al, 2001; Kim and Dwyer, 2003), Spain and Turkey (Kozak, 2003; Kozak and Rimmington, 1999), European cities (Mazanec, 1995), Mediterranean resorts (Papatheodorou, 2002), Southeast Asia (Pearce, 1997), and Zimbabwe (Vengesayi, 2005) among others.

Others have focused on *particular aspects of destination competitiveness,* including destination positioning (Chacko, 1998), destination management systems (Baker, Hayzelden and Sussmann, 1996), destination marketing (Buhalis, 2000), price competitiveness (Dwyer, Forsyth and Rao, 2002; Stevens 1992; Tourism Council Australia, 1998), quality management (Go and Govers, 2000), the environment (Hassan, 2000; Mihalic, 2000), nature-based tourism (Huybers & Bennett, 2003), strategic management (Jamal and Getz, 1996; Soteriou and Roberts, 1998), and package tours (Taylor, 1995). While another group of tourism researchers have had their focus being on the *development of general models and theories of destination competitiveness* (Crouch and Ritchie, 1994, 1995, and 1999; Ritchie and Crouch, 1993, 2000a, 2000b);

and *conceptual models based on the theories of comparative advantage* and *competitive advantage* (Porter 1990).

As can be deduced from the above scholarly efforts, destination competitiveness thus may be viewed as exhibiting a dichotomy of perspectives- a demand perspective and a supply perspective. While much attention has been dedicated to the demand perspective (examining a destination's relative ability to meet visitor needs on various aspects of the tourism experience, or to deliver goods and services that perform better than other destinations on those aspects of the tourism experience considered to be important by tourists (Dwyer and Kim, 2003), this current study focuses on the supply perspective that attempts to examine a destination's relative ability to attract tourism superstructure.

2.2.1 Importance of Tourism Supply in Destination Competitiveness

Investment in tourism and travel products and infrastructure is not only essential for destinations to maintain and expand capacity, but it also allows for and encourages improvements in quality, competitiveness, and productivity. Tourism and travel investment includes capital investment spending by tourism-characteristic industries as well as spending on specific tourism assets by other industries. Some of the most important T&T investments include accommodation development and major maintenance, passenger transportation, capital projects and refurbishments designed to attract visitors; and "Green" investments within the industry, such as solar and retrofit schemes to enhance energy efficiency (Cockerell and Goodger, 2011).

The above forms of investment are important for the competitiveness of a destination's tourism industry for several reasons. First and foremost, investment increases the sector's capacity to support a greater volume of travellers and visitors; secondly, investment can also be for maintaining current capacity and standards through major refurbishments, enhancing the quality of the industry's product; and thirdly, capital projects that attract visitors are likely to stimulate additional demand and gain or retain destination market share. Indeed, investment that enhances the quality of the industry's product offering, whether for visitor attractions or accommodations, may also generate additional domestic and international tourism (Cockerell and Goodger, 2011).

A number of theories have been developed and studies carried out to explain the pattern, prerequisites and motives of investments, (especially the foreign direct investment) and the factors that produce competitive advantage for investment destinations. This section therefore examines some of these models and theories. Particularly, the section focuses on Dunning and McQueen's (1982) "Eclectic Theory", the Calgary Model of Competitiveness in Tourism (Ritchie and Crouch, 1993); Conceptual Model of Destination Competitiveness (Crouch and Ritchie, 2003), Integrated Model of Destination Competitiveness (Dwyer et al, 2004), and the Travel and Tourism Competitiveness Index (TTCI) (by the World Economic Forum).

2.2.2 The "Eclectic Theory" (by Dunning, 1982)

According to Lall (1996) one of the most widely used theoretical bases, at least in studies of an empirical nature, is what is known as the "eclectic theory" or the "OLI -Ownership, Location, and Internalization- paradigm" developed in the work of Dunning (1982). The locational advantages are categorized into macro-economic indicators (for example, market size, GDP growth, inflation, exchange rate among others.); Ricardian-type factors (for example, natural resources, cultural and physical proximity, labour, among others); environmental variables (for example, political stability, market openness, infrastructure, legal among others) and firm specific advantages (FSA) of host countries.

2.2.3 The Calgary Model of Competitiveness in Tourism (by Ritchie and Crouch, 1993)

In their attempt to understand the factors that determine the ability of a tourism destination to compete, Ritchie and Crouch proposed the *Calgary Model of Tourism Competitiveness* that recognizes five key constructs of destination competitiveness: destination appeal, destination management, destination organization, destination information and, destination efficiency; each construct being a function of a number of destination related factors as presented in table 2.1 below.

Table 2.1: The Calgary Model of Competitiveness in Tourism

Destination Appeal	**Destination Management**	**Destination Organisation**	**Destination Information**	**Destination Efficiency**
ATTRACT Destination Attractiveness	MANAGER Managerial Efforts	DMO Management organisation capabilities	MIS Internal management information system	IOE Integrity of experience
DETER Destination deterrents	MKGT Marketing efforts	ALLIANCE Strategic alliances	RESEARCH Research	PROD Productivity

Source: Ritchie and Crouch (1993, p. 48)

In this model, Ritchie and Crouch identify destination's appeal to be a factor of tourism destination competitiveness, referring to the destination attractors and deterrents. Attractors include eleven elements: natural features, climate, cultural and social characteristics, general infrastructure, basic services infrastructure, tourism superstructure, access and transportation facilities, and attitudes towards tourists, cost/price levels, economic and social ties and uniqueness. Among the destination deterrents are security and safety (i.e. political instability, health and medical concerns, poor quality of sanitation, laws and regulations (such as visa requirements). Such factors are a formidable barrier to visiting a particular destination and consequently tourism growth (Wilde and Cox, 2008).

The model further emphasizes that a carefully selected and well executed program of destination management can serve to improve the tourism competitiveness of a destination. In particular, as Wilde and Cox (2008) observe, marketing efforts have the potential to enhance the perceived appeal (for example, image) of a destination, whilst managerial initiatives can strengthen the competitive position of a destination. Further, destination competitiveness can be enhanced through management of organization capabilities and strategic alliances.

Additionally, the use of detailed information systems is advanced as a basis for decision making, where internal management information provides the ability to better manage the performance of destination's product. This aspect of the model is closely linked to a research function, as research enables a destination to adapt to changing market conditions.

The final construct in the model is Destination Efficiency, which draws on the integrity of experience, relating to the ability of the destination to provide an appropriate (expected and promised) experience. The second set of the efficiency factors are termed productivity variables. These include variables which are hypothesized to develop skills and/or conditions which can increase the quantity and quality of the output of tourist experiences for a given level of resource input, such as training staff.

2.2.4 Conceptual Model of Destination Competitiveness (Crouch and Ritchie, 2003)

Furthering their work on the Calgary model of destination competitiveness, Crouch and Ritchie developed a conceptual model that is tailored to the distinctive characteristics of destination competitiveness. According to this model, destination competitiveness is based upon a destination’s *resource endowments* (comparative advantage) as well as its capacity to *deploy* resources (competitive advantage). The model also acknowledges the impact of global macro-environmental forces (such as, the global economy, terrorism, cultural and demographic trends, among others) and competitive micro-environmental circumstances that impact upon the functioning of the tourism system associated with the destination.

The model clusters the factors of destination competitiveness into five main groups, thus: i) Core resources and attractors, ii) Destination management, iii) Qualifying and amplifying determinants, iv) Destination policy, planning and development, and v) Supporting factors and resources. In total, 36 destination competitiveness attributes are identified in the model (Appendix 1).

2.2.5 Integrated Model of Destination Competitiveness (Dwyer et al, 2004)

Dwyer et al (2004) propose an integrated model of destination competitiveness that model brings together the main elements of national and firm competitiveness as proposed in the wider literature and the main elements of destination competitiveness as proposed by various tourism researchers. In particular, the integrated model contains 'main elements of destination competitiveness as proposed by tourism researchers … and many of the variables and category headings identified by Crouch and Ritchie' (Dwyer et al. 2004: 92) though it differs in some important respects.

The primary elements of the model include resources comprising '*endowed resources'* (both, natural' [for example, mountains, coasts, lakes, and general scenic features] and 'heritage' [for example, handicrafts, language, cuisine, customs, among others] resources); *'created resources*' (such as tourism infrastructure, special events, shopping, among others); and supporting resources (such as general infrastructure, accessibility, service quality, among others). According to the authors, together, these resources form the core destination resources and provide the various characteristics of a destination that make it attractive to visit and the foundations upon which a successful tourism industry is established. Together, they provide the basis for destination competitiveness.

Destination management is the second core component of their model, comprising government and industry. Destination Management factors are those that can enhance the appeal of the core resources and attractors, strengthen the quality and effectiveness of the supporting factors and resources and best adapt to the situational conditions. The category includes the activities of Destination Management Organizations; Destination Marketing Management; Destination Policy, Planning and Development; Human Resource Development; and Environmental Management.

In the model, *Demand Conditions* comprises three main elements of tourism demand: awareness, perception and preferences. Awareness can be generated by various means including destination marketing activities. The image projected can influence perceptions and hence affect visitation. Actual visitation will depend on the match between tourist preferences and perceived destination product offerings. *Situational Conditions* are forces in the wider environment that define the limit, or influence the potential of destination competitiveness. These forces can moderate, modify or mitigate destination competitiveness by filtering the influence of the other groups of factors and thus may be positive or negative in their influence on competitiveness.

The model then shows resources and destination management interacting with tourism demand and situational conditions to influence destination competitiveness and socio-economic prosperity. According to the authors, destination competitiveness is itself an intermediate goal towards a more fundamental aim of *socio-economic well-being for residents* and National/Regional Socio-Economic Prosperity. As such, in their model, *Destination Competitiveness* is linked backwards to the various determinants of competitiveness and forwards to one representing *Regional/National prosperity*.

In their opinion, indicators of Destination Competitiveness comprise both subjective attributes (destination 'appeal', 'scenic beauty') as well as those that are more objectively determined (destination market share, foreign exchange earnings from tourism). Indicators of National/Regional Socio-Economic Prosperity relate to key macroeconomic variables including productivity levels in the economy, aggregate employment levels, per capita incomes, rate of economic growth, among others.

2.2.6 Travel and Tourism Competitiveness Index (TTCI)

The TTCI model developed by the World Economic Forum (W.E.F.), as illustrated in Figure 2.1, aims to measure *the factors and policies that make it attractive to develop the T&T sector in different countries.* The model is developed within the context of the World Economic Forum's Industry Partnership Programme for the Aviation, Travel & Tourism sector.

The data that feeds into the index includes both Survey data from the World Economic Forum's annual Executive Opinion Survey, and quantitative data from publicly available sources, international organizations, and T&T institutions and experts (such as: International Air Transport Association (IATA), International Union for Conservation of Nature (IUCN), the UN World Tourism Organization (UNWTO), World Travel and Tourism Council (WTTC), United Nations Conference on Trade and Development

(UNCTAD), and United Nations Educational, Scientific and Cultural Organization (UNESCO).

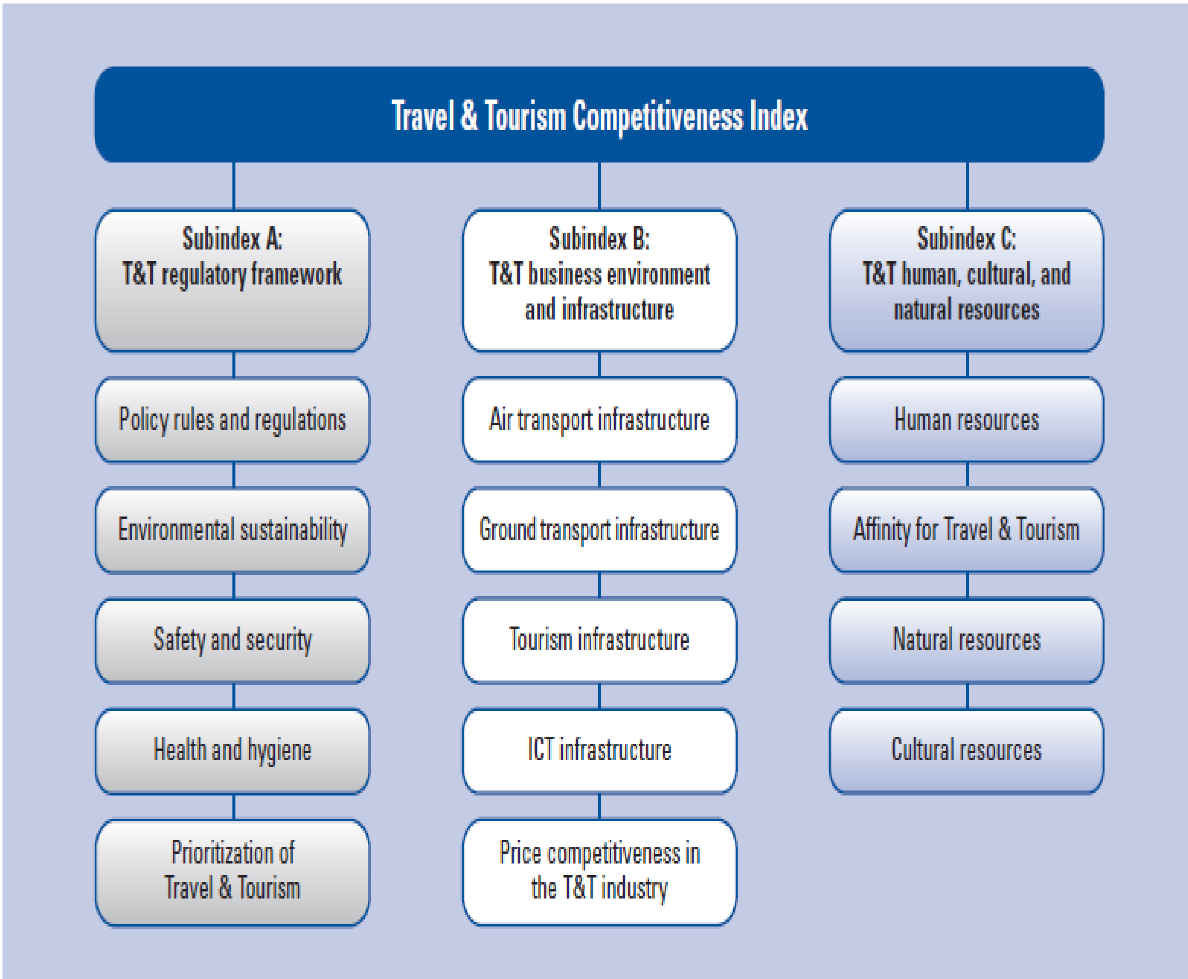

Figure 2.1: Travel and Tourism Competitiveness Index (Source: WEF, 2011, p7)

According to this model, the factors and policies that make it attractive to develop the Travel and Tourism (TT) sector in different countries can be identified based on three broad categories of variables that facilitate or drive travel and Tourism competitiveness. These categories are summarized into the three sub-indexes: (1) the T&T regulatory framework sub-index which captures those elements that are policy related and generally under the purview of the government;(2) the T&T business environment and infrastructure sub-index that captures the elements of the business environment and the "hard" infrastructure of each economy; and (3) the T&T human, cultural, and natural resources sub-index that captures the “softer” human, cultural, and natural elements of each country’s resource endowments.

Each of these three sub-indexes is composed in turn by a number of pillars of T&T competitiveness, of which there are 14 in all. Each of these three sub-indexes is composed of a number of pillars of T&T competitiveness, of which there are 14 in all. Each pillar is in turn, made up of a number of individual variables.

The index assesses a country’s competitiveness on the basis of two parameters. First a score based on a 1-7 weighting with 7 being the ultimate score, and secondly, the relative position to the other sampled countries globally and regionally.

2.2.7 Critical Review of Investment Destination Competitiveness Theories

The table 2.2 below provides a critical review of the strengths and weaknesses of the above highlighted theories of investment and destination competitiveness. In the light of the noted limitations to the reviewed models, this study sought to interrogate the supply-side perspectives of destination competitiveness based on Kenya’s hotel subsector.

Table 2.2: Critique of Selected Models/Theories of Choice of Investment Location and Destination Competitiveness

Theory/Model	Strengths	– Weaknesses
Dunning's (1982) "Eclectic Theory"	– Provides a strong theoretical foundation for explaining the choice of an investment location	– A generic model that does not factor-in country-specific realities and economic sectoral differences. – Assumes only the influence of the existing situation and thus fails to address the effect of the futuristic focus of investment decisions.
Calgary Model of Competitiveness in Tourism (Ritchie and Crouch, 1993)	– Provides a tourism industry specific model of measuring destination competitiveness – Covers a broad base of aspects that are significant to destination competitiveness	– Does not take into consideration destination-specific scenario particularly the stage within the destination lifecycle – Focuses only on the demand side of competitiveness
Conceptual Model of Destination Competitiveness (Crouch and Ritchie, 2003)	– Provides a tourism industry specific model of measuring destination competitiveness – Covers a broad base of aspects that are significant to destination competitiveness – Acknowledges the impact of global macro-environmental forces and competitive micro-environmental circumstances upon the functioning of the tourism system associated with the destination	– Does not take into consideration destination-specific scenario particularly the stage within the destination lifecycle – Assumes only the influence of the existing situation and thus fails to address the effect of the futuristic focus of investment decisions. – Fails to delineate between demand -and supply focus of competitiveness – Assumes a common perspective between domestic and international market
Integrated Model of Destination Competitiveness (Dwyer, Mellor, Livaic, Edwards and Kim, 2004)	– Provides an integrated model that brings together the main elements of national and firm competitiveness as proposed in the wider literature and the main elements of destination competitiveness as proposed by various tourism researchers. – Provides a linkage between destination competitiveness to a country's overall socio-economic development including that of the residents and the National/Regional Socio-Economic Prosperity.	– Does not take into consideration destination-specific scenario particularly the stage within the destination lifecycle – Assumes only the influence of the existing situation and thus fails to address the effect of the futuristic focus of investment decisions. – Fails to delineate between demand -and supply focus of competitiveness – Assumes a common perspective between domestic and international market
Travel and Tourism Competitiveness Index (TTCI) (by the World Economic Forum)	– Provides a tourism industry specific model of measuring destination competitiveness – Covers a broad base of aspects that are significant to destination competitiveness – provides additional information and best practices on the drivers of competitiveness upon which destinations may benchmark	– Does not take into consideration destination-specific scenario particularly the stage within the destination lifecycle – Assumes only the influence of the existing situation and thus fails to address the effect of the futuristic focus of investment decisions. – Fails to delineate between demand -and supply focus of competitiveness – Assumes a common perspective between domestic and international market

Source: Researcher, 2013

2.3 Overview of Kenya's Tourism Investment Competitiveness

Kenya, once the top performer in East Africa and one of the most open investment regimes for FDI in Africa has experienced stagnation over the past two decades. The 1980s and 1990s were characterized by a series of muted, incomplete and non-sustained attempts at macroeconomic and structural reforms. These never succeeded in putting Kenya on a sustained high-growth path, however, and only provided temporary relief based on the evolution of the world economic environment (UNCTAD, 2005a).

Although agriculture still remains the single largest sector, accounting for about 23 per cent of GDP, the services sector has also gained considerable importance, with tourism becoming one of the key sectors of the economy, contributing about 10 per cent of the country's GDP. The sector remains one among those that have continued to attract FDI, even though it has suffered in recent years from various setbacks such as the 2007/2008 post-election violence, domestic insecurity, the threat of armed insurgents from the neighbouring Somalia, and travel advisories in several Western countries.

This has been attributed to the diversified nature of the country's tourism sector, the relative security and political stability, a renowned tourist destination, strategic regional communication centre, human resources, installed capacity, protection of investment, membership to trade agreements and international bodies such as the UNWTO, among others (UNTAD, 2005a; GoK, 2008).

The above factors notwithstanding, numerous factors have on the other hand proved to be drawbacks to attracting investment into the country. First and foremost, as earlier noted, the country's tourism policy has in the past been characterized by inconsistency, poor coordination, lack of a vision and overall development strategy, and poor implementation (Kareithi 2003). The 2011 Economic Freedom index identifies the following constraints to investing in Kenya: weak protection of property rights; pervasive corruption; non-transparent trade regulations; customs inefficiency; the judicial system remains underdeveloped and vulnerable to political influence; poor infrastructure; restrictive labour laws; burdensome regulation; inefficient bureaucracy; and crime (Heritage Foundation, 2011).

2.3.1 Kenya's Position in Global Investment Competitiveness Reports

As a result of the above constraints to competitiveness, many of the leading global measures of country investment competitiveness have not painted Kenya with a bright picture. Below is a review of such reports.

The Global Competitiveness Index 2010–2011

The Global Competitiveness Report (prepared by the World Economic Forum (WEF) can be termed as the most respected assessment of national competitiveness, providing a mirror image of a nation's economic environment and its ability to achieve sustained levels of prosperity and growth. The World Economic Forum draws its data from two sources: international organizations and national sources, and the Forum's Executive Opinion Survey conducted by a network of over 150 Partner Institutes worldwide. *The Global Competitiveness Index* is thus a highly comprehensive index for measuring national competitiveness, which captures the microeconomic and macroeconomic foundations of national competitiveness based on a 12-pillar criterion.

According to the *Global Competitiveness Index 2010–2011*, Kenya was ranked 106th out of 139 economies, fallen four places from the previous year (Table 2.3). The economy was the 14th in the continent and 2nd in the East African Community (EAC) after Rwanda (ranked the 80th globally).

According to this report, Kenya's key strengths lies in first and foremost, its innovative capacity. Kenya ranked an impressive 56th, with high company spending on R&D and good scientific research institutions collaborating well with the business sector in research activities. Supporting this innovative potential is an educational system that gets relatively good marks for quality (56th) as well as for on-the-job training (58th). The economy is also supported by financial markets that are well developed by international standards (27th) and a relatively efficient labour market (46th).

Table 2.3: Kenya's Economic Competitiveness Performance 2010-2011

	Rank (out of 139)	Score (1–7)
GCI 2010–2011	**106**	**3.6**
GCI 2009–2010 (out of 133)	98	3.7
GCI 2008–2009 (out of 134)	93	3.8
Basic requirements	**126**	**3.5**
1st pillar: Institutions	123	3.2
2nd pillar: Infrastructure	102	3.0
3rd pillar: Macroeconomic environment	128	3.5
4th pillar: Health and primary education	121	4.4
Efficiency enhancers	**79**	**3.9**
5th pillar: Higher education and training	96	3.6
6th pillar: Goods market efficiency	88	4.0
7th pillar: Labor market efficiency	46	4.6
8th pillar: Financial market development	27	4.7
9th pillar: Technological readiness	101	3.1
10th pillar: Market size	74	3.5
Innovation and sophistication factors	**58**	**3.6**
11th pillar: Business sophistication	62	4.0
12th pillar: Innovation	56	3.3

Source: W.E.F (2011a:216)

On the other hand, Kenya's overall competitiveness is constrained by a number of factors. For instance, health is an area of serious concern (ranked 122nd). Further, the country suffers from a weakening institutional environment owing to concerns of corruption and aspects of government efficiency. The security situation in Kenya is also worrisome, particularly crime and violence (124th), the potential of terrorism (133rd), and the prevalence of organized crime (123rd) (Figure 2.2).

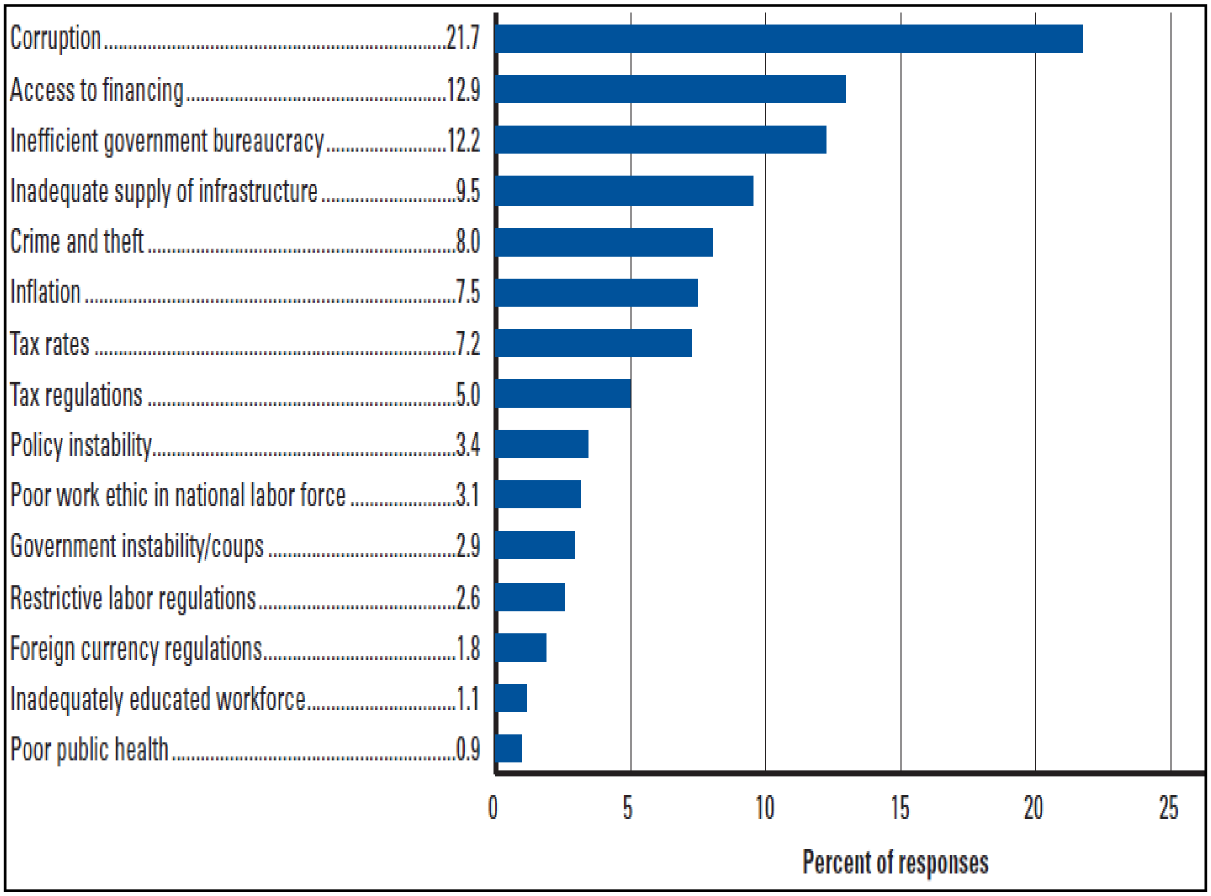

Figure 2.2: The most problematic factors for doing business in Kenya (Source: WEF, 2011a:216)

Doing Business 2012 (by the World Bank (WB) and the Investment Finance Corporation (IFC)

According to the World Bank and IFC *Rankings on the ease of doing business* that ranks 183 economies globally, Kenya's 2012 rank dropped from 106 the previous year to 109. Within the sub-Saharan region, the economy was the sixth (6) after Mauritius (23rd), South Africa (35th), Rwanda (45th), Botswana (54th) and Namibia (78th). Table 2.4 below provides the country's ranking in the report's 10 indicators:

Table 2.4: The Ease of Doing Business in Kenya

Rankings	DB 2012 Rank	DB 2011 Rank	Change in Rank
Overall "Ease of Doing Business" rank (out of 183 economies)	109	106	-3
Starting a Business	132	128	-4
Dealing with Construction Permits	37	38	+1
Getting Electricity	115	111	-4
Registering Property	133	133	No change
Getting Credit	8	8	No change
Protecting Investors	97	93	-4
Paying Taxes	166	163	-3
Trading Across Borders	141	141	No change
Enforcing Contracts	127	126	-1
Resolving Insolvency	92	90	-2

(Source: Doing Business 2012(WB and IFC, 2011:10)

From the above statistics, Kenya's strengths lie in the ease of getting credit and dealing with construction permits. On the contrary, the country's greatest weakness lies in the ease of paying taxes, trading across borders, registering property, starting a business, and enforcing contracts. Of interest to note, is that this is happening in the backdrop of the many regulatory reforms that the government has initiated especially in starting a business. These factors contribute to the country's continuing poor rating in the ease of doing business.

Index of Economic Freedom (prepared by the Heritage Foundation)

According to the *2011 Index of Economic Freedom*, Kenya's overall economic freedom score was 57.4, making its economy the 106th freest out of 179 economies globally (Table 2.5). Regionally, Kenya was ranked 14th out of 46 countries in the Sub-Saharan Africa region. Within the EAC, Kenya was the third freest after Rwanda (75th) and Uganda (80th) and followed narrowly by Tanzania at position 108 and Burundi in position 148.

Table 2.5: Ten Economic Freedoms of Kenya

	Indicator	Score		Indicator	Score
1.	Business Freedom	Avg 64.3	6.	Investment Freedom	Avg 50.2
2.	Trade Freedom	Avg. 74.8	7.	Financial Freedom	Avg 48.5
3.	Fiscal Freedom	Avg. 76.3	8.	Property Rights	Avg 43.6
4.	Government Spending	Avg. 63.9	9.	Freedom from Corruption	Avg 40.5
5.	Monetary Freedom	Avg. 73.4	10.	Labour Freedom	Avg 61.5

Source: Heritage Foundation, 2011

Specifically, the report noted the following highlights as characterizing Kenya's economy: (i) continued reforms in public finance management, though progress has been sluggish; (ii) the cost of doing business has been increased by such factors as: import and export bans and restrictions, import and export taxes, import and export licensing requirements, non-transparent and restrictive regulations, opaque government procurement, subsidies, weak enforcement of intellectual property rights, and customs corruption; (iii) the country's inflation has been high, (iv) moderate income and corporate taxes.

Other highlights include: (v) Foreign and local investors generally receive equal treatment; (f) the government screens private-sector projects to determine their viability and implications for national development; (g) private foreign and domestic investments are constrained in certain sectors, including those where state corporations have a statutory monopoly.

Others include: (h) a financial system that has remained vulnerable to government influence and inadequate supervision; (i) pervasive corruption that has led to foreign disinvestment and drained resources needed for education, health, and infrastructure; and that (j) Labor regulations are relatively rigid noting that the non-salary cost of employing a worker is relatively low, but dismissing an employee can be costly.

The Travel & Tourism Competitiveness Index (by the World Economic Forum)

According to the 2011 TTCI, Kenya was ranked 8th in the Sub-Saharan regionally and 103rd overall. Within the EAC, the country ranked the 2nd after Rwanda (in position 102 globally). The best-performing country in sub-Saharan Africa is Mauritius at 40th. Table 2.6 presents the indicators for Kenya's T&T competitiveness.

From this report, Kenya's natural resources, including its World Heritage natural sites and a rich diversity of fauna was ranked 28th. The country was ranked highly (18th overall) in its prioritization of the tourism industry owing to high government spending on the sector and effective destination marketing campaigns. In addition, there is a strong focus on environmental sustainability in the country (ranked 26th), which is particularly important for Kenya given the sector's dependence on the natural environment.

On the negative side, the country's policy environment is not at present sufficiently conducive to the development of the tourism sector (ranked 103rd) owing to such factors as bilateral Air Service Agreements that are not open, insufficiently protected property rights, and much time and cost required for starting a business. In addition, infrastructure remains underdeveloped and health and hygiene levels require improvement. Finally, as with other reports cited earlier, the security situation in the country remains a significant hindrance to further developing the sector (ranked 139th).

Table 2.6: Travel & Tourism Competitiveness Index 2011: Kenya

	Rank (out of 139)	Score (1–7 scale)
2011 Index	**103**	**3.5**
2009 Index	97	3.6
T&T regulatory framework	**113**	**3.9**
Policy rules and regulations	103	3.8
Environmental sustainability	26	5.1
Safety and security	139	3.2
Health and hygiene	130	1.6
Prioritization of Travel & Tourism	18	5.6
T&T business environment and infrastructure	**106**	**2.9**
Air transport infrastructure	72	2.9
Ground transport infrastructure	87	3.2
Tourism infrastructure	111	2.1
ICT infrastructure	112	2.1
Price competitiveness in the T&T industry	93	4.3
T&T human, cultural, and natural resources	**72**	**3.7**
Human resources	106	4.4
Education and training	93	4.3
Availability of qualified labor	123	4.4
Affinity for Travel & Tourism	70	4.6
Natural resources	28	4.4
Cultural resources	107	1.6

Source: W.E.F. (2011 b: 236)

2.3.2. Summary of Kenya's Investment Competitiveness

From the above reports, table 2.7 summarizes the strengths and weaknesses of Kenya's investment environment. Overall, while Kenya's strengths as an investment destination lie mainly in the economic related aspects, her leading weaknesses lie in those aspects responsible for the conduciveness of the business environment and the cost of doing business. As far as tourism investment is concerned, the country possesses key strengths in her status as a renowned tourist destination, her natural resources, a strong focus on environmental sustainability diversified nature of the tourism sector, and the prioritization of the tourism industry as evident from the high government spending on the sector and effective destination marketing campaigns.

On the other hand, while tourism investments to a great extent, are also affected by the general investment environment prevailing in the country, the sector suffers specifically from a poor or underdeveloped infrastructure, bilateral air service agreements that are not open, insecurity (particularly crime and violence, the potential of terrorism, and the prevalence of organized crime), and unfavourable policy environment.

Table 2.7: Summary of Strengths and Weaknesses of Kenya's Investment Environment

STRENGTHS

FACTOR	Source
Economic related factors	
The country's innovative capacity -good scientific research institutions collaborating well with the business sector in research activities	2
Financial markets that are well developed by international standards	2
Ease of getting credit	4
Ease of dealing with construction permits	4
Moderate income and corporate taxes	3
Continued reforms in public finance management (though progress has been sluggish)	3
Equal treatment of both foreign and local investors	3
Country's membership to trade agreements and international bodies such as the UNWTO, MIGA, ICSID, among others	1
Strategic regional communication centre	1
Destination resources endowment	
A relatively efficient labour market	1, 2
Natural resources, Two world heritage natural sites	5
Rich diversity of fauna.	5
A strong focus on environmental sustainability	5
Diversified nature of the country's tourism sector	1
Installed capacity	1
A renowned tourist destination	
Political and regulatory factors	
Prioritization of the tourism industry as evident from the high government spending on the sector and effective destination marketing campaigns.	5
The relative security and political stability	1

WEAKNESSES

FACTOR	Source
Business environment and Regulation factors:	
An increased cost of doing business due to:	
Import and export bans and restrictions	3
High corporate tax rates	2,3
Import and export taxes	3
Import and export licensing requirements	3
Non-transparent and restrictive trade regulations	3
Opaque government procurement policies	3
Subsidies to some local sectors	3
Weak enforcement of intellectual property rights	3
Customs corruption	3
High inflation	2
Unfavourable business environment	
A difficult process of paying taxes	4
Not easy to trade across borders	4
Private foreign and domestic investments are constrained in certain sectors, including those where state corporations have a statutory monopoly.	3
A financial system that has remained vulnerable to government influence and inadequate supervision	3
Relatively rigid and restrictive labour regulations (relatively low non-salary cost of employing a worker, but dismissing an employee can be costly)	3
A difficult process of registering property	4
A difficult process of starting a business,	4,5
Not easy to enforce contracts	4
burdensome business regulations	3
Difficult in accessing financing	2
Bilateral Air Service Agreements that are not open,	5
Insufficiently protection of property rights	5
Insecurity (particularly crime and violence, the potential of terrorism, and the prevalence of organized crime)	2,3,5
underdeveloped judicial system that is vulnerable to political influence	3
Un-conducive policy environment	5
Poor/Underdeveloped infrastructure	2,3,5

Key:

1. Investment Policy Review: Kenya (UNCTAD, 2005)
2. The Global Competitiveness Index 2010–2011 (W.E.F, 2011a)
3. Index of Economic Freedom index, 2011 (Heritage Foundation, 2011)
4. Doing Business 2012 (WB and IFC, 2011)
5. The Travel & Tourism Competitiveness, 2011 (W.E.F, 2011b)

2.4 Factors Determining Choice of Investment Destination

Generally, studies on investment decision have highlighted numerous factors that influence the choice of investment location. This section presents such factors.

2.4.1 Economic Factors

Several economic factors have been identified as influencing the choice of an investment destination. Including: *Market Size:* A vast literature enlightens that there exists a positive relationship between market size and FDI. The larger the market size, higher the chances of FDI into that country (UNCTAD, 2006; Svetlicic, 2004). However, some of the researchers, like Kokko, (2002) have observed that significance of large market as a locational determinant has diminished and now even small countries can also compete by providing investment incentives.

Several macro-economic indicators have also been identified as influencing the choice of investment location. Such include: (a) the country's *Real GDP Growth*. Both, theory and empirical research have explained that there exists a positive relationship between foreign direct investment and GDP growth. More growing markets provide relatively more opportunities for generating profits as compared to those which are growing slowly or not at all (Cassou, 1997); (b) The *Real Exchange Rate:* Generally, stable exchange rate attracts more FDI into a country. However, the situation is not always ideal; sometimes exchange rate is overvalued or undervalued. Theoretically, overvaluation in the currency of home country encourages FDI outflows and undervaluation attracts FDI inflows. According to Ning and Reed (1995), less outward FDI but more inward FDI is expected when the home currency depreciates. Thus, the stronger the currency of the host country, less attractive is the location for foreign direct investment (Aliber, 1971).

In addition, the *GDP Deflators*(c) notably, an unpredictable and volatile inflation creates problems for MNEs in assessing the profit and future planning about the market (Buckley et al., 2007). MNEs feel secure to invest into those countries where there are less fluctuation in the prices of goods and services. High inflation rate may devalue the local currency and in turn the real value of earning in the local currency.

Other influencing economic factors include: *Trade intensity between the MNC and Host country:* Multinational enterprises prefer to invest in those countries where they already have network of sale or purchase because they know the culture, taste, law, business environment and above all the network with the business community (Buckley et al., 2007). A country's *Market Openness* also influences the choice of an investment destination. An open economy has higher chances to receive FDI inflows as compared to closed ones (Diana and Adil, 2004; Buckley et al., 2007). Kumar (2001) concludes that the restrictions like export commitments, transfer of technology and local content requirements which are imposed by the host countries discourage FDI inflow. When there are fewer restrictions on international trade then there prevail higher chances to import cheaper raw material and improve technology and management.

Further, a country's *bilateral Investment treaties* have been identified as influencing investment destination choice. Generally, bilateral investment treaties & double taxation treaties are used to measure the role of investment treaties with OFDI (Kumar, 1994). These treaties are also distinguishable from trade because they entirely depend upon governments and thus firms can just follow (UNCTAD 2004).

Tax Incentives that a country offers to investors also influences the choice of the investment destination. Developing as well as developed countries offer some incentives in order to attract foreign direct investment. These can be categorized mainly into tax incentives (i.e. tax rates, tax depreciation, tax credits, tax holidays) and non-tax government incentives (i.e. government grants). (Kumar, 2001) has concluded that investment incentives are positively related with the inflows of FDI. Tax rates are negatively and linearly correlated with FDI (Gastanaga et al., 1998; Cassou, 1997). However, surprisingly, some of the studies have shown that increased taxes encourage FDI inflow into the country (for instance, Swenson, (1994).

2.4.2 Distance from the host country

Initially, the distance from the home country had always been considered as an important variable that affects the decisions of Outward FDI (OFDI) because firms would prefer to invest into those countries which are closer to their parent firm and existing network

(Johanson and Vahlne, 1977). However, evidence exists that this may no longer be the case. Cheng and Kwan (2000) for instance, have observed that EU and Japanese multinational enterprises (MNEs), though being the main sources of FDI in United States, neither of these countries is physically closer to US.

2.4.3 Political Stability

Internalization theory explains that MNEs would prefer not to invest in those countries where the political risk is high (Buckley and Casson, 1981). A highly political instable country reduces the number of chances of FDI inflow (Svetlicic, 2004). Buckley (1989) indicates that in the highly political instable country, smaller firms have competitive advantage because they are more flexible in the response of political, technological and institutional changes in the market.

On the contrast, Buckley et al. (2007) found a positive association between Chinese outward FDI (OFDI) and political instability in that; high volumes of Chinese OFDI existed in developing countries which are struggling with political stability. The authors argued that, if there is higher risk but higher returns, then FDI flows will continue into those host countries.

2.4.4 A Country's Natural Resources

The natural resource base of country plays an important and crucial role in the decision of multinationals to invest in (Han & Brewer, 1987). MNEs from emerging markets and mostly state-owned enterprises are rapidly participating in resource seeking FDI due to rising demands at home and increased prices of natural resources. Governments have realized that for continual FDI inflows, stable prices and sustained supply of inputs are necessary conditions (Han and Brewer, 1987; UNCTAD, 2005b) but generally, countries abundant with natural resources attract more FDI inflows.

2.5 Tourism Investment Destination Choice

There are several differences that exist between the tourism industry and the other sectors of the economy and as such, the logic which drives FDI in other economic sectors seems to be less apparent in tourism. Such differences result from the inherent characteristics of the tourism industry that makes it significantly different from the goods-based sectors like manufacturing. First and foremost, tourism is a crosscutting industry that involves many linked final goods.

Second, the two fundamental transactions for tourism – production and consumption – cannot be separated. Production and consumption take place simultaneously and in the same place; a tourist must go to the place of production to consume tourism services. Further, in tourism, there is no inventory of final "goods" waiting to be sold, or work in process. And lastly, sales are made by consuming fixed assets (Erramilli et al, 1997; Multilateral Investment Guarantees Agency (MIGA), 2006)

Tourism spans a range of activities instead of being a single good. Tourism is really an agglomeration of related but separate, crosscutting services: transport, lodging, food service, recreation and attractions (Pearce, 1995). All these services are assembled either individually by the traveller or commercially by a network of wholesale and retail services (tour operators, global distribution systems, and travel agents, among others) into a "tourism package." Tourism products represent "final" commodities, and efficiency through competition in tourism markets has repercussions throughout the supply chains and manufactured goods (MIGA, 2006).

According to a major theoretical approach in this field (Dunning, 1993), a firm will only establish an affiliate in a host country if three factors come together simultaneously: (i) if it possesses ownership-specific technological or other advantages which allow it to compete effectively with local companies (which are advantaged by being on their home turf); (ii) if there is some benefit to locating in the host country (locational advantages such as cheap labour, or local assets such as "sand, sun and sky" (SSS or 3Ss, for some tourism destinations); and (iii) if the net benefits of intra-company transactions (i.e.

between the company and its foreign affiliate (internalization) outweigh those of an equivalent market transaction between the company and a firm in the host country.

The analytical framework on which this description is based is known as the "OLI (ownership, location, internalization) paradigm". However, it is important to note that in tourism the third factor, in particular, occurs much less than it does in other economic activities. The first condition (ownership of competitive advantage(s)) and the third condition (benefits of internalization) are determinants of whether or not FDI is an attractive strategy in the first place, from the firm's perspective.

The second condition is location-specific and has a crucial influence on which countries will appear on the TNC's radar screen. If only the first condition is met, firms will rely on exports or licensing/franchising, rather than on FDI, to service a foreign market. If only the first and second conditions are met, the firm will use management contracts or licensing/franchising to service the market.

The above situation applies frequently to hotels, for example, because many of the core assets of the firm in terms of global reputation and management experience can be provided through a management contract, so that equity ownership (establishment of an affiliate) is not essential. When the first and third conditions exist simultaneously, then equity investment becomes the preferred mode of servicing foreign markets, but only in the presence of location-specific advantages (UNCTAD, 2007). Within this trinity of requirements, for FDI to occur the only ones that host governments can influence directly are those relating to location.

Extant literature has indicated that the localization decisions for tourism FDI flows depend on several factors. First and foremost, the localization decisions for FDI flows depend on the extent of tourism demand for a specific destination, as well as its specific tourism-related assets (for instance nature and culture among others) UNCTAD (2005a). A UNCTAD survey of hotel TNCs with a presence in developing regions (UNCTAD, 2008) showed that the single most important factor determining TNCs' decisions on where to locate was demand from developed-country tourists. More so, it was notable that the countries that had the largest numbers of TNC hotels overall (Latin America and the Caribbean, South and South-East Asia, transition economies and North Africa), were also likely to be associated more with tourism from developed countries than from developing countries.

However, the demand from developing-country tourists (sum of the demand in the developing country in which the hotel is located with “demand from developing countries”), was also noted as being important. Nevertheless, it is worth noting that the presence of a transnational hotel company can also further contribute to tourist demand, and in fact the interrelationship between investors and tourist arrivals can be very difficult to disentangle, especially if attempted years after the process first began (UNCTAD, 2008).

Economic size and growth rates have also been cited as important reasons for the choice of location, and this could be indirectly affected by government policies and incentives for FDI. Of interest from this study, only a small number of hotels reported that government policies and incentives for FDI had been an important determinant in their location decision

Further, Snyman and Saayman (2009) studying on the *"Key factors influencing foreign direct investment in the tourism industry in South Africa*” found out that perception, infrastructure, government policy, economy, competitiveness, and nature were the main factors influencing FDI in tourism.

On the specific factors influencing hotel investment decision making, Newell and Seabrook (2006) found out that the main factors that influenced hotel investment decision were (1) financial factors, (2) location factors, (3) economic factors, (4) diversification and (5) relationship factors (in the ranking order).

Further, Ussi and Jianguo (2011) studying on *“The Location determinants for hotel foreign direct investment (FDI) in Zanzibar”* found out that the following factors were significant determinants of choice of hotel investment location were: (1) the existing tourism market, (2) economic growth, (3) availability of diverse natural and cultural resources,(4) availability of Infrastructure, (5) openness to trade (noting that government openness brought new opportunities for foreign investors seeking future long term tourism business development), and (6) political stability.

Interestingly, the study found a significant difference between the perception of political instability between the investors from the developed countries and those from the developing countries noting that investors from the western countries viewed Zanzibar political condition as more important than hotel firms from developing countries. The researchers also found out that contrary to the traditional determinants of FDI location, cost of labour and cost of investment did not prove significant and have consequently not determined the decision of hotel investors.

The operation of tourism facilities, services and amenities further depends on a number of infrastructure networks. As argued by the UN Economic and Social Commission for Asia and the Pacific (UNESCAP) (2001), the success of any tourism destination is, to a great extent, determined by the quality of its infrastructure within the destination including the physical infrastructure (for example, airports and roads), information and communications technologies and tourism infrastructure (attractions, heritage sites among others).

This positive influence of the availability of infrastructure on hotel investments was also noted by Brown *et al* (2003), however, the authors also noted that there is empirical evidence in the hotel industry in which that relationship is not totally confirmed either for instance many multinational hotel firms and Italians in particular like to invest their hotel projects in emerging countries where there is potential tourism market and very limited infrastructures.

The availability of qualified or trainable labour is an important precondition for many tourism projects (Brown, et al., 2003). According to UNCTAD (2011), destination countries may have plentiful labour but lack sufficient training capacity to meet the demands of the tourism industry. As Ussi, and Jianguo, (2011) thus posit, human capital, both in terms of quantity and quality is an important factor in promoting labour intensive and export oriented FDI.

It is important to note that though much of the available literature relate to FDI, the local developers and investors also exist in the same environment and thus it can be argued that the same factors will also influence their investment decisions. However, as Caves (1971) noted that the local firms have an edge over the foreign rivals due to better understanding and handling measures for country’ s economic, social, legal and business conditions. To overcome such advantages, foreign firms must have firm specific advantages in the form of lower cost, efficient management, production facilities, product differentiation and distribution network (Caves, 1971).

2.6 Nature of Tourism Investment Decisions

Apart from the decision on the choice of investment location discussed in section2.3 above, upon choice of investment location, the other key investment decision by hotel companies is the choice of equity mode to employ within the selected destination. It is important to note that even when a TNC decides to have a physical presence in a host country, it can take either equity or non-equity organizational forms depending on the relative balance of effects that favour equity participation (+) compared to non-equity participation (-) (UNCTAD, 2008).

For example, capital intensity and the importance of managerial resources in the hotel industry are among the factors encouraging FDI in hotels (Table 2.8); in contrast, restaurants are normally locally owned because capital costs are lower – and even if they belong to a foreign chain, franchising discipline is normally sufficient to maintain quality.

Table 2.8: OLI Advantages for the Hotels Sector

Ownership advantages	**Locational advantages**	**Internalization factors ((+) encourages FDI; (-) encourages other modes)**	**Organizational forms**
Experience in home countries in supplying upmarket services Experience in training key personnel Quality control systems (e.g. management, procurement) Referral systems (GDS) Economies of geographical specialization, access to inputs	Location-bound when selling a foreign service Exports through tourists/business people visiting home or host country	Investment in hotels is capital intensive **(+)** Quality control can be ensured through non-equity forms **(-)** Governments prefer non-equity forms **(-)** Referral systems are centrally coordinated without equity control **(-)** Growing brand recognition for new TNCs from the South. **(+)** Lack of managerial expertise in host country **(+)** Growing managerial expertise in host country (-)	Vary according to relative (+) and (-) influences on equity/non-equity decision, because both forms can protect ownership advantages

(Source: UNCTAD, 2008:18).

2.6.1 Equity versus Non-Equity Investment Modes

There is increasingly less reason to assume that just because a well-known chain runs a hotel, it also owns it. As in many service industries, franchising, leasing and management contracts are becoming more popular forms of TNC participation, while equity purchase and ownership are decreasing (UNCTAD, 2004). Non-equity modes, that do not entail equity investment by a foreign entrant, are becoming increasingly popular among service firms consumer-services firms such as hotel and restaurant firms (Erramilli and Rao, 1993).

In 2008, a survey by UNCTAD found out that of the total number of hotels located in developing and transition economies, 80 per cent are under non-equity modes of operation namely: management contracts, franchises or leases. In only 20 per cent of hotels do the TNCs have an equity stake, of which approximately half are joint ventures and the other half are wholly-owned. The survey also found out that equity investment occurs more frequently in the LDCs (UNCTAD, 2008). Globally, Contractor and Kundu, (1998) argued that non-equity modes account for 65.4% of the multinational hotel properties worldwide. Table 2.9 below depicts the different equity modes applicable in hotels and their pros and cons.

Table 2.9: Advantages and Disadvantages of Different Hotel Market Entry Modes

Equity Mode	Advantages	Disadvantages
Licensing	– Lower cost and risk	– No tight control – Risk of losing know-how
Franchising	– Lower cost and risk – Fast to establish and operate	– Quality control – Hard monitoring
Joint venture	– Benefit from local partner – Shared cost and risk – Political considerations	– Loss control of technology – No tight control of partner – Conflicts and battles
Wholly-owned subsidiary	– Technology control – Tight overall control – 100% share of profits – Location and experience curve economy	– Full cost and risk – Culture problems

Source: Hill (2007) (in Santamaría and Ni, 2008, p. 17)

In Kenya, Christie and Crompton (2001) found out that 70-80 per cent of major hotels located along the coastline, Nairobi and the national parks and reserves had some foreign capital, but fewer than 20 per cent were wholly-owned by foreigners. By 2005, foreign capital appeared to be even less evident, according to UNCTAD research in Kenya, Tunisia and the United Republic of Tanzania, for example, where many of the hotels that had a foreign brand name were in fact locally owned (UNCTAD, 2008).

The UNCTAD survey however, revealed that among hotel groups with headquarters in developing countries use equity modes more than non-equity ones – as much as 66 per cent equity compared to 34 per cent non-equity. Moreover, for the most part, it is full rather than partial equity. The survey showed a gradual rise in equity holdings as hotel ownership and location in developing and transition economies increases.

2.6.2 Reasons for Equity Modal Choice

Several location factors have been identified as being the key consideration for the equity choice by hotel companies. This section therefore explores some of the theoretical and empirical literature that explains the choice of investment mode for international firms.

Chen and Mujtaba's Model of Factors Affecting Entry Mode Decision

Chen and Mujtaba (2007) identified two main groups of entry mode factors based on Transaction Cost Economies (TCE) model and non-TCE perspectives. The TCE factors implies that the cost of implementing a particular entry mode is a relevant factor in a company's entry mode decision, an efficiency criteria in order to economize on transaction costs (Yiu & Makino 2002). On the other hand, Non- Transaction Cost Economics Model consists of a set of approaches such as Dunning's (1988) Ecletic approach (OLI Theory- discussed earlier); Bargain power theory (the relative bargaining power of the firm and the host governments) as advanced by Taylor et al 1998); and Resource-based theory (resource availability and utilization).

Chen and Mujtaba (2007) further divided the entry mode factors into three groups of factors: (1) Firm-specific factors (firm-specific assets and skills that comprise ownership advantages, categorized into three types: asset specificity, international experience and firm size). The authors posit that great asset specificity tends to favour a higher-control entry mode. (2) country-specific factors (a set of factors that include country-specific economic, political, legal, institutional and cultural factors).

These factors they further divided into two variables: country risk and government restriction and market-specific factors. According to the authors, high country risk tends towards lower involvement entry modes. On the government restrictions (laws and regulations that impact on the operation of a foreign firm), the authors argued that increased government restrictions lead to low involvement entry modes.

Lastly, Chen and Mujtaba (2007) identified market-specific factors (3) as being responsible for the choice of entry mode. Such factors include: market potential, demand uncertainty and competitive intensity. The authors point out that when there is a great market potential, MNCs prefer high-control entry mode; When demand uncertainty in a foreign market is high, firms tend to use a higher-control entry mode; and firms use a high control entry mode when the competitive intensity is high (Figure 2.3).

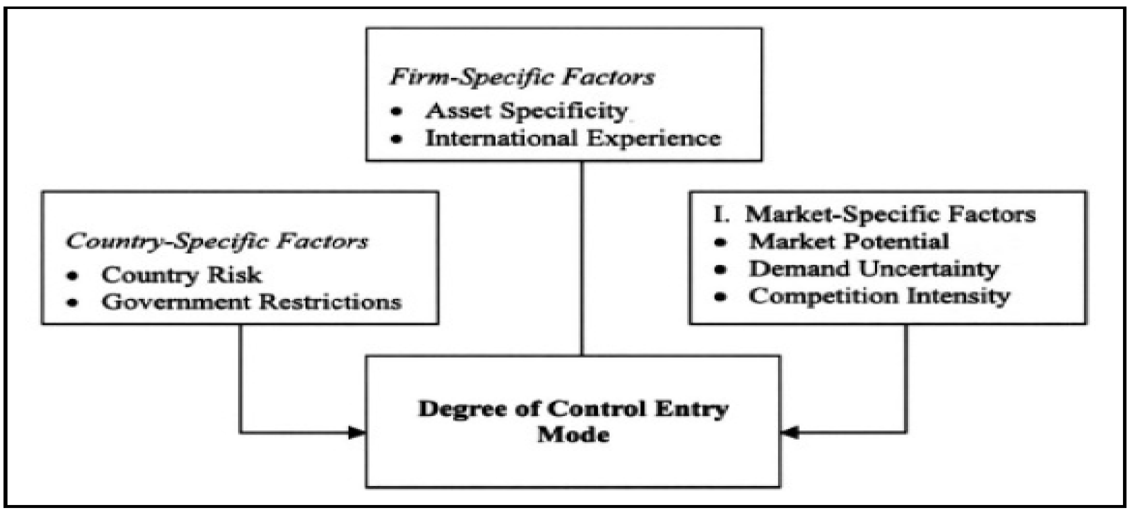

Figure 2.3: Factors affecting entry mode decision. (Source: Chen and Mujtaba (2007) in (in Santamaría and Ni, 2008, p. 10))

Root's Model of Factors affecting TNC entry mode decision

Root (1994) distinguished the Factors affecting entry mode decision into internal and external factors (Figure 2.4). The key external factors identified includes (1) Target Country Market Factors for example, in small markets companies use entry modes with low breakeven sale volumes such as indirect distributor exporting, licensing and contracts; (2) Target Country Production Factors including: the quality, quantity and cost of resources in the foreign country, as well as the quality and cost of economic infrastructure -low costs of production in the target country, favours local production, if production costs are high in the foreign country, the company tends to export (Root,1994).

Other external factors include (3) target country environment factors such as political, economic and socio-cultural, the geographical distance, the size of economy (gross national product), absolute level of performance (gross national product per capita), and relative importance of its economic sectors (percentage of gross national product devoted to the particular sector), and cultural distance whereby the firms often prefer to enter those foreign countries that are culturally closest to the home country (Ibid); (4) Home Country Factors such as home country market, production and environmental factors. For instance, if the home country has a big market, it enables a company to grow to a large size in the home market before going abroad.

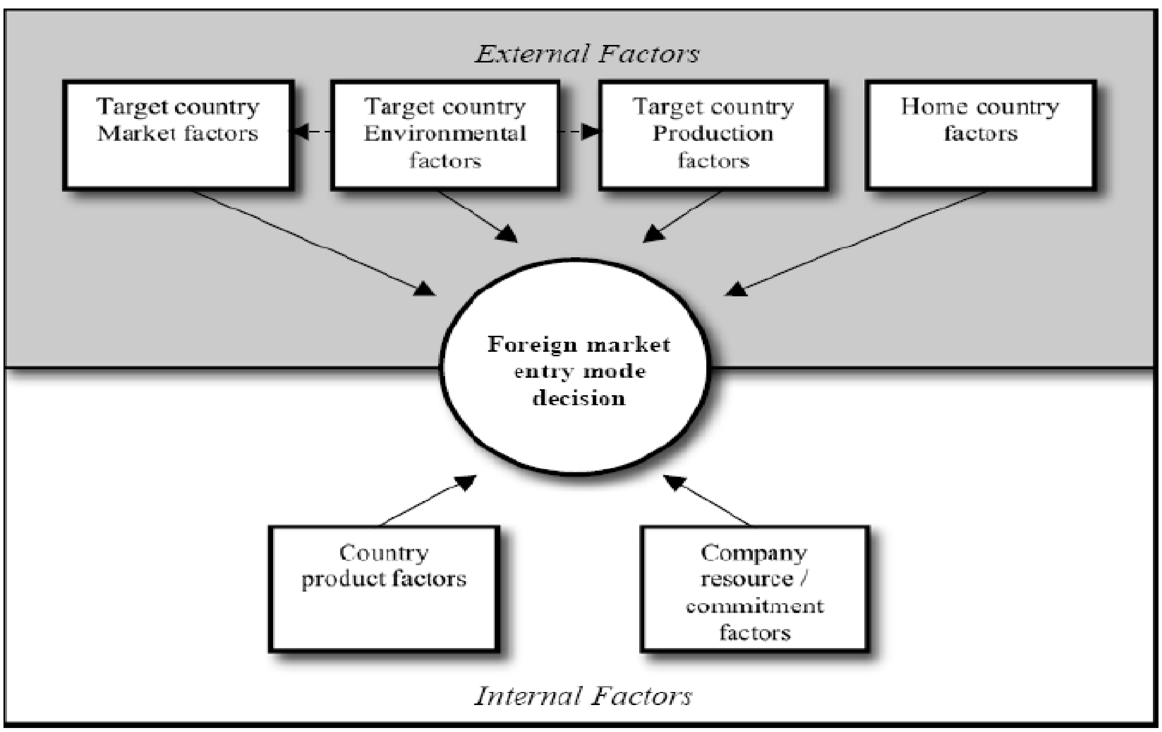

Figure 2.4: Factors affecting TNC entry mode decision (Source: Root (1994) (in Santamaría and Ni, 2008, p. 12))

On the internal factors affecting the choice of entry mode, the author identified two key factors: product factors and resource commitment factors. The author for instance, argued that when the company’s product is a service, the firm cannot export it. In order to provide services in foreign countries, the firm must train local companies as in franchising or deliver its service directly under contract with the foreign customers via technical agreements and construction contracts.

This argument identifies well with the hotel sector. Pertaining to the resource commitment factors, Root reasoned that if a company owns a large amount of resources (management, capital, technology, production skills, and management skills), the company will have numerous entry mode options. However, companies with limited resources are constrained to use entry modes with small resource commitment.

Factors that influence the choice of market entry mode

Koch (2001) also investigated the factors that influence the choice of market entry mode. The authors posit that such factors can be divided into three groups: external, internal and mixture of external and internal factors. Six external factors were identified as influencing choice of entry mode including: industry feasibility/viability of market entry mode, characteristics of the overseas country business environment, market growth rate, image support requirements, global management efficiency requirements, popularity of individual modes in the overseas market, and market barriers.

Koch (2001) further identified seven internal factors as influencing the choice of entry mode: company size/ resources, management locus of control, experience in using specific modes, management risk attitudes, market share target, calculation methods applied, and profit target.

2.6.3 Choice of Market Entry Mode for the Tourism Industry

Specific to the tourism industry, Contractor and Kundu (1998) notes that the choice of hotel equity mode incorporates country-specific variables, transaction-specific variables, as well as factors relating to the strategy of the global company and the agents with which it interacts.

The authors noted the country-specific variables as including: (1) Country Political and Economic Risk: according to Contractor and Kundu (1998), in nations where the level of risk is considered high, “hotel firms would be more likely to avoid the risks of equity investment and opt for management service contracts or franchising”; (2) Cultural Distance: the "Cultural Distance" between the home country of the hotel firm and the intended foreign country is a powerful determinant of modal choice.

According to extant literature, a greater cultural distance between the firm and the foreign nation it is operating in will lead to less equity ownership, and a greater incidence of cooperative modes, ceteris paribus,(Kogut and Singh, 1988; Gatignon and Anderson, 1988; Erramilli and Rao, 1993). The risk of cultural misunderstandings is noted to be higher especially in a service industry and one with high local labour content, where hotel businesses fall. The local partners therefore ease the problem of selecting and overseeing staff in culturally distant markets (Kogut and Singh, 1988). The global firm thus needs local partners' help all the more when the culture is unfamiliar.

Further, as Dunning and McQueen (1982) posits, the incidence of equity ownership in the hotels business should be positively correlated with economic development. This thus makes the level of economic development of the intended host country (3) to be a key consideration in the investment modal choice. The other consideration is the Foreign Business Investment Penetration in the Local Economy (4). As noted by Dunning and McQueen (1982), other things being equal, a firm would choose higher control and equity-based modes in nations characterized by a higher penetration of FDI.

This may be attributed to what Contractor and Kundu (1998) describe as a "follow the client abroad” hypothesis, based on the assumption that “global hotel chains draw an appreciable fraction of their clientele from international business travellers”. This thus follows that, in countries whose economies are more open to international investment and trade, there should be a greater incidence of international business travellers who are particularly concerned about quality standards (Contractor and Kundu (1998).

As pertains to the transaction-specific variables (that the Dunning's (1988) OLI theory referred to as the Ownership variables), Erramilli and Rao (1993) identifies the following as being the core transaction specific variables: asset specificity, bounded rationality, the free-rider problem, and opportunism. The choice of organizational mode is thus the one that which minimizes transaction costs (Contractor and Kundu, 1998). It is however important to note that the same company can use more than one entry modes in different locations.

2.7 Summary of Research Gaps

The success of a country's tourism industry development greatly depends on its ability to attract investment capital. The foregoing section has examined some of the key theories on tourism destination competitiveness, documentary evidence on Kenya's competitiveness as an investment destination, and literature relating to tourism investment decisions particularly, the choice of investment destination and the equity mode.

A number of observations emanating from the above literature review can be highlighted, which informed the current study

First and foremost, the destination competitiveness models present a generic view of the destination competitiveness attributes that assume that destination competitiveness means the same thing to the different tourism industry stakeholders. A keen look into the tourism supply chain reveals three key players whose decisions are majorly based on the destination competitiveness in differing perspectives: the supply side, the intermediation and the demand side.

Secondly, it's quite clear from literature that the tourism industry differs significantly from the other mainstream industries not only in terms of its operations but also the nature of investment decision considerations. A generic approach to the choice of investment destination may not therefore be wholly applicable to the tourism investments.

Further, while much is documented about the general investors' perception of Kenya's investment environment, little is known about those of the tourism industry. It is important to note that the tourism industry is unique in terms of the inseparability element, where the consumer moves to the point of production, (a contrast of the other mainstream sectors where the goods are taken to the consumer). This means that both firms and their clients are exposed to the same circumstances prevailing in the destination. It would thus be necessary to establish the perspectives of investors within the sector.

The noted investor perspectives on Kenya do not delineate between domestic and foreign investors. However, it is expected that the perceptions of the investment climate and the resultant investment intentions would be fundamentally different.

The current study thus aimed at investigating the factors that the hotel investors in Kenya considered as important determinants of choice of an investment destination. The study further sought to investigate how the hotel investors' perceived the country as an investment destination. Lastly, the study sought to explore on the hotel investors' investment intentions.

CHAPTER 3: RESEARCH METHODOLOGY

3.1 Introduction

> *...What makes science morally and rationally compelling is that it is a public enterprise... distinguished by the claim to produce shared understanding through modes that can be rationally and collectively apprehended. In short, we have an obligation not to "hide the ball". To the extent that we do "hide the ball," we transform our science into rhetorical performance.* (Ragin *et al*., 2004:122)

In an effort not to "hide the ball", this chapter details the research process followed in this study. The chapter presents the epistemological perspectives adopted by the researcher, that in turn form the basis of the justification for choosing the relevant methodology and methods appropriate for addressing the aims and objectives of the research. The objectives listed in section 1.4 have been unpacked and operationalized.

This chapter highlights how the study was conducted. It starts with the setting of the study, then, the study population, sample size and sampling technique adopted. Others include data collection instruments and methods of data analysis.

3.2 Research Epistemology and Theoretical Perspectives

Epistemology is concerned with the nature of knowledge, how it is acquired and more precisely how we know what we know. Epistemology thus provides the philosophical grounding necessary to make decisions on the kind of knowledge that is possible and how these can be ensured to be both legitimate and adequate (Crotty, 1998). It is thus, arguably, the basis of the research process as it in turn informs the theoretical perspective that in turn informs the methodology.

Considered in the same breath as epistemology, ontology and ethics are also central notions in qualitative research. While epistemology is mainly concerned with 'what it means to know', ontology and ethics are mainly concerned with the exploration of the nature of social reality in terms of 'what type of things exist and in what way' and 'what we ought to do' respectively (Crotty, 1998; Miller and Brewer, 2003).

Any research problem or issue inevitably brings about assumptions especially in the consideration of methodology that is in turn reflected in the choice of methods, which need to be clearly stated thereby constituting the theoretical perspective. The theoretical perspective is thus, the philosophical stance that underpins the methodology. Crotty (1998) further sees the theoretical perspective as a way of looking at the world and making sense of it and, as such, involves some form of knowledge and consequently embodies a certain understanding that is how we know what we know.

Starting from the theoretical perspective therefore, an interpretivist approach is best suited for the current research as the research process requires that the researcher engages with the participants in order to gather in-depth, rich qualitative data, from which interpretations are made that are necessary for meeting the aim and objectives of the study (Gray, 2004). The epistemological stance of this research is constructionism, which is linked with interpretivism (Gray, 2004). Constructionists believe that multiple realities exist as subjective constructions of the mind. They see the world as socially constructed. They attempt to understand phenomena through analyzing meanings people assign to these phenomena. Their research approach is inductive and concerned with discovering and interpreting social patterns. (Fitzgerald and Howcroft, 1998; Klein and Myers, 1999).

The choice of this epistemological perspective thus was mainly due to the fact that constructionism allows the researcher to engage with the social world and to view it from the inside-out to clearly understand it (Gray, 2004). In line with this logic, to clearly explore the aforementioned aim of the current research, it was prudent that the researcher actively engages with the respondents and probes in detail in order to generate insights into their perspectives of the different aspects of Kenya's competitiveness as a tourism investment destination.

Further, the current study adapted to the constructionists' belief that reality is a construction made by people, and there is therefore not just one single truth about reality (relativistic ontology) and that reality is recognized through an endless list of different interpretations (subjective epistemology). In addition, constructionism has been argued to be one of the preferred epistemological perspectives applied in case studies, the other one being the positivist perspective (Cavaye, 1996). Figure 3.1 highlights the specific approaches employed in this research.

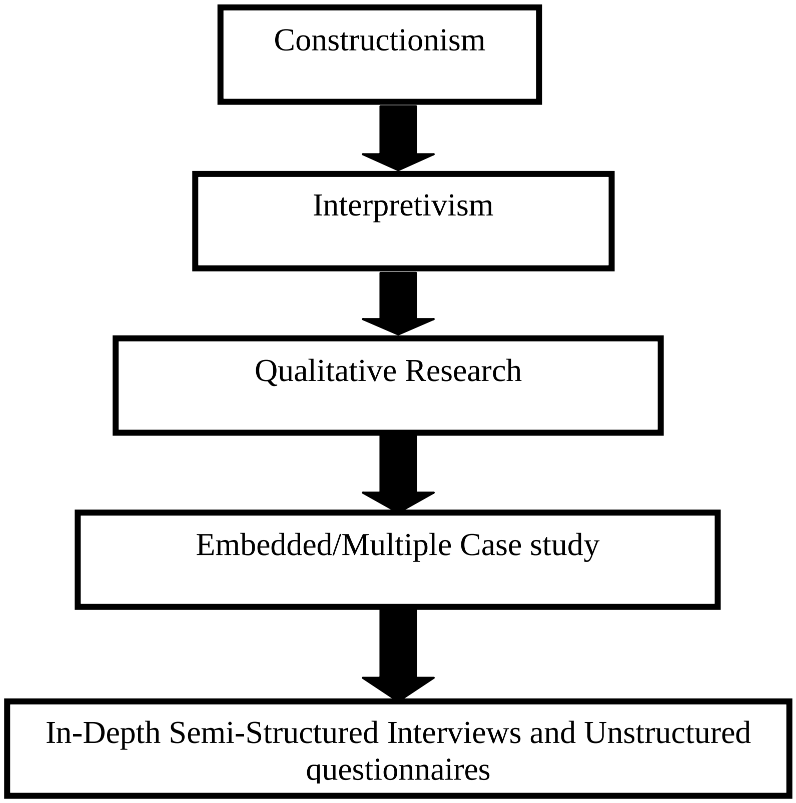

Figure 3.1: Specific approaches adapted in this research (source: researcher)

3.3 Research Design

This study adopted a descriptive cross-sectional survey that utilised an embedded case study approach. An embedded case study is a study containing more than one sub-unit of analysis (Yin, 2003). The design is an empirical form of inquiry appropriate for descriptive studies, where the goal is to describe the features: context, and process of a phenomenon. Similar to a case study, an embedded case study methodology provides a means of integrating quantitative and qualitative methods into a single research study (Scholz & Tietje, 2002; Yin, 2003).

As Yin observes, ‘‘case study is preferred in examining contemporary events, when the relevant behaviours cannot be manipulated" (Yin, 2003, p.7). The embedded case study approach is particularly relevant to examination of an environment where the boundaries between the phenomenon of interest and context are not clearly evident.

In the current study, the multiple case study design enabled the exploration of the existing status in the selected study subjects (including single hotel establishments, hotel companies, tourism investment consultants, and institutions). This was done by obtaining information that helped describe the existing phenomena and thus allowed an in-depth investigation into the tourism-related investment climate in Kenya. This approach was considered appropriate as the selected subjects were deemed to be privy to information on the investment situation in the country.

An executive opinion survey was considered most appropriate noting that only executives in single hotel establishments, hotel companies, tourism investment consultancy firms, and institutions could provide reliable information to address the goal of this study. The Executive Opinion Survey met the need for up-to-date and far-reaching data, providing valuable qualitative information for which hard data sources are scarce or nonexistent, and thus served as a complementation of the hard data derived from various destination competitiveness sources.

Executive Opinion Surveys have long been used by a number of international and national organizations, government bodies, academia, and private sector companies for their policy or strategy review (WEF, 2011b). Such organizations include: the US Agency for International Development (USAID) (for monitoring economic progress); Transparency International (for their research on bribery and corruption); and Harvard University, in collaboration with the Forum’s Health Initiative (in their annual global review of business perceptions and their response to the HIV/AIDS epidemic).

Others include the World Economic Forum’s Global Competitiveness Network (to publish its reports including as The Global Competitiveness Report, Global Information Technology Report, The Travel & Tourism Competitiveness Report, Global Enabling Trade Report, and The Financial Development Report). This therefore qualified the application of the Executive Opinion Surveys in this study.

3.4 Conceptual Framework and Study Variables

The conceptual framework upon which this study was based, was modelled in four different parts: i) tourism investment destination competitiveness indicators, ii) investors' perception of investment destination competitiveness, iii) investment decisions, and iv) the intervening variables (influencers of both the perspectives of destination competitiveness and investment decisions) (Figure 3.2).

The framework suggests that the initial and subsequent investment decision taken by the investors will be influenced by the perspectives that they hold concerning a country's investment competitiveness (both strengths and weaknesses as evidenced by the destination competitiveness indicators).

Based on their evaluation of the investment destination's competitiveness, the investors will form a mindset or a perspective which will in turn determine the investment decisions taken (Cole, 2007; Dunning and McQueen, 1982).

Some antecedent variables may however influence the perspectives held by the investors about a specific destination/location. Key among these are: what the investor considers as the factors that determine the choice of an investment location, the size of the firm and ownership of the firm, the source of investment information, among others. Further, apart from the perspectives of the destination competitiveness, the above factors may also influence the investment decision despite the outcome of the investor's perspective on destination competitiveness.

The problem area of interest was the tourism investors' perceptions of Kenya's competitiveness for investment. These factors were identified, analysed, ranked and their role in investment decision- making assessed.

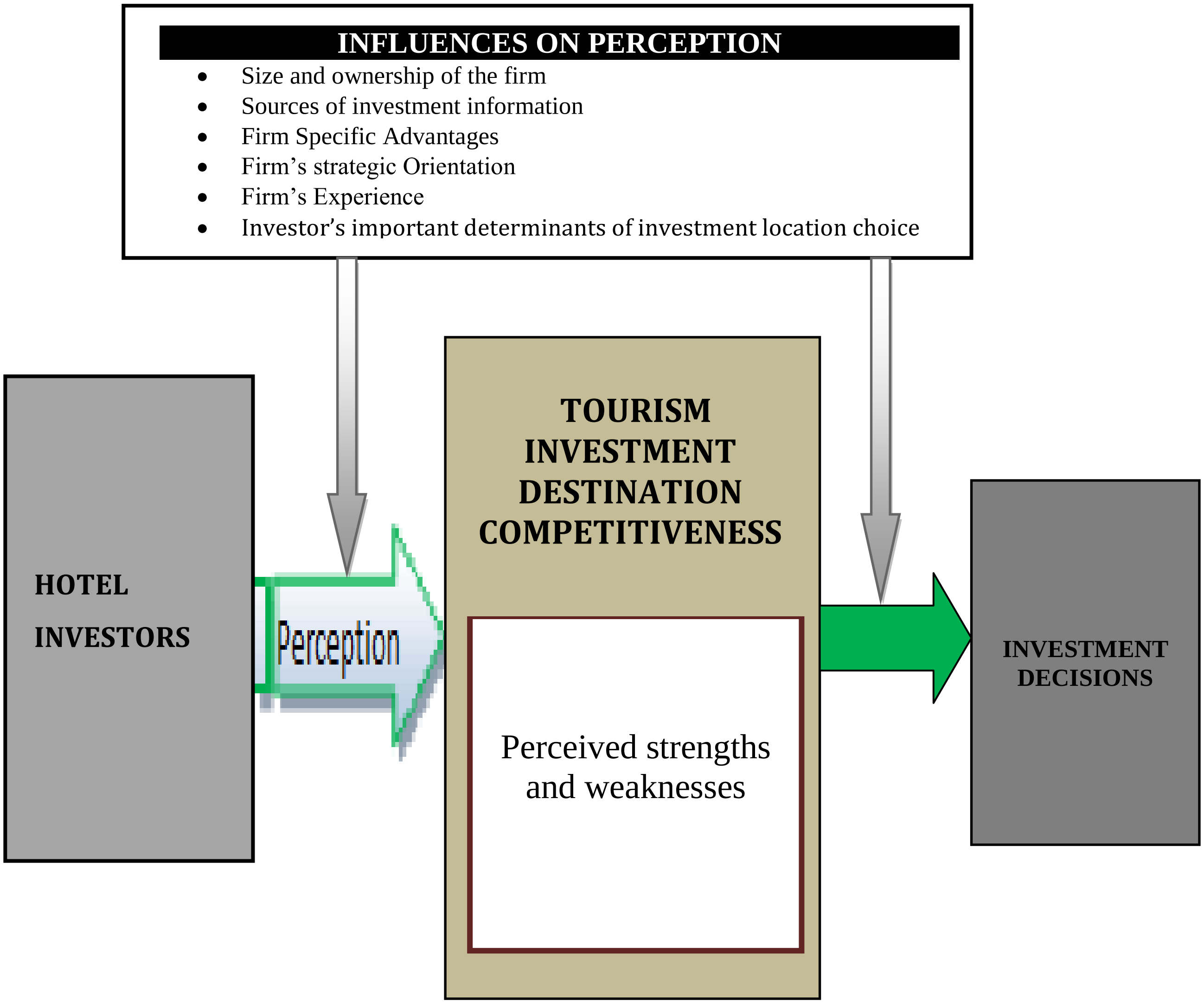

Figure 3.2: A Conceptual Framework of Hotel Investor' Perspectives of Investment Destination Competitiveness (source: researcher**)**

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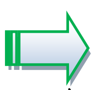
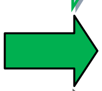
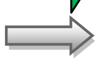

Investors' perspectives of the destination's tourism investment climate


Outcome of the perspective on the tourism investment destination competitiveness


Influence of intervening variables on investors' perspectives of the tourism investment destination competitiveness and the investment decisions

3.4.1 Study Variables

This study used both independent and dependent variables. The independent variable included: Hotel investor perspectives on Kenya's investment climate, Factors determining choice of investment destinations and, Sources of investment information. On the hand, the dependent variables pertained to three key investment decisions: Choice of investment equity modes, Preferred Kenyan region for hotel investment, and Future investment plans.

3.5 Location of the Study

This study was carried out in both Nairobi and the Kenya's coast circuit encompassing Mombasa Island, South Coast and North Coast (see map of Kenya (Figure 3.3). These two regions were chosen on the basis of their leading share of the country's hotel bed capacity. Statistics compiled from the Kenya National Bureau of Statistics, and the Economic Surveys of 2006 and 2010 indicates that the coastal region accounted for 55.8% of all hotel Bed – Nights between 2000-2009 while Nairobi region accounted for 23.2% of the country's hotel bed-nights during the same period (Table 3.1).

Table 3.1: Kenya: Hotel Bed – Nights by Zone, 2004-2009 (in '000)

Zone	2004	2005	2006	2007	2008	2009	Total 2000-2009	%
Coastal-Beach hotels	1,883.50	2,273.70	3,228.80	3,768.10	1,643.70	3,011.40	15,809.20	50.88
Others hotels	29.4	43.5	108.6	153.5	118.1	152.5	605.60	1.95
Coastal Hinterland	52.9	75.1	83.7	210.5	93.9	210.9	727.00	2.34
All Coast Hotels	**1,965.80**	**2,392.30**	**3,421.10**	**4,132.10**	**1,855.70**	**3,374.80**	17,141.80	55.17
Nairobi-High class hotels	793.7	870.9	946.8	1,028.40	716.2	1,164.10	5,520.10	17.77
Nairobi-Other hotels	194.5	180.5	257.2	302.7	224.5	498.1	1,657.50	5.33
All Nairobi	**988.2**	**1,051.40**	**1,204.00**	**1,331.10**	**940.7**	**1,662.20**	7,177.60	23.10
Central	247.8	265.1	300.3	388.9	255.1	347.5	1,804.70	5.81
Masailand	272.3	361.9	460.9	519.9	231.8	312.8	2,159.60	6.95
Nyanza Basin	167.7	196.7	284.4	246.6	185.4	213.2	1,294.00	4.16
Western	100.8	128	167.7	234.4	224.6	319	1,174.50	3.78
Northern	48.8	81.2	83.7	86.3	5.7	13.3	319.00	1.03
Total-Occupied	**3,791.50**	**4,476.60**	**5,922.10**	**6,939.40**	**3,699.00**	**6,242.80**	31,071.40	100.00
Total-Available	**10,030.70**	**10,845.60**	**13,003.50**	**14,233.60**	**142,336.60**	**17,125.30**		

Source: Compiled from Kenya Economic Survey (2006 and 2010)

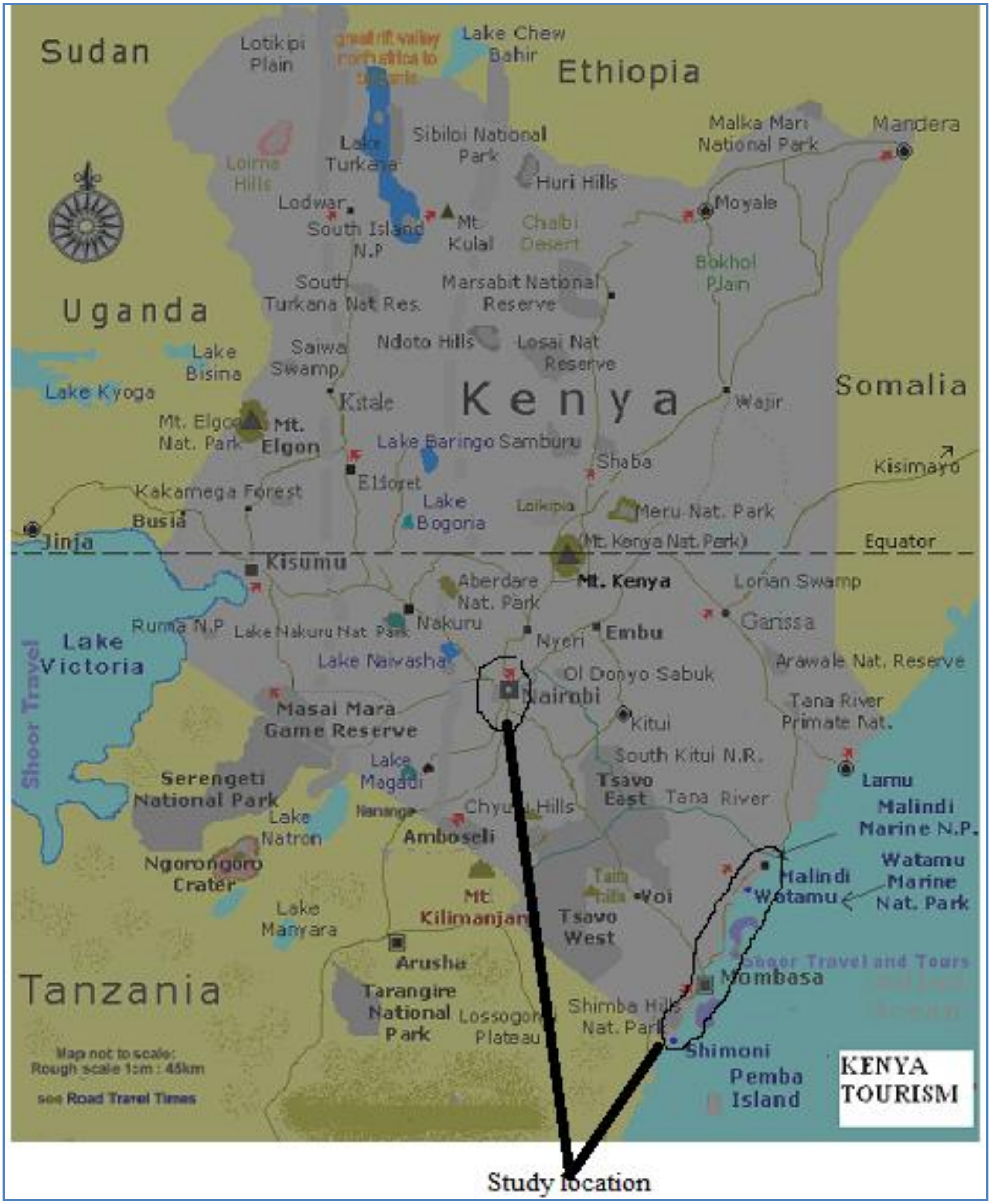


Figure 3.3: Map of Kenya showing the study location (Source: *www.tourism.go.ke*)

3.6 Target Population and Sampling Procedure

3.6.1 Research Population

A research population refers to a well-defined collection of individuals or objects known to have similar characteristics. The research population forms the main focus of a scientific inquiry (Mugenda and Mugenda, 1999). As noted by Castillo (2009), all research questions address issues that are of great relevance to important groups of individuals known as a research population.

Qualitative studies and in particular, in-depth interviews rely on multiple sources of information to provide as complete a picture as possible. As a reinforced by Boyce and Neale (2006), when choosing interviewees, a representative sample is critical. As such, the respondents for this survey included senior executives drawn from three key tourism stakeholders in Kenya: (a) hotel groups/ companies operating 3- to 5 star hotels in Kenya; (b) public organizations involved in tourism investment promotion in Kenya; and (c) Investment consultancy firms involved within the hotel sector.

3.6.2 Sample Size and Sampling Technique

Generally, samples for qualitative studies are much smaller than those used in quantitative studies (Mason, 2010). This is due to the fact that there is a point of diminishing return to a qualitative sample whereby as the study goes on more data does not necessarily lead to more information [a point of saturation] and secondly, that the qualitative research is concerned with meaning and not making generalised hypothesis statements (Ritchie, et al, 2003).

On the actual sample size for qualitative research, a sample size of fifteen has been identified as the smallest acceptable sample (Bertaux, 1981). Other researchers have also made their contributions to this debate. For instance, Charmaz (2006) suggests that 25 participants are adequate for smaller projects; Ritchie et al. (2003) suggest a qualitative samples of not more than 50; while Green and Thorogood (2009) argue that in interview studies little that is 'new' comes out of transcripts after you have interviewed 20 or so people" (p. 120).

In probably the most comprehensive attempt to determine the sample size for qualitative studies, Mason in 2009 (Mason, 2010) conducted a study titled: “Sample Size and Saturation in PhD Studies Using Qualitative Interviews” with an overall goal of examining the size of the samples from PhD studies that had used interviews as their source of data collection. The study involved a content analysis of a PhD database contained on the website: "Index to Theses: A comprehensive listing of theses with abstracts accepted for higher degrees by universities in Great Britain and Ireland since 1716”.

A total of 532,646 abstracts of PhD studies which stated they had used qualitative (i.e. structured; semi-structured or unstructured) interviews as a method of data collection were analysed. Mason concluded that 80% of samples “adhered to Bertaux's (1981) guidelines of 15 being the smallest number of participants for a qualitative study irrespective of the methodology” while on the upper side, a higher proportion of researchers adhered to Ritchie et al.'s (2003) guidelines that samples should "lie under 50".

In a much similar qualitative survey on “Factors influencing hotel investment decision making” carried out in Australia, Newell and Seabrook (2006) used a sample size of 15 respondents composed of hotel investors/owners/operators.

On the basis of the above empirical evidences, a total of thirty seven (37) executives were considered adequate respondents for this study selected from the three identified population categories for participation in this study (Hotel groups, Government institutions involved in investment promotion in Kenya’s tourism sector, and Tourism Investment Consulting Firms).

Hotel groups

From this category, all hotel groups operating three to five star hotels in Nairobi and Mombasa were selected for inclusion in the study. The perspectives of tourism investors, particularly those of the hotel subsector, were considered in this study. Key factors qualified this position. The subsector is a significant component of the tourism product (Cooper et al, 1993) and thus occupies a central position in any conceived development of the tourism industry. In addition, the subsector has high investment capital requirements and relatively high economic multiplier level within the industry (Page and Cornel, 2006).

To determine the sampling frame, all 3-5 star hotels in the selected two locations were identified from the Hotels and Restaurants classification (Kenya Gazette, 2003) and supplemented by data from the Kenya Hotel Keepers and Caterers(KHKC) (appendix 2).

To determine the ownership of the different units, information contained in the individual hotel websites and other relevant sites specifically the World Tourism Directory.com (http://www.worldtourismdirectory.com/rbk/kenya/) were used. A total of thirty (30) hotel groups/companies were thus identified (see appendix 3). Out of these, 3 were used in pre-testing the research instruments.

Owing to the small size of the population, a census survey was considered ideal. According to Israel (1992), a census survey is considered the most effective method when dealing with small populations of 200 or less subjects. More so, a census eliminates sampling error and provides data on all the individuals in the population. Involving the entire population was therefore meant to ensure the study achieves a desirable level of precision (Israel, 1992).

From each hotel group, the target respondent was the Chief executive officer (CEO). Alternatively, where it was not possible to access the CEO, either the head of group finance, head of group marketing, or a Unit General Manager from any of the 3-5-star units was included in the survey. These officers were considered to be privy to the group investment plans and decisions. By the end of the data collection exercise, 24 executives were successfully surveyed, with three (3) companies being selected for research instrument pretesting.

Government Institutions

Purposive sampling was used in the selection of those government institutions involved in investment promotion in Kenya’s tourism sector: i) the Kenya Tourism Development Corporation (KTDC) (whose mandate is to develop and diversify Kenya's tourism industry by providing a range of advisory and financial services to investors in tourism related enterprises), and ii) the Kenya Investment Authority (KenInvest) (charged with the responsibility of promoting and facilitating inward investment in Kenya. Currently, the KenInvest is a member of World Association of Investment Promotion Agencies (WAIPA) and the Growing Sustainable Business (GSB) under the UNDP).

These institutions were purposively selected for the study. These were considered central in the examination of the efforts being undertaken by the government to promote investment within the tourism industry and corroborating the opinions of the hotel investors or otherwise.

Tourism Investment Consulting Firms

This category was included in the study for the purposes of cross-checking the perception of the hotel companies (i.e. corroborating the opinions or otherwise). In addition, the informants were also considered important to this study in providing an overall investor perception noting that such firms deal with both domestic and international investors, including those who actually take up the investment in the country and those who do not.

In the Kenyan case, the firms dealing with tourism investment consultancy are not clearly documented and thus difficult to develop a sampling frame from which a sample would be drawn. This thus necessitated the use of snowball sampling technique to identify a purposively pre-determined sample size of five (5) firms from which the chief executive officers (or their representatives) were involved in this study.

This sampling technique is typically used with unknown or rare populations (Spreen, 1992). Members of these populations have not all been previously identified and thus are more difficult to locate or contact. As a consequence, obtaining a sample from such a population does not allow for the use of traditional random sampling methodologies that require that the entire population be known (Atkinson and Flint, 2001).

However, there exists a potential bias in the process (Atkinson, and Flint, 2001). As observed by Biernacki and Waldorf (1981), personal network size influences the chances a respondent will be included in the sample. Those with the largest networks and highest social visibility being more likely to be referred, while those with small networks, or isolated individuals, may be omitted from the sample because they are less likely to be mentioned by another member of the population (Van Meter, 1990).

As such, in this study, to check against the influence of those respondents with large network size, the executives of two consultancy firms known to the researcher were conveniently selected and each requested to refer other two executives from two different firms for inclusion in the study.

3.6.3 Summary of Study Sampling Design

The table 3.2 below summarises the sampling methodology used in this study.

Table 3.2: Summary of the Study Sampling Framework and Sampling Methodology

Target Population	Population Size	Sample size	Selection Criteria	Sampling Procedure
Hotel companies/group	30	30	Companies/ groups operating 3 to 5 star hotels in Kenya.	Census
Government Institutions	-	2: KTDC and KenInvest).	Those government institutions dealing with tourism investment promotion in Kenya.	Purposive sampling
Tourism Investment Consulting firms in Kenya	-	5	Those firms involved in hotel investment consultancy in Kenya	Convenience and Snowball sampling
		Total 37		

3.7 Data Collection Methods

Several instruments have been identified as being useful in collecting qualitative data including: diary accounts, open-ended questionnaires, unstructured interviews and unstructured observations (McLeod, 2008). This study relied on two of these instruments namely: the semi-structured interview schedule and the unstructured/open ended questionnaires in the collection of primary data.

3.7.1 Semi-Structured Interview Schedule

Semi-structured interviews are based on a pre-set structure based on broad topics to be addressed but are not standardised as they make use of open-ended questions that allow for interviewee digression (Miller and Brewer, 2003). In this study, interview schedules were used to collect data from the government investment agencies and the hotel investment consultancy firms (see appendix 4 and 5). These were orally administered through face-to-face interviews. The interview schedules included items based on the themes highlighted under the independent and dependent variables in section 3.3. In addition, general questions on the organization's details were also included in the schedule.

To ensure a standardised administration of the interview schedule, an interview protocol was developed (See appendix 6). An interview protocol refers to the rules that guide the administration and implementation of the interviews. These are the instructions to be followed for each interview to ensure consistency between interviews, and thus increase the reliability of the findings (Boyce and Neale, 2006).

3.7.2 Open-ended questionnaires

The open-ended questionnaires were used to gather data from the hotel companies (see appendix 7). These were constructed to capture information concerning the characteristics of the hotel companies, the factors that determine choice of investment destination, the Choice of investment equity modes, Sources of investment information, the factors responsible for business success in Kenya and the challenges faced, and finally the company's future investment plans.

As Mugenda and Mugenda (1999) notes, an open-ended questionnaire is designed to encourage a full, meaningful answer using the subject's own knowledge and/or feelings and thus a useful tool in collecting qualitative data. The advantages of the open-ended questions include the possibility of discovering the responses that individuals give spontaneously, and thus avoiding the bias that may result from suggesting responses to individuals, a bias which may occur in the case of close-ended questions.

3.7.3 Pretesting of the Research Instruments

As Caspar and Peytcheva (2011) observe, "pretesting involves a series of activities designed to evaluate a survey instrument's capacity to collect the desired data, the capabilities of the selected mode of data collection, and the overall adequacy of the field procedures". The unstructured questionnaires for the hotel companies was pretested among three (3) hotel companies in order to reduce reliability errors in conducting interviews. The results of the pretesting were used to enable the researcher to make appropriate amendments in the instrument.

For the interview guides used to collect data from the consulting firms and government investment agencies, pretesting was done using expert review involving two tourism and hospitality Doctor of Philosophy (PhD) holders in Kenyatta University. The feedback from these trials was then reflected in the revised research design.

3.8. Research Validity and Reliability

All research paradigms have their preferred methods of judging research quality Lincoln and Guba (1985). As such, the criteria to signify knowledge within each of these parameters will vary between them (for example, studies focusing on the positivist paradigm are usually more interested reliability, generalisability and validity (Healy and Perry, 2000), while those researchers operating within an interpretivist and constructionist paradigm look to criteria such as transferability, dependability, credibility and confirmability (Decrop, 2004), (indicators of trustworthiness originally developed by Lincoln and Guba (1985). These four criteria tend to mirror the quantitative terminology (Table 3.3 below). The authors however advise that that their trustworthiness criteria not be developed into prescriptions that must be followed exactly

Table 3.3: Indicators of Research Trustworthiness

Qualitative terminology	Quantitative terminology	Explanation
Credibility	Internal validity	How truthful are particular findings?
Transferability	External validity	How applicable are the findings to another setting or group?
Dependability	Reliability	Are the results consistent or reproducible?
Confirmability	Objectivity	How objective are the findings, that is how much have the researchers' biasses influenced them?

Source: Decrop (1999:158)

In this study, the question of trustworthiness was addressed by providing a detailed description, not only of the methods chosen but also the rationale underpinning the actions and decisions of the researcher. Credibility was specifically achieved through different means of triangulation (as recommended by Lincoln and Guba (1985)

These included: i) Data triangulation, through the use of a variety of data sources; ii) method triangulation (through using multiple methods of carrying out the study specifically, the use of documentary analysis, in-depth face-to-face interviews and questionnaires; iii) theoretical triangulation was achieved by adopting multiple perspectives to interpret a single data set; and iv) Interdisciplinary triangulation that was achieved during the literature review stage by drawing upon the works of many different disciplines including economics, tourism development, and tourism destination planning and development.

In addition, peer debriefing was also used, where the researcher explained the research to a number of peers in the field of tourism in order to guard against bias or misinterpretation.

To guarantee dependability and conformability, systematic operation of the research process by systematically linking of participants' responses to the specific themes of the research and asking the questions systematically (as advised by de Ruyter and Scholl (1998) were applied in this study.

Further, dependability was gained through offering a detailed description of the process of data collection and analysis to enable future researchers to "trace back" to the original research design (de Ruyter and Scholl, 1998).

To achieve instruments' validity, a number of standards were applied in this study. First, during the personal interviews, efforts were employed to ensure careful note taking in order to reduce the risk of wrongly-interpreted answers during transcription of interviews, and to be able to double-check the answers after the interview. Further, follow-up questions were also used during interviews to make sure that the respondents understood the questions and to allow the collection of more data.

In order to increase the reliability of the methods used in the present study, two measures were applied. First, in classifying the locational factors influencing investment decisions, various previous studies addressing the issue were reviewed to increase the reliability of the degrees of performance evaluated and thus to reduce subjectivity. Secondly, pretesting of the study instruments was employed to reduce reliability errors in conducting interviews

3.9 Data Collection Process

The data collection exercise was undertaken for a period of four months between September, 2011 and February, 2012. The process of data collection involved the principal researcher together with three (3) research assistants carrying out the data collection exercise. Data from the hotel investors was collected first and then data was collected from the investment consultants and the government investment promotion agencies since preliminary results of the findings from the investors formed an input into the interviews with the other respondents.

The research assistants were trained on the data collection procedures before being deployed for the actual data collection. For the unstructured questionnaires, these were presented to respondents and collected after they were filled although some respondents requested that they be picked later. The face-to face interviews were carried out both within and outside the respondents' premises as preferred by the different interviewees. To record the interviews, note taking was preferred by the respondents and thus adopted in the current study. However, a note-taker was used to ensure that all the responses were captured.

3.10 Data Analysis and Reporting

Both secondary and primary data were analyzed in this study.

Analysis of Secondary Data

Needless to say, the secondary data analysis process started at the beginning of this research and involved a critical review of literature mainly from journals, books, and various government' and organisations' documents and reports. The process invoked a thematic analysis process in order to identify key issues, patterns and themes that would form the basis for the research (as reinforced by Ezzy, (2002: 85). This process yielded data that were used in the construction of the research instruments and discussion of the primary data.

Analysis of Primary Data

In the initial stages the resultant data from the interviews and questionnaires were recorded and transcribed. The researcher sorted the data into ranges of categories as identified in the research variables. Since the data collected was qualitative in nature, thematic analysis was identified for all data that relate to the already classified patterns. These identified patterns were then expounded on with all of the responses that fit under the specific pattern being identified and placed within the corresponding pattern.

The next step in the thematic analysis was to combine and catalogue related patterns into sub-themes. Themes were identified by "bringing together components or fragments of ideas or experiences, which often are meaningless when viewed alone". Themes that emerged from the informants' discussions were put together to form a comprehensive picture of their collective experience and categorized into the study factors. In this process the collected data was categorized into main study factors for statistical analysis.

In analyzing the data, both the univariate and multivariate analysis were employed. As a first step, exploratory factor analysis was undertaken to unravel the resultant data structure for the appropriate statistical analysis and techniques. This factor analysis was undertaken to help explain the variability among observables and serve to eliminate the items which do not load on the expected factor for the sample. Further, Pearson Moment Correlations were computed to test the relationships between the different study variables. A p value of less than 0.05 was considered statistically significant.

Quotes supporting the data were also provided where appropriate. As Mugenda and Mugenda (1999) notes, providing quotes from respondents throughout the report adds credibility to the data. However care was taken to ensure that respondents were not identified through quotes that could easily be traced back to an individual. This was aimed at preserving confidentiality. Data was displayed in tables and figures to make it easier to read.

3.11 Research Ethical Considerations

Noting that human beings formed the subjects in this study, it was important that ethical issues and dilemmas be addressed. As Oppeneheim (1998) observes, the basic guiding principle governing data collection is that physical, social and psychological well-being of participants is ensured and is not detrimentally affected by the results of the research. According to Fontana and Frey (2000), the three points of concern with regard to ethical issues in research centre on the topics of informed consent, confidentiality and protection from harm. A further ethical concern noted by Christians (2000) is the potential for the researcher to practice deception.

In carrying out this study therefore, deliberate efforts were undertaken to observe the above ethical considerations. First and foremost, informed consent was sought before any interview or questionnaire was administered. For the interviews, at the beginning of each interview, fulsome explanations of the expected process covered the aim of the study, the fact that findings would not be used for any other purpose other than for academic purposes either now or in the future, the fact that participation in the interview was voluntary and therefore the interviewee was free to withdraw from the interview at any given point, and that confidentiality could be assured.

For the questionnaires, this information was contained in the introductory note. At the initial contact respondents were given clear indications of the expected length of time for each interview or questionnaire

Objectivity and accuracy issues were considered in this study. All efforts were employed to avoid bias in data analysis, data interpretation, and other aspects of research where objectivity is expected or required. Lastly, legality was observed through applying for and obtaining the necessary permits to carry out the study.

CHAPTER 4: RESULTS AND DISCUSSION

4.1 Introduction

The analysis undertaken in this chapter has been arranged into six sections. The first section examines the preliminary survey details along with the profiles of the selected hotel organizations, the investment agencies and hotel investment consultants involved in the study. The second section deals with the factors that determine choice of investment destination by hotel investors in Kenya.

The other sections covered include: the sources of information among hotel investors in Kenya; the investment equity modes preferred by hotel investors in Kenya; the specific challenges being faced by hotel investors in Kenya; the factors that have led to the success of hotel investments in Kenya; the investment incentives available for the tourism industry in Kenya; the future investment plans by the hotel companies operating in Kenya; and the preferred regions for hotel investment in Kenya. Finally, the fifth section is the chapter's summary and concluding remarks.

4.2 Study Respondents' Profile

The three main respondent groups from whom data was collected were executives from hotel companies operating 3-5 star hotels in Kenya, hotel investment consultancy firms, and government investment agencies.

4.2.1 Hotel Companies

Hotel company ownership

A total of 24 hotel companies out the targeted 27 responded to this survey. Out of these, majority of them (66.7%) were locally owned, with 50% being chains and 16.7% being independent hotels. Of these, 25% of them were fully owned by foreign investors (with 16.4% chains and 8.3% independent hotels) and only 8.3% were jointly owned by locals and foreign investors (Figure 4.1).

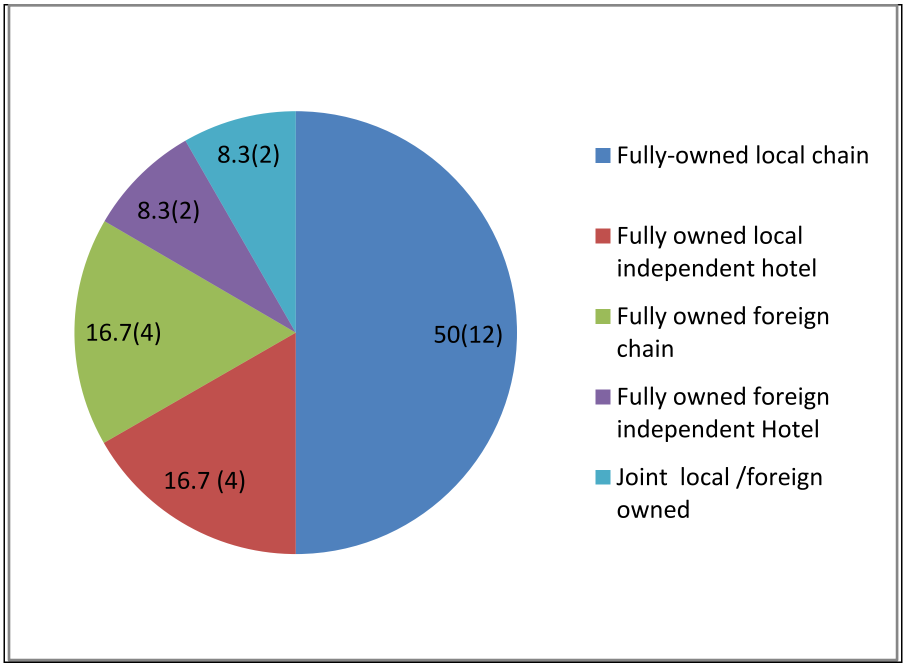


Figure 4.1: Hotel Company Ownership

Ownership of hotel premises

The companies combined operated 11 five-star hotels, 17 four star hotels and 9 three-star hotels (Figure 4.2). Out of these, about 65% were operated in premises owned by the company while about 22 % operated on leased premises; no indication was provided on the premises status of 13 % of the hotels.

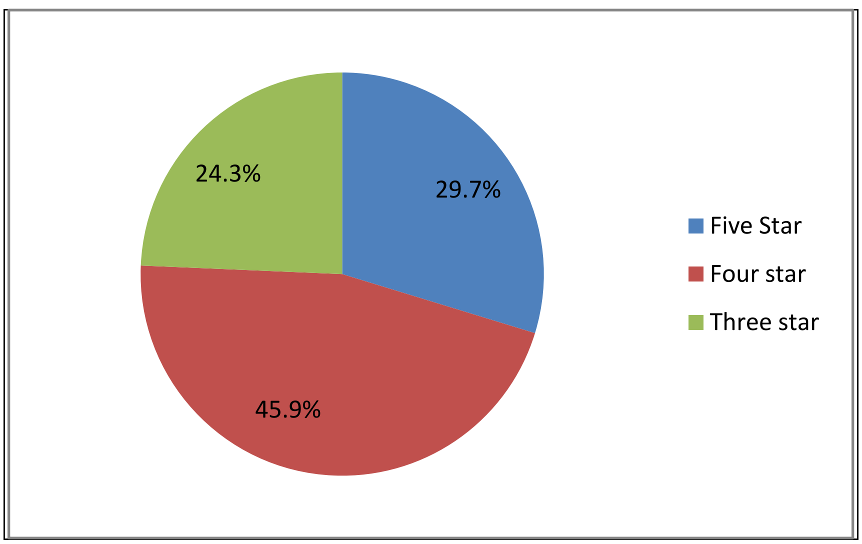


Figure 4.2: No. of hotel units operated by the hotel companies

Length of operation in Kenya

Over 60% of all the hotel companies included in the study had operated in Kenya for more than 20 years with 12.5% of them having operated in Kenya for more than 40 years. Only 5 companies (20.8%) had been in the country for less than 10 years (Figure 4.3).

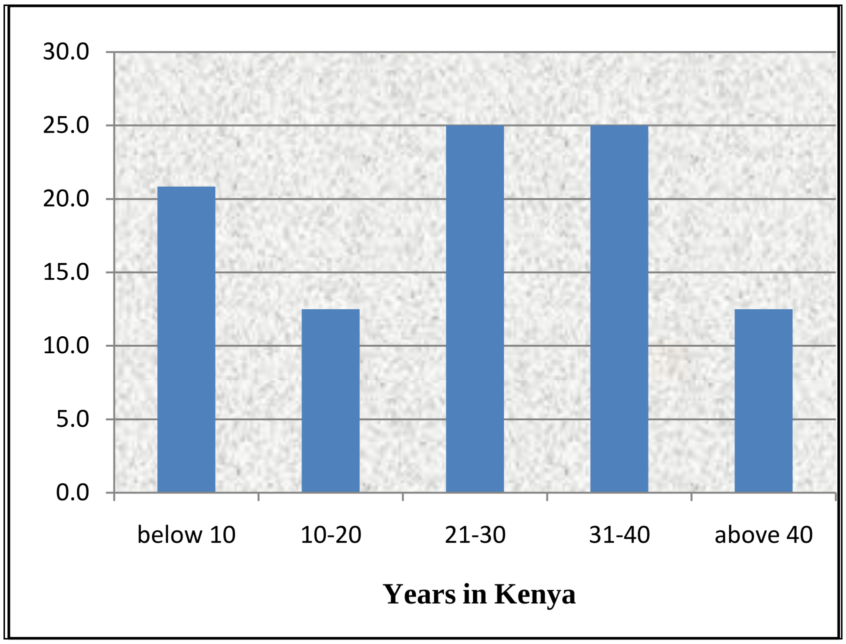


Figure 4.3: Hotel Company years of existence in Kenya

Of great significance to note, is the fact that investment in Kenya's hotel industry is majorly controlled by local investors, with a special preference on chain hotels and operating in self-owned premises. These facts were also confirmed by the investment consultancy firms and the government investment agencies when asked to rank the countries where investors for Kenya's tourism came from (Table 4.1)

Table 4.1: Ranking of Country of Origin of Hotel Investors to Kenya by investment consultancy firms and the government investment agencies

Investor's Country of Origin	Rank and Times Cited						Total Times Cited	Overall Ranking
	1st	2nd	3rd	4th	5th	6th		
Local	5	-	-	-	-	-	5	1
UK	-	3	2	-	-	-	5	2
Italy	1	1	1	-	-	-	3	3
Germany	1	1		1	-	-	3	4
US	-	-	2	-	-	1	3	5
Kenyans in Diaspora	-	1	1	-	-	-	2	6
Korea	-	-	-	-	-	1	1	7

Source: Researcher, 2013

Commenting on the matter of local ownership of the hotel investments in Kenya, two respondents from the investment consultancy firms noted as follows:

> *...initially the industry was under the control of foreigners but tables have been overturned, the locals now are in charge of the industry, just look at the current properties* (CF1).

> *…Kenyans have woken up and currently [hotel] chains owned by locals are actually controlling the industry making it even harder for foreigners to penetrate the country. For the last like 10 years, virtually all new hotels have been put up by Kenyan companies, take for example in Nairobi, Panari, Sankara, Red Cross, Ole Sereni, among others, all have local ownership* (CF3).

These findings confirms the assertion by the UNCTAD that though in many countries tourism is the largest industry, it is one of the least globalized; and that FDI in tourism is quite small compared with that in other sectors of the economy, especially in the developing countries (UNCTAD, 2008). Further evidence to this comes from the assertion by the Kenya's Ministry of Tourism that majority of the tourism operations in the country (63.7% of all classified hotels and 75% of all registered tour operators/agencies) are locally owned (G.o.K, 2008).

However as Kareithi (2003) and UNCTAD (2008) found out, most of the local tourism investors are of Asian and British origin and therefore there is little participation of indigenous African Kenyans in the tourism industry (Jommo, 1987; Kareithi, 2003; Manyara and Jones, 2005). This may be attributed to lack of the requisite experience to run tourism business along modern management principles and limited resource-base that makes it hard for them to capitalize on the advantages that accrue from economies of scale (Dieke, 2003; UNCTAD, 2008).

In the Kenyan case, these findings gives credence to efforts of key industry stakeholders notably the World Bank and United Nations World Tourism Organisation (UNWTO) who have been championing the drive of getting the indigenous people involved in tourism development (Manyara and Jones, 2007).

These local tourism investments have been noted to play a vital socio-economic role in a country. For instance, among other benefits, locally-owned tourism enterprises have been identified as being instrumental in the development of both forward and backward linkages with the other sectors of the economy (UNCTAD, 2008), and thus proving a panacea to the problem of economic leakages and Balance of Payment deficits characteristic of the developing countries.

It is thus imperative that Kenya provides an enabling environment to compliment the local investments with foreign direct investment (FDI) in order to ensure the competitiveness of her tourism industry. This necessitates a concerted effort on the part of the government and other industry stakeholders to develop the capacity of the destination to attract the high-end global hotel chains as the KTDC respondent noted

> *...this trend [local ownership] is good but we still need the big global names, the impact of these on a destination is not debatable. These automatically improve the image of a destination and of course, they move their clients...* (*Interviews)*

4.2.2 Hotel Investment Consulting Firms

A total of 5 firms were surveyed for this study. On average, the five firms identified had been in existence for 6 years with the youngest firm having been established in the year 2008 and the oldest firm having existed since 2003. In addition, the average number of hospitality investment consultancies conducted by these firms was 8 with the least being 2 and the highest 15 (Table 4.2).

Table 4.2: Characteristics of Hotel Investment Consulting Firms Surveyed

Consultancy Firm	Year Established	No. of Consultancies Undertaken
CF1	2003	12
CF2	2004	8
CF3	2006	6
CF4	2006	15
CF5	2008	2

Source: Researcher, 2013

A range of investor services were offered by these firms as summarised in Figure 4.4 below. The most common service offered by the surveyed firms was Management Consulting Services. This was offered by four out of Five (80%) of all firms surveyed. The other common services included: Operating system design and evaluation, Feasibility Studies/Investment advisory services, Marketing communication and Market Research, Business Plan and Proposal Development, and Manpower Recruitment and Development, all of which were offered by three out the five firms (60%) surveyed.

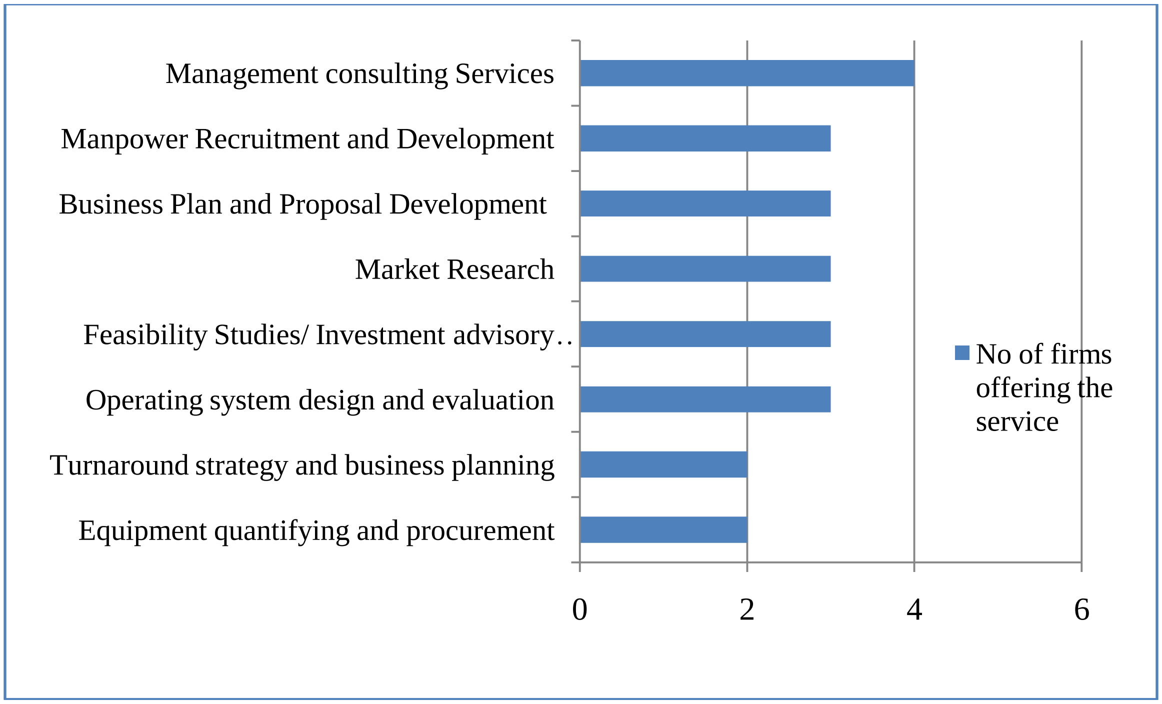


Figure 4.4: Most Common investor services offered by consultancy firms surveyed

The range of services offered by the firms may be indicative of the scope of external services demanded by Kenya's hotel sector, which is majorly controlled by local players as noted in section 4.2.1 above). This signifies lack of internal capacity to handle these key business functions which touch on virtually all important hotel functions, a fact qualified by the World Economic Forum's TTCI report on Kenya's travel and tourism labour force (WEF, 2011b).

4.3 Factors Determining Choice of Investment Destinations

Out of the factors that the respondents considered as being significant determinants of the investment destination choice, five main categories of such factors were identified as being most important and overall ranked as follows: (1st) Political and Regulatory factors (34%), (2nd) Economic factors (24%), (3rd) Marketing-related factors (8%), (4th) Destination resource endowment (13.5%), and (5th) Infrastructure (10%) (Figure 4.5). For a complete listing of all factors cited by the respondents (see appendix 8). On the basis of the individual respondent groups however, some variations were noted (Figure 4.4).

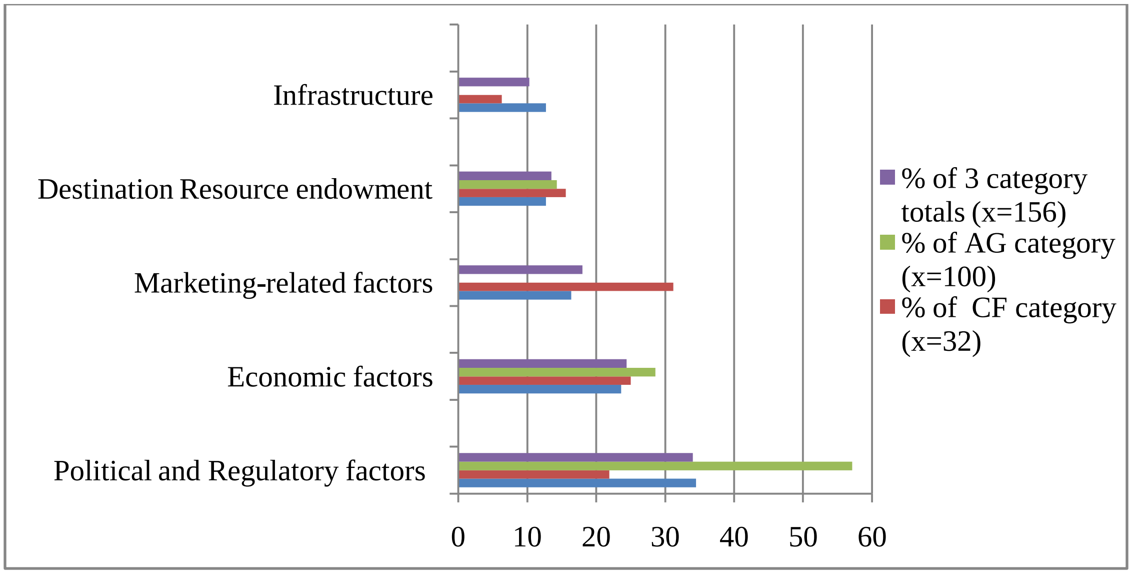


Figure 4.5: Ranking of Investment Destination Choice Factors

Key:

HC: Hotel Companies
CF: Consultancy Firms
AG: Investment Agencies

For instance, while political and regulatory factors were considered the most significant by both the respondents from hotel companies and the government investment agencies, the consultancy firms considered marketing-related factors as the most significant followed by the economic factors and thirdly by the political and regulatory factors. The hotel companies on the other considered infrastructure and destination resource endowment as equally significant in determining the choice of investment destination.

Of great interest to note was the finding that while to the consultancy firms marketing-related factors economic factors were the most crucial determinant of the choice of a hotel investment destination, to the government investment agencies, the single most important factor category that determines the choice of hotel investment destination was the political and regulatory factors category (57.1% of total group responses), followed by economic-related factors (28% of the group responses). In addition, none of the two government investment agencies considered the infrastructure as being important as determinants of the choice of hotel investment location.

The differing opinions may be attributed to the different operating orientations of the three respondent groups. For instance, while the concern of both investors and consultancy firms is the overall feasibility of the investment within a specific location, to the consultancy firms, market factors such as the size and trends of the tourist market, and the level of potential competition within the destination bears more weight as opposed to the investors to whom political and economic stability may be key indicators of the investment risk level in a specific destination.

The government investment promotion agencies may be excused for disregarding marketing-related factors as this may not be their primary concern. However, the apparent indifference on the significance of infrastructure would be a major cause of concern to investors noting that the provision of infrastructure is primarily a public sector responsibility (UNCTAD, 2008; Asiedu, 2006; and Newell and Seabrook, 2006). Might this attitude provide an explanation for the poor state of the country’s infrastructure that virtually all documentary analyses conducted in this study pointed to?

4.3.1 Significance of Investment Location Determinants

Political and Regulatory factors

Internalization theory explains that firms would prefer not to invest in those countries where the political risk is high (Buckley and Casson, 1981). A highly political instable country thus reduces the number of chances of FDI inflow (Svetlicic, 2004). In addition, a favourable and business-friendly regulatory environment in terms of the ease of starting a business, getting credit, Paying taxes, and Enforcing contracts has also been noted as a determinant of the choice of an investment destination (Heritage Foundation, 2011).

This area has been noted as one of Kenya’s weaknesses as in investment destination. In addition to being generally perceived as being politically uncertain, Kenya has been noted as having labour regulations that are relatively rigid; a financial system that is vulnerable to government influence and suffers inadequate supervision; challenging ease of paying taxes, trading across borders, registering property, starting a business, and enforcing contracts (Heritage Foundation, 2011; WB and IFC, 2011; and W.E.F., 2011).

Economic factors

A number of economic factors have been cited as being important determinants of the choice of an investment destination. Such include: *Market Size* (Buckley et al., 2007; Chakrabarti, 2001; UNCTAD, 2006), a country's *Real GDP Growth* (Cassou, 1997), a country's *Real Exchange Rate (*Ning and Reed, 1995), the *GDP Deflators* notably, an unpredictable and volatile inflation (Buckley et al., 2007).

Other economic factors include, a country's *Market Openness* (Diana and Adil, 2004; Buckley et al., 2007), a country's *bilateral Investment treaties* (Rugman and Verbeke, 2001; UNCTAD, 2004), *Tax Incentives that a country* offers to investors also influences (Kumar, 2001) and a country's tax rates that have been noted as being negatively and linearly correlated with FDI (Gastanaga et al., 1998; Cassou, 1997).

Destination Resource endowment

A country's tourism-relevant resource endowment influences the choice of the country both as tourist destination and tourism investment destination. Both ***natural and cultural resources*** are an important factor underlying national travel and tourism competitiveness (WEF, 2011b). In this area, Kenya is most renowned for its safari, large number of national parks and a wealth of cultural diversity (Mutinda and Mayaka, 2012).

Infrastructure

The quality of infrastructure is an important factor affecting the investment climate in a country, both directly (with regard to the ease of establishment and operation of business), and indirectly (by influencing operational costs vis-à-vis other regions) (Brown, et al., 2003). As noted by UNESCAP (2001), the success of any tourism destination is, to a great extent, determined by the quality of its infrastructure including the physical infrastructure (for example, airports and roads), information and communications technologies and tourism infrastructure (attractions and heritage sites among others).

However in this area, Kenya has not generally fared well, with the country's infrastructure being one of the major concerns of the investors to the country (UNICC, 2005; WEF, 2011a). The country's road network and electricity supply have specifically been singled out as being poor (W.E.F., 2011a; WB and IFC, 2011).

4.3.2 Factors determining choice of investment destination by hotel investors in Kenya

The considerations of the investors deserves a closer look bearing in mind that to them a lot is usually at stake in choosing the investment destination, and specifically that there is a risk factor to be managed as opposed to the other two respondent groups.

As noted in the Figure 4.6 below, the single most important factor determining the choice of an investment location among the hotel investors in Kenya was noted as the stability of the political environment, with 70.8% of the respondents citing the factor. The other two most important factors with 50% and above response rate were: Infrastructure including efficient transport, communication and energy (58.3%) and availability of qualified manpower (50%).

The above factors that were identified in this study as being significant determinants of hotel investment destination correspond with the position of the extant literature. As pertains to the stability of a country's political environment, the Internalization theory for instance, explains that firms would prefer not to invest in those countries where the political risk is high (Buckley and Casson, 1981). A highly political instable country thus reduces the number of chances of FDI inflow (Chakrabarti, 2001; Svetlicic, 2004). However, on this end, Kenya is perceived as a high risk country (Viewswire, 2011).

A survey conducted by Synovate (2010) among executives operating in Kenya found political instability to be the biggest threat to Kenya's economic recovery. The study further noted that "the perceived political instability in the country is largely caused by the amount of noise in government [that is] the deep wrangles in the government" (Onyango, 2010).

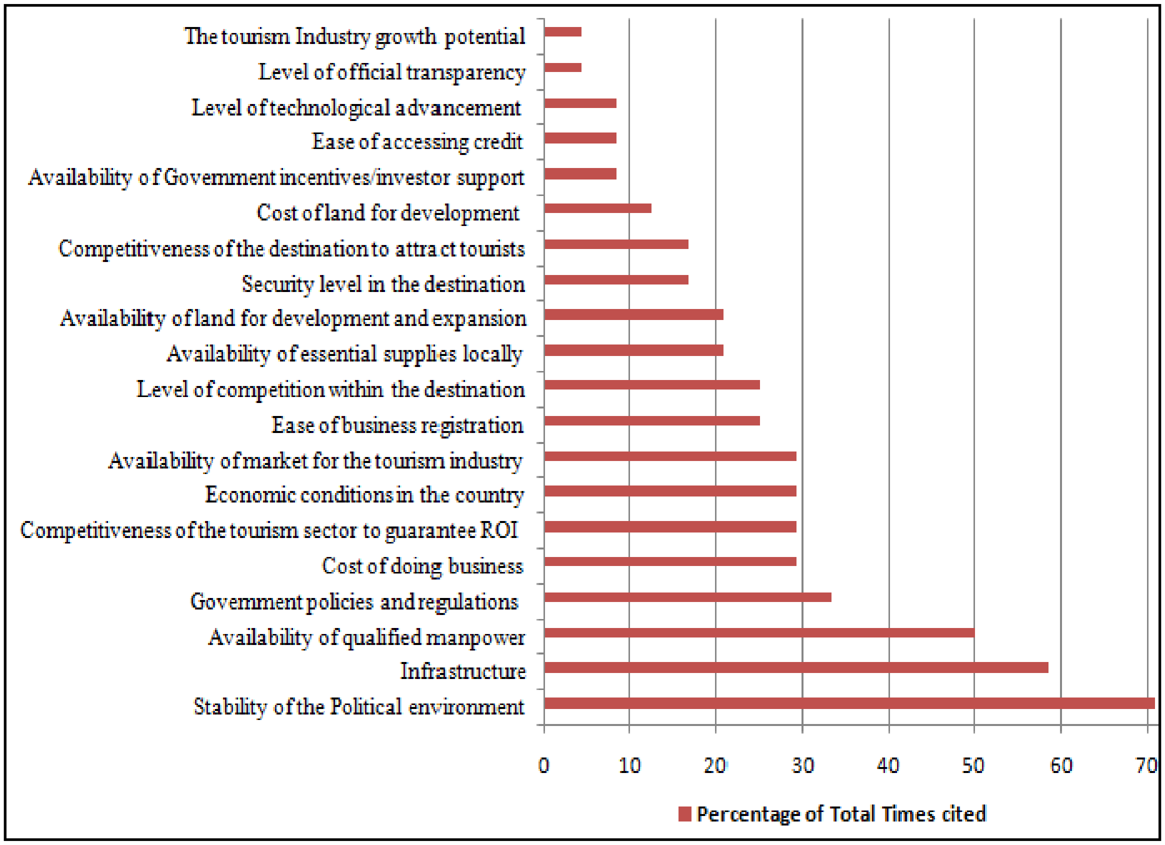


Figure 4.6: Factors determining choice of investment destination by Hotel investors in Kenya (Source: Researcher, 2013)

In addition, the quality of infrastructure is an important factor affecting the investment climate in a country, both directly (with regard to the ease of establishment and operation of business), and indirectly (by influencing operational costs vis-à-vis other regions) (Brown, et al., 2003; Balasubramanyam, 2001; and Biswas, 2002).

As noted by UNESCAP (2001), the success of any tourism destination is, to a great extent, determined by the quality of its infrastructure including the physical infrastructure (for example, airports and roads), information and communications technologies and tourism infrastructure (attractions and heritage sites among others). As is the case with political environment, Kenya has not generally fared well in this area, with the country's infrastructure being one of the major concerns of the investors to the country (UNICC, 2005 and WEF, 2011). The country's road network and electricity supply have specifically been singled out as being poor (W.E.F., 2010 and WB and IFC, 2011).

Further, tourism being a labour-intensive industry relies heavily on the quality of human resource. The Quality human resources in the economy ensure that the industry has access to the collaborators it needs to develop and grow (WEF, 2012). The quality of Kenya's human resource has long been established as being the country's greatest asset (UNICC, 2005; W.E.F, 2010; UNCTAD, 2005a). However, as pertains to the tourism sector, Kenya's labour force has not been regarded as competitive with the country's availability of qualified labour being ranked position 123 out of 139 countries by the authoritative *Travel and Tourism Competitiveness index 2011*(WEF, 2012)

4.3.3 Comparison between Factors Determining Choice of Investment Destination by Different Hotel Investor Categories in Kenya.

A further analysis of the results on the basis of types of hotel company ownership (foreign ownership, local ownership and local/foreign joint venture) was carried out. These analyses revealed some key differences among the hotel investors' categories (Table 4.3).

The study revealed that the stability of the political environment and the availability of qualified work force were the most important determinants of choice of investment destination among majority of the ownership categories. However some significant differences among the different ownership types were also noted.

For instance, as much as the political stability factor was cited as being important to all the different categories, interestingly, the factor was considered more important by the joint ventures and the local investors as compared to the foreign investors (100%, 75% and 50% respectively). This contrasts with the findings of Ussi and Jianguo (2011) whose study on hotel investment in Zanzibar found out that investors from the Western countries viewed political condition as more important than hotel firms from developing countries. Probably the experience of the investors following the 2007/2008 post-election violence, just about three years ago influenced the perception of the local investors.

Table 4.3: A comparison of factors determining choice of investment destination between local and foreign investor categories in Kenya.

INVESTMENT FACTORS	OWNERSHIP													
	Foreign chain (n=4)		Foreign indep. (n=2)		Total foreign (n=6)		Local /foreign (n=2)		Local chain (n=12)		Local indep. (n=4)		Total local (n=16)	
	x	%	x	%	x	%	x	%	x	%	x	%	x	%
Level of competition within the destination	3	75	-	-	**3**	**50**	2	100	1	8.3	-	-	**1**	**6.3**
Economic conditions in the country	2	50	1	50	**3**	**50**	1	50	3	25.0	-	-	**3**	**18.8**
Infrastructure including transport and communication	1	25	2	100	**3**	**50**	-	-	6	50.0	4	10	**10**	**62.5**
Availability of Market for the tourism industry	2	50	1	50	**3**	**50**	-	-	2	16.7	2	50	**4**	**25**
Government policies relating to doing business	3	75	-		**3**	**50**	1	50	4	33.3	-		**4**	**25**
Stability of the political environment	2	50	1	50	**3**	**50**	2	100	10	83.3	2	50	**12**	**75**
Cost of doing business	1	25	1	50	**2**	**33.3**	-	-	4	33.3	1	25	**5**	**31.3**
Availability of qualified work force	2	50	-	-	**2**	**33.3**	2	100	7	58.3	1	25	**8**	**50**
Ease of business registration process	2	50	-	-	**2**	**33.3**	-	-	3	25.0	1	25	**4**	**25**
Security level in the destination	1	25	1	50	**2**	**33.3**	-	-	1	8.3	1	25	**2**	**12.5**
Ease of accessing credit	1	25	-	-	**1**	**16.7**	-	-	1	8.3	-	-	**1**	**6.25**
How competitive is the destination in attracting tourists	1	25	-	-	**1**	**16.7**	-	-	3	25.0	-	-	**3**	**18.8**
Government incentives and other investor support	-		1	50	**1**	**16.7**	-	-	1	8.3	-	-	**1**	**6.25**
Availability and cost of land	-		1	50	**1**	**16.7**	1	50	-		3	75	**3**	**18.8**
How competitive is the tourism sector to guarantee ROI	1	25	-	-	**1**	**16.7**	-	-	3	25.0	3	75	**6**	**37.5**
Availability of essential supplies	1	25	-	-	**1**	**16.7**	-	-	3	25.0	1	25	**4**	**25**
Level of Technological advancement	1	25	-	-	**1**	**16.7**	-	-	1	8.3	-	-	**1**	**6.3**
Level of official transparency	1	25	-	-	**1**	**16.7**	-	-	-	-		-	**-**	**-**
Growth potential of the country's tourism industry	-		-	-	**-**	**-**	-	-	1	8.3	-	-	**1**	**6.3**

Source: Researcher, 2013

In addition, while the level of competition within the potential investment destination was considered an important determinant of choice of investment destination to both the foreign owned chains and the joint investors (75% and 100% respectively), the factor was noted as being quite insignificant among the local investors, with only one respondent citing it as a determinant of investment location decision.

Other notable differences were on the infrastructure factor including transport and communication which though noted as being significant by both the local investors and foreign independent investors, the factor was not considered important by both joint ventures and foreign chains. More so, while the independent and the joint venture hotel companies considered the availability and cost of land as an important investment factor, the chains, both local and foreign did not regard this factor as being of any significance.

This may probably be explained by the relative goodwill and resource-endowment enjoyed by the chain hotel companies that might enable the chain investors to access prime land with ease as compared to the independents.

4.4 Sources of Information for Hotel Investment Decision-Making in Kenya

Noting the significance of information in investment decision-making process, the study sought to explore on what information sources were relied upon by the hotel investors in Kenya while making investment decisions.

Results from the hotel company executives surveyed revealed that the most significant source of information for investment decision making was the company’s own feasibility studies (cited by 95.8 % of all respondents) (Figure 4.7).

Government reports on the performance of the tourism industry formed the second most preferred source of investment information with 58.3% identifying it as being significant. Only 41.7% of the respondents identified the media reports from both the local and international media as significant source of information for investment decision.

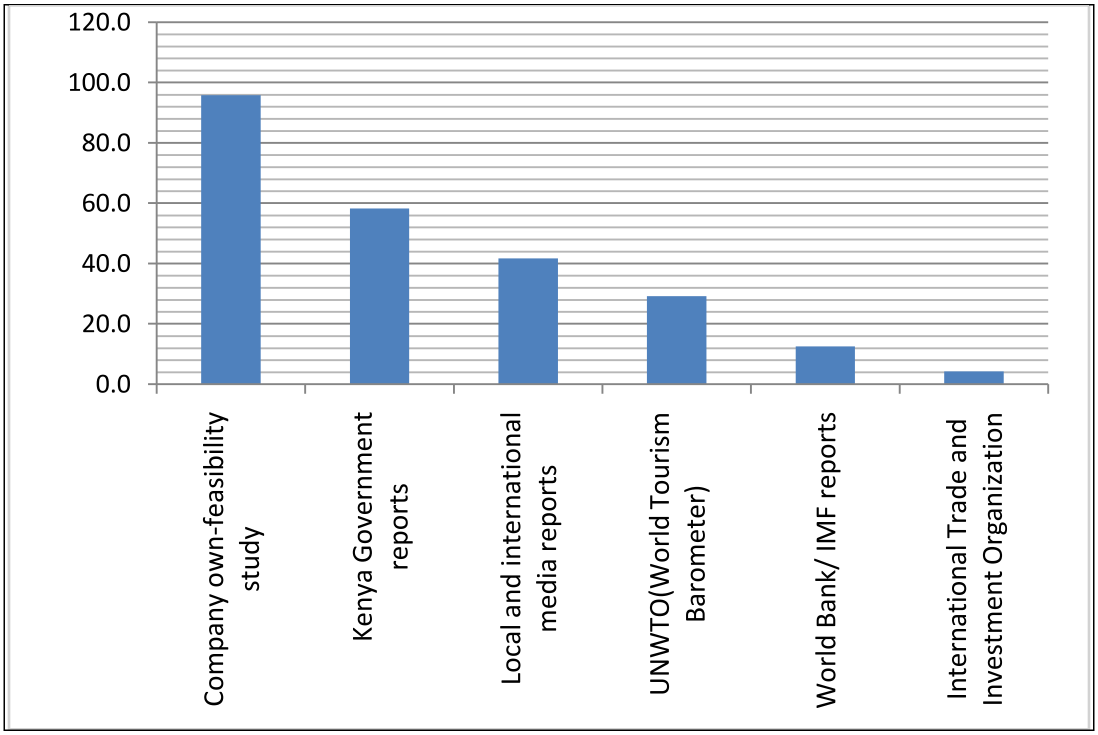


Figure 4.7: Source of Hotel Investment Decision Information (%)

Among the global reports cited as being sources of investment information, the UNWTO World Tourism Barometer report was the most cited source of information for hotel investment decision among the sampled hotel companies in Kenya with 29.2% of the respondents citing the report as a preferred source of information. Other global reports cited included those by the World Bank and/or the IMF (cited once) and the International Trade and Investment Organization (also cited once).

The study also sought to explore on the sources of information that the hotel investment consultants relied upon in advising on investment into Kenya. Table 4.4 depicts the ranking of the different sources of information used by the hotel investment consultancy firm interviewed in this study.

Table 4.4: Ranking of information sources used by the hotel investment consultants

Sources of information	**Ranking (times cited)** 1st	2nd	3rd	4th
We conduct our own feasibility studies	3	1	1	
Government statistics and reports both general to the economy and specific to tourism	1	4		
Reports from international organizations especially the UNWTO tourism reports		1	3	
Reports from the local and international media and other publications		1		3

Source: Researcher, 2013

Just as was the case with the hotel companies, the most common source of information relied upon by the investment consultancy firms was the feasibility studies. Out of the possible 5 times, this source was ranked first three times. The second source of information was the Kenya government economic statistics and reports both generally for the entire economy and the tourism sector in specific. This was ranked 2nd four times out of the possible five times. The 3rd ranked source was tourism reports from international organizations and in particular those by the UNWTO.

Media reports, both local and international, was cited as the least relied upon source of information. When questioned further on the reason for low preference of the media as a source of investment information, the respondents indicated that the reliability of media reports was questionable, sometimes being factual and other times biased (CF2). This confirms the findings of several authors who have commented on the role of the media on the investment process. For instance, Davis (2006) noted that there was a slow decline in the importance of the media in the investment process.

Seeing that majority of the hotel investors in Kenya are locals, the findings of this study agree with the *Africa Business Reporting Awards* (2009) that ‘embedded’ investors (those fully integrated into African societies and apply a long-term horizon to their investments and with a focus on private equity and venture capital) rely heavily on 'word-of-mouth' information to inform judgment, they tend to be more realistic and better informed, and thus dismissing most fears about Africa as unfounded. On the contrary, institutional investors, not being rooted in the continent, do not have easy access to this 'word-of-mouth' information and therefore are more reliant on the media, especially the official data such as the World bank reports, for current trends and emerging opportunities.

Nevertheless, it is important to note that the factors noted by the hotel investors as being the determinants of choice of investment destination are the same variables as reflected in most of the global investment reports. It is therefore important that the industry policy makers and destination managers take keen interest on addressing the areas of Kenya's weaknesses as a tourism investment destination if the country is to appeal to the major global players in the hotel investment who most likely would be influenced more by the international media and global investment reports.

4.5 Preference of Investment Modes for Hotel Investment in Kenya

This study also sought to investigate the preferred equity mode by hotel investors in Kenya. The results from the hotel company executives revealed that the most preferred mode by hotel investors in Kenya was the full-ownership mode (75%). The other two preferred modes were the joint venture (12.5 %) and the management contract (12.5%). (Figure 4.8)

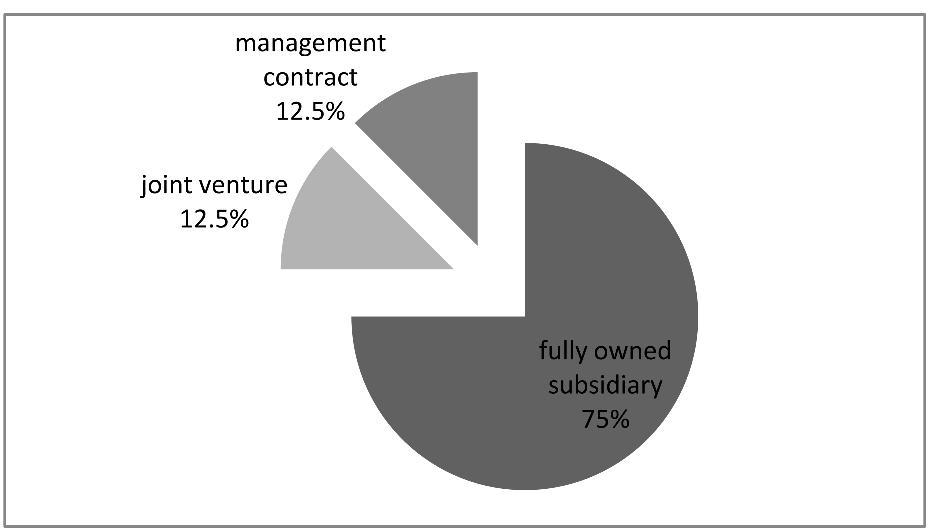


Figure 4.8: Preferred Hotel Investment Equity Mode in Kenya

These findings were confirmed by the hotel investment consultants who unanimously cited the fully-owned subsidiary as the preferred investment mode by hotel companies in Kenya.

4.5.1 Reasons for the choice of Investment modes

The study further sought to investigate the reasons for the preference of above investment modes.

Reasons for the full-equity mode

Out of a total of 32 reasons given for preferring the full-equity mode, the need for control was the highest cited reason (cited 14 times) (Table 4.5). This reason was more important to the chain operations, both foreign and local as compared to the independents and joint ventures. The overall control over the business including assets and risks, and the desire to protect and maintain the strength and integrity of the brand name featured prominently. Other control aspects cited included “Avoidance of business partnership conflicts”, and “to have management autonomy”

In addition, the firm’s advantages (including the strength of the brand and other strategic assets such as financial assets, and the existing human resource and skill base within the company) were noted as the second most important category of factors determining the choice of the full-equity mode by hotel investors in Kenya and particularly among the domestic chain operations

Of importance to note was the finding that it is only the local chain hotel companies that considered their firm-specific advantages in the choice of the fully-owned subsidiary option. Such findings agree with Chen and Mujtaba (2007) that where a firm is in possession of great asset specificity, it will tend to favour a higher-control entry mode. Further, Root (1994) posits that possession of such firm advantages as capital, technology, production skills, and management skills forms the reason for a company to have numerous entry mode options.

Table 4.5: Reasons for Choosing the Fully-Owned Subsidiary Mode

REASON FOR CHOICE	TYPE OF OWNERSHIP FC n=4	FI n=2	LC n=12	LI n=4	JV n=2	Total
Need for Control	**5**		**8**	**3**	**-**	**16**
We want to protect and maintain the strength of our brand name	2	-	6	-	-	8
To have control over the business including the assets and risks	2	-	2	-	-	4
Ease/ Feasibility in decision making	1	-	-	1	-	2
Avoidance of business partnership conflicts	-	-	-	1	-	1
To have management autonomy	-	-	-	1	-	1
Firm Advantages	**-**	**-**	**6**	**-**	**-**	**6**
Utilization of the existing skill base within the company	-	-	3	-	-	3
Our financial strength is adequate	-	-	2	-	-	2
The strength of our brand name	-	-	1	-	-	1
Others						
Easier to access capital funding and credit		-	1	1	1	3
Ease of business expansion	1	-	1	-	1	3
Profit maximization	1	-	-	-	1	2
Easier to manage risks	1	-	1	-	-	2
Total responses for the mode	**7**		**18**	**4**	**3**	**32**

KEY

FC foreign chain
FI foreign independent
LC local chain
LI local independent
JV Joint Venture

Reasons for Preferring the Joint Ventures Mode

For the joint venture investment mode, the main reason cited was investment capital requirement noting that the capital required was low and that the option allowed shared costs of investment and business operation arising from pulling together resources. The other reason cited related to the management of risks. Specifically, the respondents identified insecurity concerns in the country as the reason for preferring this option as a means to spread the potential risks. Related to insecurity was the desire to cushion the firm against losses (Table 4.6).

Table 4.6: Reasons for choosing the joint venture option by hotel companies in Kenya

REASON FOR CHOICE	TYPE OF OWNERSHIP FC n=4	FI n=2	LC n=12	LI n=4	JV n=2	Total
Less Capital required	-	-	1	-	2	3
Shared costs of investment and business operation/ pulling together resources	-	-	0	-	1	2
Need to spread the risk due to fear of possible insecurity	-	-	1	-	1	2
To cushion ourselves against loses	-	-	-	-	1	1
Total responses for the mode	**-**	**-**	**2**	**-**	**5**	**7**

KEY:

FC foreign chain
FI foreign independent
LC local chain
LI local independent
JV Joint Venture

Reasons for Choosing the Management Contract Option

Table 4.7 below presents the reasons for preference for the management contract investment option by the different categories of hotel companies in Kenya.

The reason cited for preferring this option were mainly economic in nature with the less capital required being the key rationale cited. The same reason has been identified by Hill (2007) noting that the low cost and low risk are the key factors for the choice of management contracts as an expansion strategy by hotel firms since it does not involve any capital injection on their part, but on the owner of the contracting company.

Table 4.7: Hotel companies' Reasons for the preference of the management contract option

REASON FOR CHOICE	TYPE OF OWNERSHIP FC n=4	FI n=2	LC n=12	LI n=4	JV n=2	Total
Economic Considerations	1	1	4	-		6
Less Capital required	1	1	3	-		-
Ease of expansion	-	-	1	-		-
Firm Specific Advantages	-	1	1			2
Availability of the necessary I.C.T. infrastructure within the company	-	1	-	-	-	-
Utilization of the existing skill base within the company	-	-	1	-	-	-
Risk management: There is quite low risk involved	-	-	1	-	-	1
Total responses for the mode	**1**	**2**	**6**			**9**

KEY

FC foreign chain
FI foreign independent
LC local chain
LI local independent
JV Joint Venture

4.5.2 Relationship between choice of investment equity mode and hotel company ownership types in Kenya

The results were further correlated on the basis of the different types of ownership of the hotel companies operating in Kenya (Table 4.8).

The study found out that though the fully-owned subsidiary mode was the most preferred, only a weak positive correlation existed between the mode and the local chain ownership type (R=0.19) and the local independent ownership type (R=0.20). All the other three ownership types exhibited a negative correlation with this mode.

Further, a very strong positive correlation was realised between the joint venture mode of investment and the joint local/ foreign hotel ownership (R=0.8). With all other ownership types, the mode exhibited negative correlations. In addition, the study found a weak positive correlation between the management contract mode of investment and the local chain ownership types (R=0.04), foreign chain ownership types (R=0.04) and the foreign independent (R= 0.27).

Table 4.8: Relationship between choice of investment equity mode and hotel company ownership types in Kenya

Ownership	Equity Mode: Fully owned subsidiary			Joint venture			Management contract		
	Freq.	%	R	Freq.	%	R	Freq.	%	R
Local Chain(n=12)	10	83.3	0.19	1	8.3	(0.10)	1	8.3	0.04
Local Independent(n=4)	3	75.0	0.20	0	0	(0.17)	1	25.0	(0.20)
Foreign Chain (n=4)	4	100.0	(0.05)	0	0	(0.19)	0	0	0.04
Foreign Independent(n=2)	1	50.0	(0.27)	0	0	(0.11)	1	50.0	0.27
Local /Foreign joint venture(n=2)	0	0	(0.27)	2	100.0	0.80	0	0	(0.13)
Total (N=24)	**18**	**75.0**		**3**	**12.5**		**3**	**12.5**	

Source: Researcher, 2013

Key:

R= Pearson’s correlation value (p=0.05)

These findings present some positive news to the country as the commonly preferred equity mode, (that is: fully-owned subsidiaries) has been noted to bear high level of economic benefits to a destination including the capital injection (thus contributing to the country’s Balance of payments), and higher level of linkages with other sectors of the economy, both forward and backward (UNCTAD, 2007). The government should therefore seek to leverage on this equity preference and improve on the country’s investment climate to tap into the hotel investments with its accompanying economic benefits and potential to boost to the country’s overall competitiveness.

In addition, as Agarwal and Ramaswami (1992) observe, the major advantage of the joint venture mode of investment involves the relatively lower investment and hence provides risk, return, and control commensurate to the extent of equity participation of the investing firm. There is need therefore to create an enabling environment, both fiscal and policy, to increase the uptake of this investment mode within the country's hotel sector (noting the attendant challenges it faces on key strategic competitiveness assets particularly perceived insecurity, market access, managerial human resources, and investment financing among others). This mode may present the panacea to the country in addressing the limited presence of leading global hotel brands and possibly, access to their high-end market.

On the preference of the management contract mode, the Kenyan situation is rightly in tandem with the universal expectations on the reasons for the choice of the management contract as an investment mode. One thus wonders why this mode is not well adopted in the Kenyan hotel sector. This may either be explained by lack of information on its feasibility as an investment option, or lack of strategic brand assets on the part of the Kenyan hotels that may be leveraged upon in the pursuit of this investment mode. In addition, this may be a pointer to the poor investment environment in the country that even the low risk and low cost investment modes do not appeal to the major global hotel chains.

On Kenya's hotels investors, while the need for control makes every sense in the light of the common business practices as firms must exercise some level of control over their assets, both tangible and intangible, the strategic advantages that the other investment modes present cannot be ignored. It is therefore advisable that the need for control be weighed against the aforementioned benefits of the other modes of investment.

This would be important especially in the Kenyan case given the need for technology and knowledge transfer, enhanced market access and global positioning of the country's hotel companies. The fact that the local hotel companies possess firm-specific advantages provides an added advantage for them to pursue the other investment modes particularly partnerships and management contracts.

It is worth noting that if Kenya as a destination is to endear herself to the calibre of high-end market envisioned in her Vision 2030 as aforementioned, it is imperative that the country strives to attract the high-end global hotel brands, whether through equity or non-equity investment modes. The rationale behind such an argument is based on Contractor and Kundu’s "follow the client abroad” hypothesis (Contractor and Kundu, 1998). This hypothesis is based on the assumption that global hotel chains draw an appreciable fraction of their clientele from international business travellers and thus, in countries whose economies are more open to international investment and trade, it is expected that there should be a greater incidence of international business travellers who are particularly concerned about quality standards

4.6 The Hotel Investors Perspectives of Kenya’s Competitiveness as an Investment Destination

The perception of investment destination competitiveness may be premised on the perception of both the strengths and weaknesses characterizing the destination. Thus, as an indication of the perception of the investors on the competitiveness of Kenya as a tourism investment destination, this study sought to investigate the specific challenges that hotel investors in Kenya were facing and the factors that they regarded as being responsible for their success in the country.

4.6.1 The specific challenges being faced by investors in Kenya's tourism industry

From the tabulation of the study findings obtained from the three respondent groups, the six most important challenges affecting the hotel investments in Kenya were: (1) High cost of doing business (25.5 %); (2) Political instability/uncertainty (15.3%); (3) Unfavourable business-related policies (13.6%); (4) Infrastructure (9.3%; (5) Corruption (9.3%); and (6) Insecurity (8.5%) (Figure 4.9). These factors combined accounted for 81.4% of all the responses and are thus discussed below. For a complete list of all the challenges cited (appendix 9)

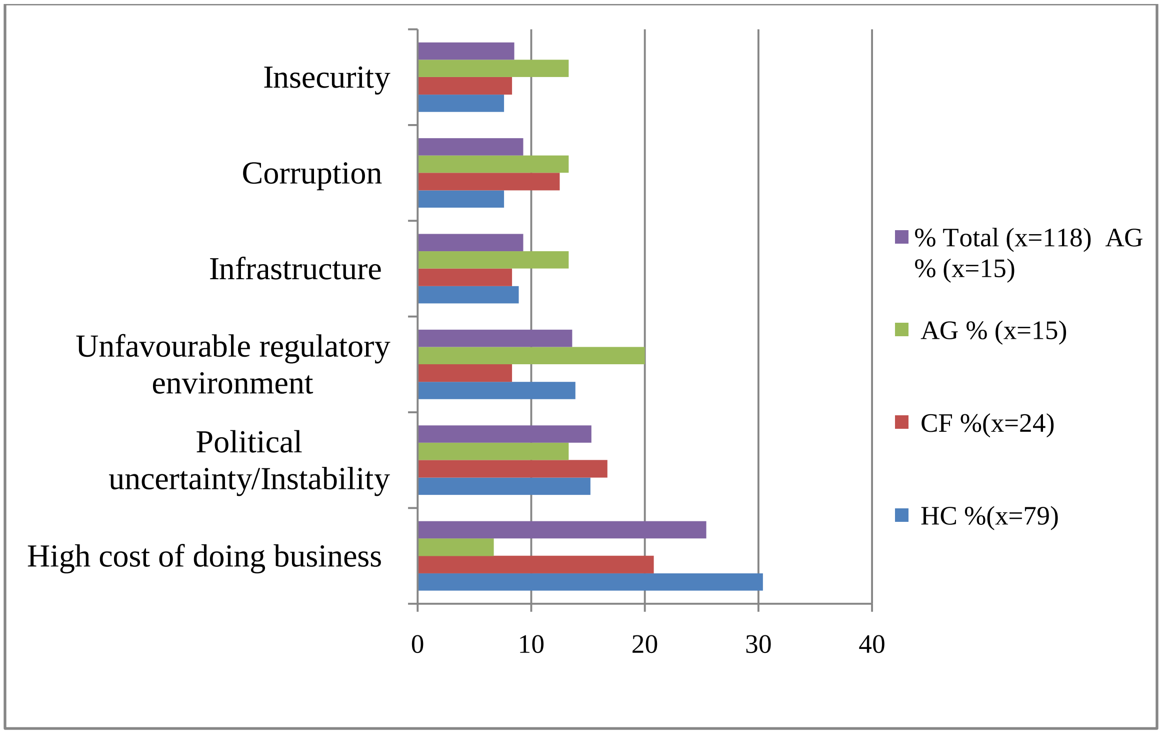


Figure 4.9: The challenges being faced by hotel investors in Kenya

Key:

HC-Hotel companies

CF- Investment consultancy firms

AG- Investment agencies

The factors that were cited as constraints for the hotel investments in Kenya were further reduced using factor analysis. Out of the seven factor categories identified, only three were extracted from the Challenges explaining a cumulative score of 69% of the variance (Table 4.9).

Table 4.9: Factor Analysis for the challenges being faced by hotel investors in Kenya

	Initial Eigen values			Extraction Sums of Squared Loadings		
Component	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.88	26.85	26.85	1.88	26.85	26.85
2	1.66	23.70	50.55	1.66	23.70	50.55
3	1.28	18.22	68.77	1.28	18.22	68.77
4	0.82	11.74	80.51			
5	0.63	9.04	89.55			
6	0.49	7.03	96.58			
7	0.24	3.42	100.00			

Using the Principal Component Analysis as the extraction method, these factors were identified as: (i) security at 81%, (ii) political factors at 77% and (iii) market-related factors at 71% (Table 4.10).

Table 4.10: Component matrix for the challenges being faced by hotel investors in Kenya

Factor	Component		
	1	2	3
Economic Challenges	.580	.561	-.231
Political Uncertainty/Stability	.265	-.436	**.769**
Infrastructure Challenges	-.784	.081	-.308
Regulatory-related factors	.092	.609	.557
Market- Related challenges	**.710**	-.250	-.146
Security	-.197	**.809**	.253
Destination- resource endowment	-.555	-.243	.375

High cost of doing business

The high cost of doing business in Kenya was singled out by the three respondent groups as the most important challenge facing the hotel investors (accounting for 28.7% of all the challenges cited). This challenge was noted as resulting from such factors as: the high levels of corporate taxation, high interest rates, high inflation rates and weakening currency that was cited as affecting cost of essential imports (Figure 4.10).

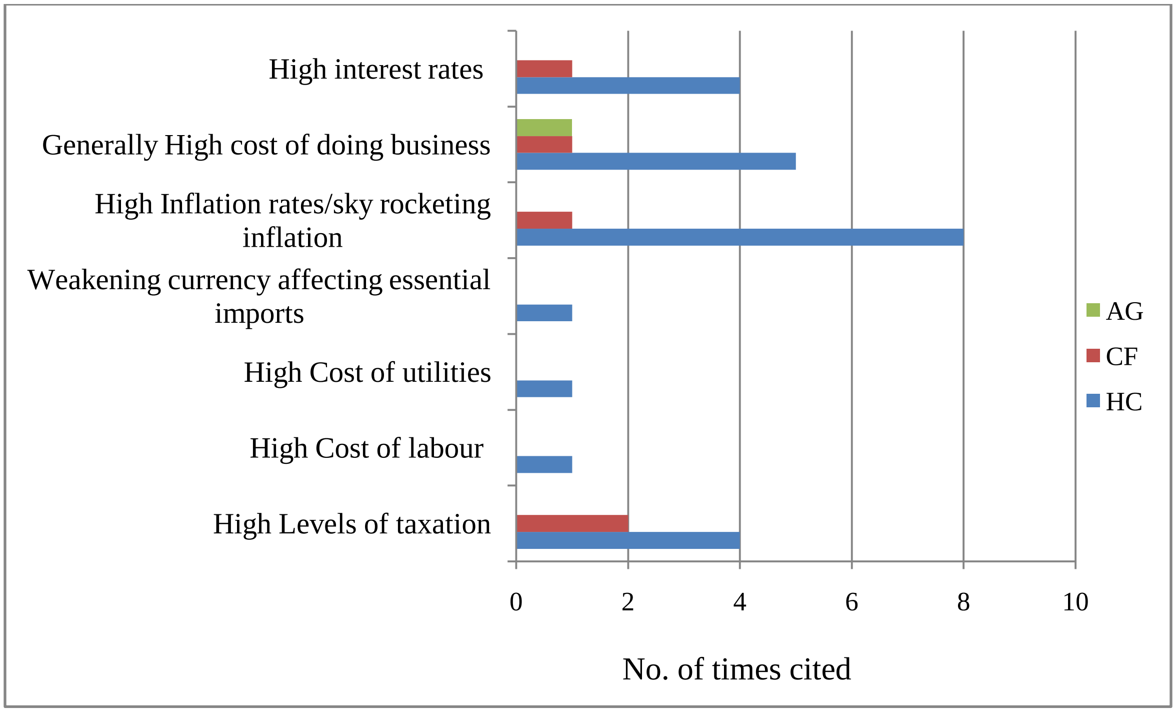


Figure 4.10: Category of responses for "High Cost of Doing Business"

Key:

HC-Hotel companies

CF- Investment consultancy firms

AG- Investment agencies

It is important to note that while this challenge ranked as the most significant to both the hotel investors and the hotel investment consultancy firms, only one of the two government agencies (the KenInvest) considered the factor as being significant. This is quite expected noting the different operational orientation of each of the two institutions (KTDC having their focus mainly on financing hotel investment, while KenInvest focusing more on the overall investment environment).

The above notwithstanding, the perception that Kenya as a costly destination to do business is has been noted by most of the major investment competitiveness reports, particularly, the Kenya's Investment *Policy Review* by the UNCTAD (2005a) and the *Global Competitiveness Index 2010–2011* (W.E.F., 2010) that have cited such issues as high corporate tax rates, import and export taxes, and high inflation as being some of the factors responsible for the increased cost of doing business in Kenya.

It is therefore important to note that unless deliberate efforts are taken on the part of the government to address this rather perennial limitation to doing business, the country's ability to attract investment in all sectors of the economy and in particular, the hotel sector will remain minimal especially at a time when other regional economies (particularly Rwanda, South Africa, and Tanzania) are gearing themselves up for competitiveness as tourism investment destinations.

Political Instability/ Uncertainty

This factor was cited as being the second most significant that faced the hotel investors in Kenya today (accounting for 16.7% of the total responses). It is however important to note that while some of the respondents cited political instability, others mentioned political uncertainty. The main basis for citing political instability was noted as the 2007/2008 post-election violence.

The key challenge cited by the respondents was thus the political uncertainty with "the perpetual all year-round political campaigns/rallies being identified as responsible for the ever-rising political temperatures in the country" (CF2). This was thus noted as a sign of political uncertainty, a key concern of investors and in particular, the hotel investors due to the sensitivity and volatility of their market. This situation was categorically brought out by one of the interviewees who noted that:

> *...Kenya is not politically unstable, ours is political uncertainty. We are a country that is forever in political campaigns, despite there being laws regulating the campaigning period. This raises the tribal tensions and the government seems unable or unwilling to do anything about it. This is*

affecting investors' confidence; they take the wait-and-see approach... (AG2)

Figure 4.11 below provides a summary of the responses for this category on Political Instability/ Uncertainty

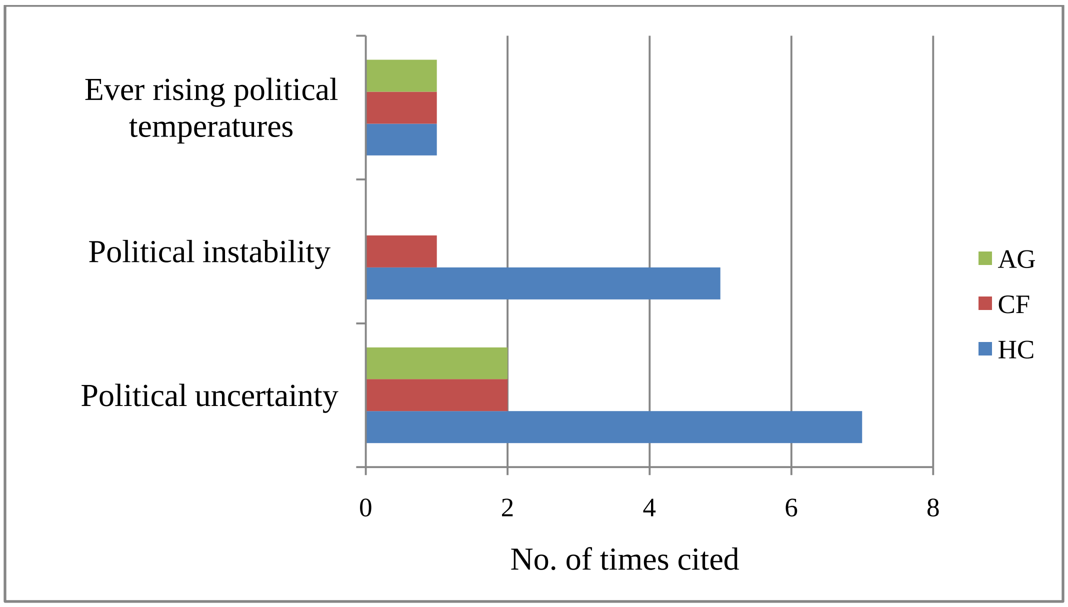


Figure 4.11: Category of Responses for Political Instability/ Uncertainty

Key:

HC-Hotel companies

CF- Investment consultancy firms

AG- Investment agencies

Of importance to note is that none of the major investment competitiveness reviewed in this study identified political uncertainty or instability as being a limiting factor to investment in Kenya. On the contrary, the country is noted as being relatively secure and politically stable (UNCTAD, 2005). This notwithstanding, the findings of this study supports the report by the Global Political Instability Index (Viewswire, 2011) that identifies Kenya as a high risk country politically.

Further, the results conform to those of a survey conducted by Synovate (2010) among executives operating in Kenya that found political instability to be the biggest threat to

Kenya's economic recovery. The study further noted that "the perceived political instability in the country is largely caused by the amount of noise in government [that is] the deep wrangles in the government*”* (Onyango, 2010).

The findings of this study serve to add voice to the disruptive nature of Kenya’s politics that has been noted in numerous quarters as highlighted in the aforementioned sources. This thus raises a need for the authorities to take every necessary measure to counter such an unfortunate political situation if the country is to attract investment in the otherwise volatile tourism sector. It is worth noting that more than any other economic activity, the success or failure of a tourist destination depends on being able to provide a safe and secure environment for visitors.

Further, it is important to note here that the country has sufficient legislative and institutional capacity to address this politically instigated business uncertainty and instability, regrettably though, the willpower to enforce such instruments of control seems to be wanting. It is therefore cautionary to point out that as long as the country continues to be perceived as being politically unstable, it’s competitiveness as a tourism investment destination, an industry that is hypersensitive to insecurity, remains limited. Governance based on the rule of law can be one of the primary strategies that can significantly lower political risk, creating a stability that would be conducive for investment.

Unfavourable regulatory environment

The unfavourable regulatory environment in Kenya was ranked as the third leading challenge facing investment in Kenya’s hotel sector, accounting for 15% of all the challenges cited by the respondents. Several factors were cited as being responsible for this challenge including the number of business licenses required, very strict labour laws, lack of openness among government agencies and departments in the provision of key information relating to investment opportunities, multiplicity of government departments dealing with investment issues, unplanned development/ lack of zoning, weak monetary policy especially as pertains to profit repatriation, and the poor governance and government bureaucracy (Figure 4.12)

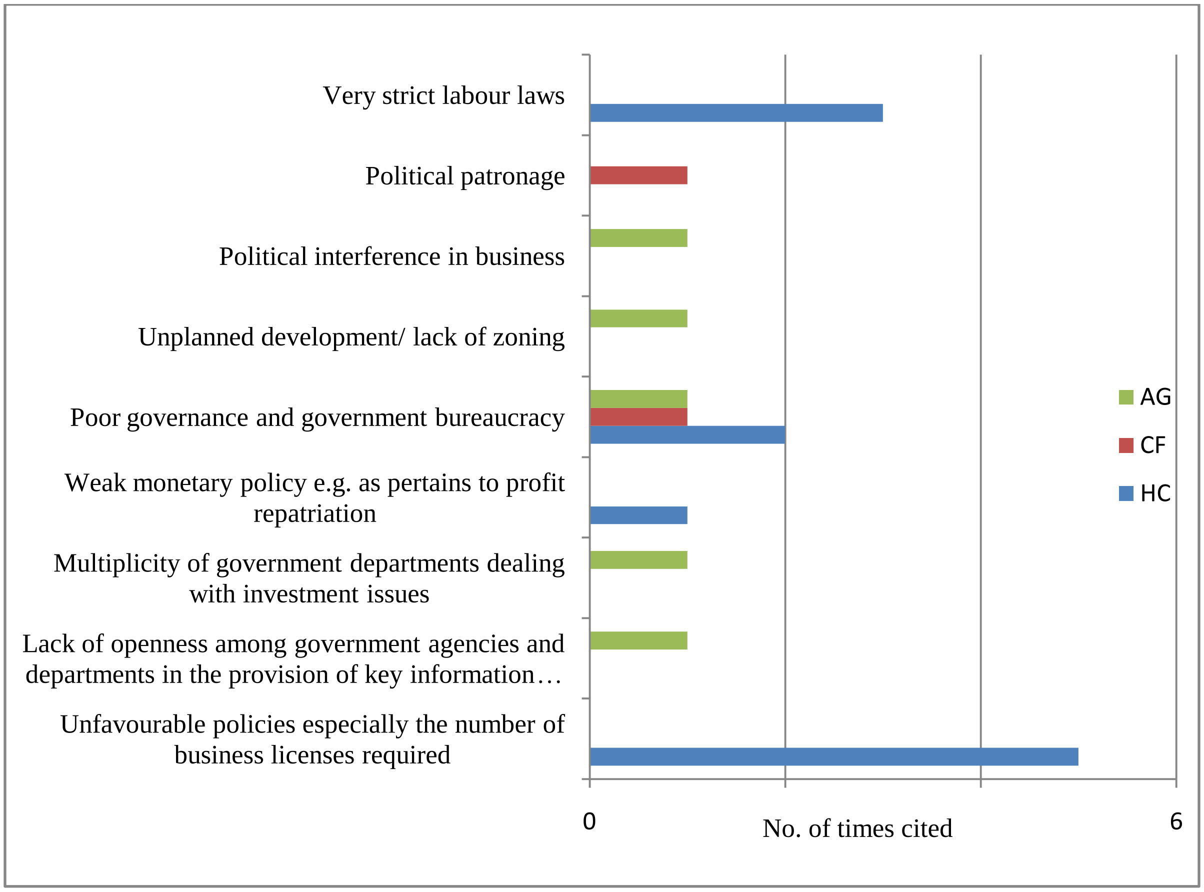


Figure 4.12: Category of responses for Unfavourable Regulatory Environment

Key:

HC-Hotel companies

CF- Investment consultancy firms

AG- Investment agencies

Commenting on the twin challenges of multiplicity of government departments dealing with investment issues and the unplanned development or the lack of zoning, one of the government investment promotion agencies (AG2) commented that:

> *…there are just too many offices dealing with micro-issues related to the investment in this country. We need a one-stop-shop...*

> [and on unplanned development] *"Look at Mombasa, for example, which world-class hotel- brand can set up a facility there...?*

The above observations on Kenya's investment regulatory framework are in tandem with those of other global investment reports. For instance, the *2011 Index of Economic Freedom* notes that Kenya's labour regulations are relatively rigid noting that the non-salary cost of employing a worker is relatively low, but dismissing an employee can be costly (Heritage Foundation, 2011). The report further notes that the country's financial system has remained vulnerable to government influence and suffers inadequate supervision.

The World Bank and IFC *Rankings on the ease of doing business* identifies the country's greatest weakness as lying in the ease of paying taxes, trading across borders, registering property, starting a business, and enforcing contracts (WB and IFC, 2011). On its part, the Travel & Tourism Competitiveness Index-2011 notes the much time and cost required for starting business in Kenya as a key limitation to the country's competitiveness as a tourist destination (W.E.F., 2011).

In the light of the above findings, it is important to note that one of the drivers of investment destination competitiveness is the favourable and business-friendly regulatory environment. It is important that the government takes necessary measures towards guaranteeing a favourable and business-friendly regulatory environment. This is the single-most important factor that has seen countries like Rwanda and Malaysia emerge as destinations of choice for FDI (IFC and World Bank, 2012).

Corruption

Across all the three respondent groups, corruption, particularly the "high levels of corruption" and the "official" corruption was cited as a key challenge facing hotel investors in Kenya today (10.2%). More specifically, the complexity and in-transparency in most of government services including licensing and taxation were cited as the root causes of the official corruption. As one of the executives from the hotel investment consultancy firms noted,

> *...there are a lot of under- the- table dealings. Bottlenecks will be deliberately placed on your way to coerce you to bribe for you to be served...* (CF3).

That corruption is an impediment to doing business in Kenya has also been identified by among others the Heritage Foundation' *2012 index of economic freedom* (Heritage Foundation, 2012), the International Chamber of Commerce (UNICC) (2005), the Transparency International's *Corruption Perception Index (CPI)* (Transparency International, 2011), and the World Economic Forum (W.E.F., 2010).

Regrettably though, such a situation persists despite of the existence of key institutions established purposefully to counter the acts of corruption in the country and backed by the relevant legislations. Such institutions include: Ethics and Anti-Corruption Commission, the Kenya Anti-Corruption Advisory Board, and the Anti-Corruption Police Unit. This scenario therefore calls for a deliberate and concerted effort in the fight against this vice so as to create an environment conducive to investment.

Infrastructure

The state of Kenya's infrastructure was also cited as being a challenge facing the hotel investors in Kenya (10.2% of all responses). The respondents identified the poorly maintained road network especially those roads leading to tourist attractions and the unreliable electricity as the infrastructural elements limiting tourism investment in Kenya. As was decried by one of the interviewees:

> *…look at the road between Narok and Masai Mara for example; a section of not more than 100 km now takes close to two hours. The government has just not given adequate priority to the infrastructure leading to the tourism hotspots and potential areas…*CF5

The other infrastructure cited was the electronic commerce that was noted as posing new competition horizon and increased expenses (figure 4.13).

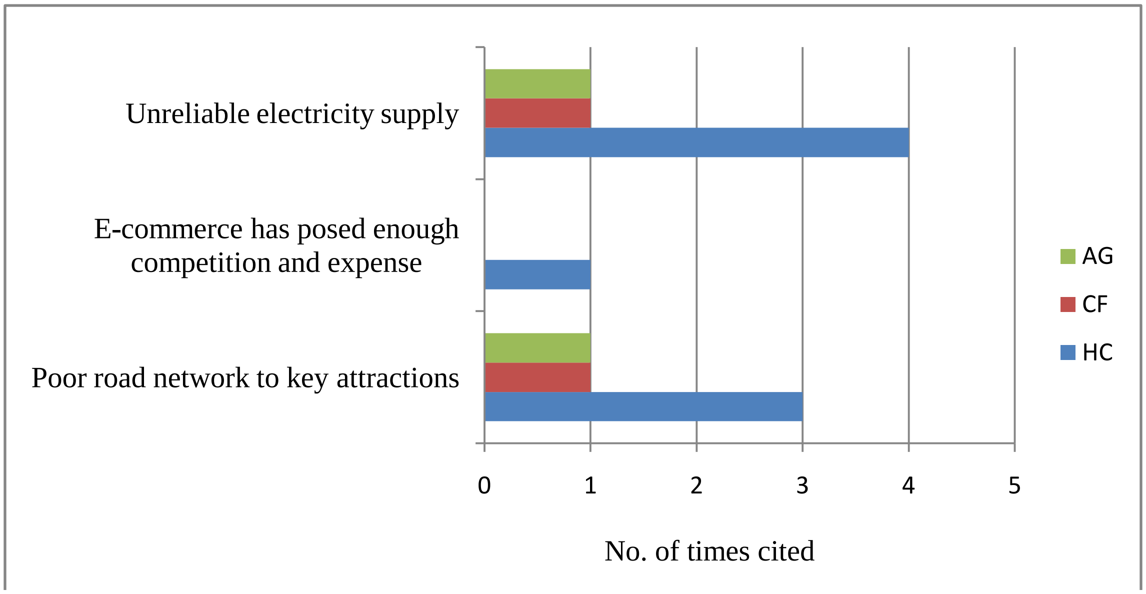


Figure 4.13: Category of responses for "Infrastructure"

Key:

HC-Hotel companies

CF- Investment consultancy firms

AG- Investment agencies

The same concerns about Kenya's infrastructure have been raised by other reports notably: the *Travel & Tourism Competitiveness Index* (W.E.F., 2011) the UNICC (2005), the *Global Competitiveness Index* 2010–2011 (W.E.F., 2010), the World Bank's *Ease of Doing Business in Kenya* report for 2012 (WB and IFC, 2011).

As noted by UNESCAP (2001), the success of any tourism destination is, to a great extent, determined by the quality of its infrastructure including the physical infrastructure (for example, airports and roads), information and communications technologies and tourism infrastructure (attractions and heritage sites among others). This positive influence of the availability of infrastructure on tourism investments has also been noted by other authors such as Brown, et al. (2003); Biswas (2002). Further a reliable and cost-effective supply of electricity is equally important to the hotel businesses. It is therefore important that the government takes deliberate efforts in addressing both the accessibility and energy needs of the tourism-potential areas. This would enhance the appeal of such areas to investors and clients alike.

Insecurity

Insecurity in Kenya was also cited as key constraint facing the hotel sector in the country. This confirmed the findings and assertions of other authors and reports on the effects of insecurity on Kenya's competitiveness as a tourism investment destination. For instance, despite the government's initiatives to address this situation, including establishing the tourist police service, several reports have indicated that insecurity has been a key factor discouraging private investment in the country and has remained one of the major hindrances to tourism in Kenya (UNCTAD, 2005; Ngugi et al., 2004; W.E.F., 2011a).

Several factors have been noted as being responsible for insecurity in Kenya. These include: the 2007/2008 post-election violence, domestic insecurity, the threat of armed insurgents from the neighbouring Somalia, and travel advisories in several Western countries (UN International Chamber of Commerce, 2005); crime and violence, the potential of terrorism, and the prevalence of organized crime (WEF, 2011a). As one of the responded noted:

> *…the government is trying, but it appears the threat of insecurity especially at the Coast is taking toll on the tourism industry. Combine the threat of terrorist attacks and now MRC [Mombasa Republican Council], and nobody actually feels safe to visit the coast...* CF2

Such sediments serve to illustrate the feelings in the industry on how insecurity continues to be a challenge to Kenya's tourism industry. However, the results showed a weak negative correlation between perception of insecurity and Investors' origin (whether local or foreign) (R value of - .187 (Table 4.11). Indicating that the perception of insecurity in Kenya existed regardless of the country-source of hotel investment.

Table 4.11: Correlations between Perception of Insecurity and Investors' Origin

		Investors' Origin	Insecurity
Investor origin	Pearson Correlation	1	-.187
	Sig. (2-tailed)	.	.382
	N	24	24
Insecurity	Pearson Correlation	-.187	1
	Sig. (2-tailed)	.382	.
	N	24	24

Source: Researcher, 2013

It is important to note that the level of perceived insecurity in a destination plays a significant role in influencing the success of tourism businesses and investors. For instance, the relative peace and the reliability in Tanzania and Madagascar has been noted as playing a great role in enhancing a conducive and safe environment for tourists and investors to visit as well as do business in the respective countries (UNECA, 2011). Further, the low incidences of petty crimes and violence in Ethiopia and Egypt makes the countries to be perceived as safe to visit and therefore not imposing significant costs on business especially.

Kenya as a country has no option but to take the necessary measures towards correcting the perceived insecurity in the country if the country is to attract investment in her tourism sector.

4.6.2 The Destination-Specific Factors that Have Led to the Success of Hotel Investments in Kenya

As a means towards ascertaining the perceived strengths of Kenya as an investment destination for the hotel sector, the study also sought to explore on what factors outside the firm could be credited with its success in Kenya. Table 4.12 presents the factors identified by the hotel companies. For a complete list of all factors cited, see appendix 10.

Out of the 76 responses received from the hotel respondents, the leading factors that were cited as responsible for the success of the hotel operations in Kenya ranked as follows: 1st = Government support (24.0%); 2nd= Relative political stability (13.3%); 3rd= Availability of qualified labour force (9.3%); and 4th= Infrastructure(including transportation and communication) (6.7%). These factors accounted for 53.3% of the total responses.

Table 4.12: Factors for the Success of Hotel Investment in Kenya

	Success factor	Times cited	Percent
1.	Government support (policies and legislation, incentives, government commitment to the growth of the tourism industry and Aggressive destination marketing by the KTB)	18	24.0
2.	Relative political stability	10	13.3
3.	Availability of qualified labour force (availability of skilled labour force, Well trained manpower, Availability of competent and professional labour force,)	7	9.3
4.	Infrastructure(Transportation and communication)	5	6.7
	Sub Total	**40**	**53.2**
	Others (15 factors)	36	47.8
	Total	**76**	100.0

The 76 factors were further categorised into five main thematic areas and ranked accordingly (See appendix 11). From the categorization, Political environment/Governance related factors ranked as the highest factors responsible for the success of hotel investments in Kenya (38.6 %). The other categories included: Destination Resource endowment (20%), Marketing-Related factors (18.8%), Economic factors (15.7) and, Infrastructure (10%) (Figure 4.14).

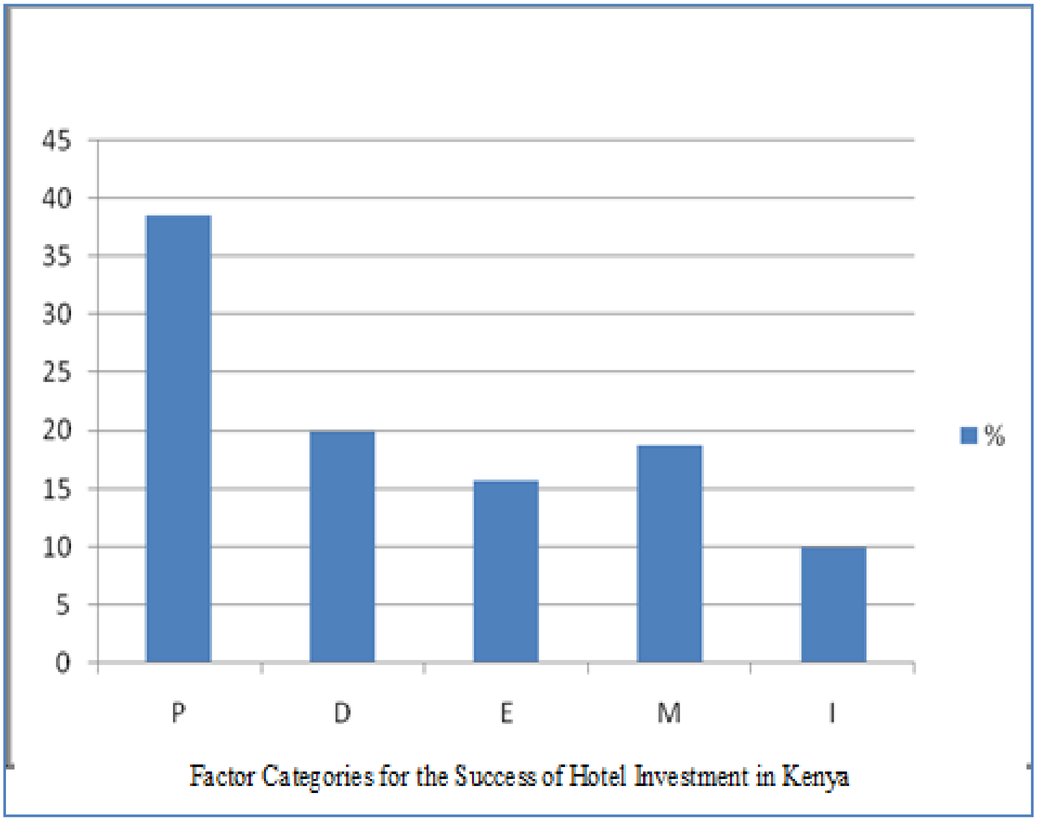


Figure 4.14: Categorization of Factors for the Success of Hotel Investment in Kenya

Key

P: Political environment/Governance related factors
D: Destination Resource endowment
E: Economic factors
M: Marketing-Related factors
I: Infrastructure

The above factor categories were further reduced using factor analysis. Out of the five factor categories identified, only three factors were extracted from the success factors explaining 73% of the total variance (table 4.13).

Table 4.13: Factor Analysis for Factors Responsible for the Success of Hotel Investment in Kenya

Component	Initial Eigen values			Extraction Sums of Squared Loadings		
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %
1	1.38	27.70	27.70	1.38	27.70	27.70
2	1.18	23.65	51.35	1.18	23.65	51.35
3	1.06	21.25	72.60	1.06	21.25	72.60
4	0.75	15.06	87.65			
5	0.62	12.35	100.00			

Using the Principal Component Analysis as the extraction method, these factors were identified as: market related factors at 81%, relative political Stability at 90% and Infrastructure at 65% (Table 4.14).

Table 4.14: Component Matrix of Factor Analysis for Factors Responsible for the Success of Hotel Investment in Kenya

Factor category	Component		
	1	2	3
Relative political stability	.024	-.209	**.896**
Destination Resource endowment	-.623	.568	.144
Marketing-related factors	**.813**	-.175	.065
Economic factors	.479	.605	-.250
Infrastructure	.326	**.648**	.414

The section below discusses the identified factors for the success of hotel investment in Kenya.

Government Support for the Tourism Industry

The government support for the tourism industry was found to be the single most important factor responsible for the success of the hotel investments in the country. The main type of support that majority of the respondents cited was the aggressive destination marketing being carried out by the Kenya Tourist Board (50% of all responses provided for the government support).

Other forms of support cited included: policies and legislations (22%), investment incentives (17%), and government commitment to the growth of the industry (11%) (Figure 4.15). Of great importance to note was the fact that the hotel investors to Kenya view the marketing of the industry and the favourable policies and legislations as being more important than the government incentives for the sector.

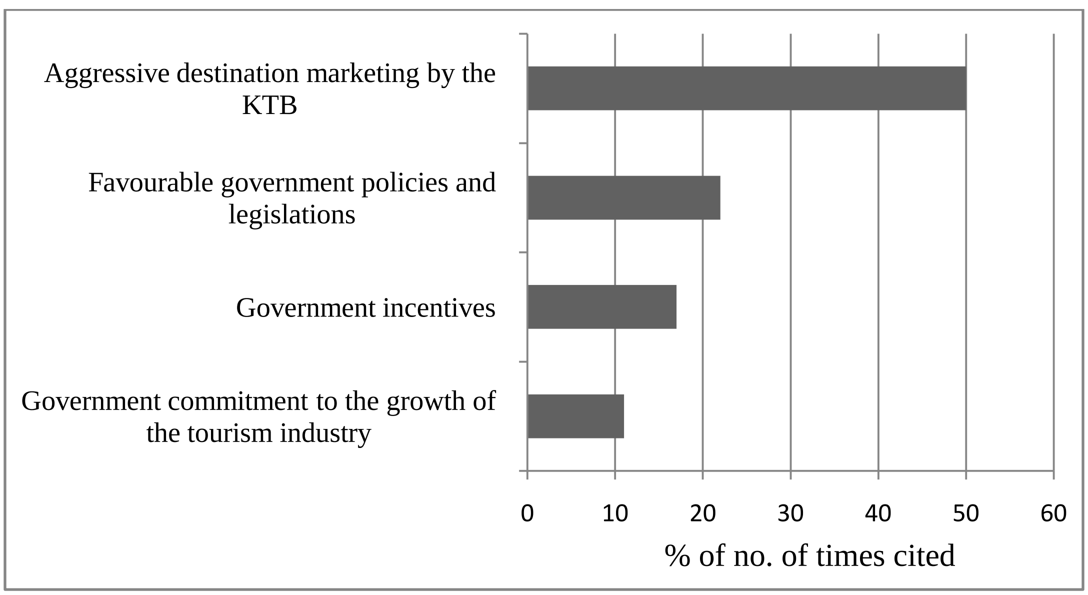


Figure 4.15: Category of responses for "Government Industry Support"

Kenya's support to her tourism industry through marketing, prioritization of the sector in her fiscal and policy planning has seen the country gain a competitive standing regionally and globally. This has been noted by among others the 2011 *Travel & Tourism*

Competitiveness report by the World Economic Forum (W.E.F., 2011b) that identified the country's prioritization of Kenya's tourism industry as being evident from the high government spending on the sector and effective destination marketing campaigns. This factor was identified as Kenya's leading competitiveness strength with a rank of 18 out of 139 countries globally. It is important therefore that the government crowns this support by addressing the regulatory environment challenges noted in section 4.6 above.

Relative Political Stability Prevailing in the Country

The respondents identified Kenya's relative political stability as one of the most important factors responsible for the success of the tourism industry in the country. However it was mainly the local chain hotels that regarded this factor as a reason for their success (50%) (Table 4.15). Out of the total of 6 hotel firms with foreign ownership, both chain and independent hotels, only one firm identified the country as being politically stable.

Table 4.15: Relationship between Ownership type and Relative Political Stability in Kenya

Ownership Type	Relative political stability		
	yes	no	Total
Locally Owned Chain	8	4	**12**
Foreign Owned Chain	1	3	**4**
Foreign Owned Independent Hotel	0	2	**2**
Foreign/Local Joint Venture	0	2	**2**
Local Independent Hotel	1	3	**4**
Total	**10**	**14**	**24**

Source: Researcher, 2013

These findings generally agree with other reports notably the UNCTAD (2005a) and the International Chamber of Commerce (UNICC, 2005) that Kenya is relatively secure and politically stable, and further supported by the observation of the KenInvest interviewee that Kenya is not politically unstable, but politically uncertain.

Of significance to note is that while the UNICC (2005) report found out that the perception of political stability in Kenya was high among foreign investors than the domestic ones, the current study has found the opposite. In the current study, the country was perceived as being relatively politically stable (and thus a factor for success) more by the local hotel investors than the foreign ones. This shift in perception, especially for the foreign investors may probably be attributed to the 2008/2007 post-election violence that was witnessed in the country, indicating that foreign investors have become more cautious about the country's political stability with only the local investors appearing more risk averse, probably due to lack of an alternative.

Further, it was found out that the longer the length of operation in the country, the lesser was the perception of Kenya being relatively stable politically (Table 4.16).

Table 4.16: Relationship between Relative political stability and the Years Company has operated in Kenya

Years in Kenya	**Relative Political Stability**		
	yes	no	**Total**
below 10	3	2	**5**
10-20	2	1	**3**
21-30	2	3	**5**
31-40	2	6	**8**
above 40	1	2	**3**
Total	**10**	**14**	**24**

Source: Researcher, 2013

Out of the 8 hotel companies that had operated in the country for 20 years and below, 62.5% of them considered the country's political stability as being a factor for their success. On the contrary, about 69 % of the 16 hotel companies that had operated in the country for 21 years and above did not believe that the country was politically stable. This may be explained by the country's changing times in terms of political stability that the companies have witnessed over time.

In the light of such clear difference in the perception of political instability, it can thus be rightly argued that in the country's efforts to attract foreign investment into her hotel subsector, deliberate efforts should also be undertaken to promote and develop the domestic investors and particularly, in providing them with the necessary incentives and environment that would enable them to compete effectively in the global tourism market, seeing that at current, they form the majority of the investors and have demonstrated resilience to political uncertainties in the country.

Availability of Qualified Labour Force

The availability of qualified manpower for the sector was identified as one of the key factors responsible for the success of the hotel investments in Kenya. The specific responses from the hotel investors are presented in the figure 4.16 below

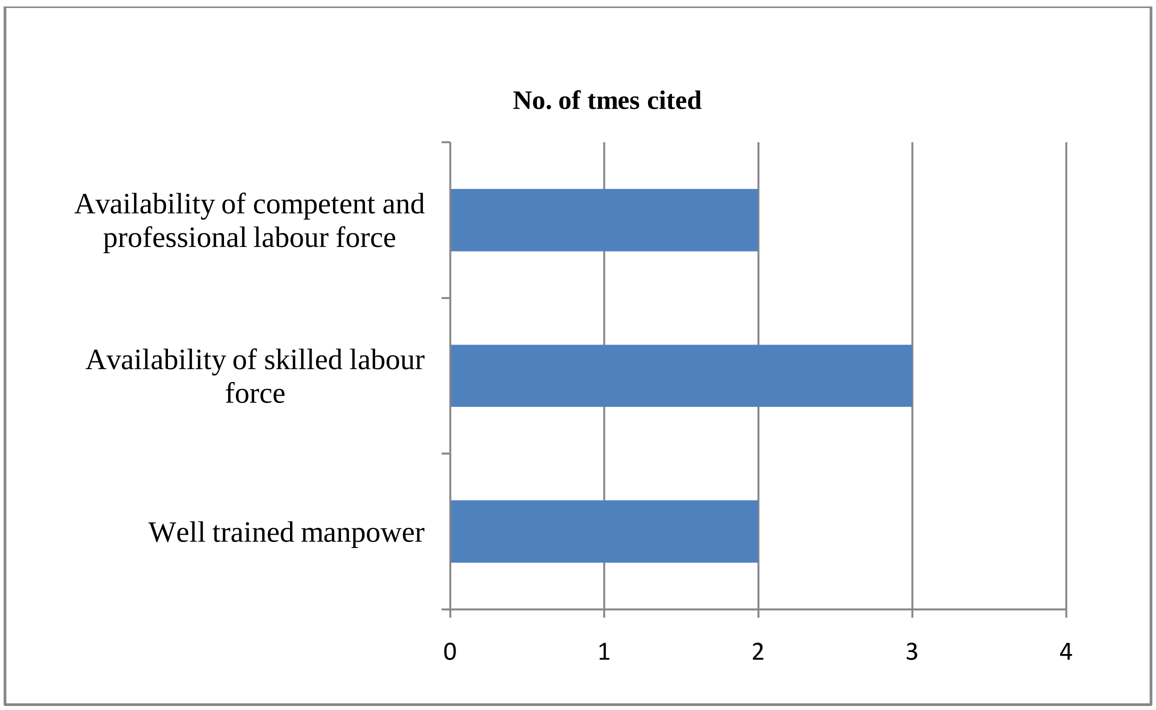


Figure 4.16: Category of responses for "Availability of qualified labour force in the country"

A correlation of the perception of availability of qualified labour force in the country with the type of hotel ownership (Table 4.17) showed that only the jointly owned hotels (100%) and the local chains (50%) considered this factor as a contributor to their success.

Table 4.17: Relationship between "Availability of qualified labour force in the country" and the Hotel Ownership Type.

Ownership Type	Availability of qualified labour force		
	yes	no	Total
Locally Owned Chain	4	8	**12**
Foreign Owned Chain	1	3	**4**
Foreign Owned Independent Hotel	-	4	**4**
Foreign/Local Joint Venture	2	-	**2**
Local Independent Hotel	-	2	**2**
Total	**7**	**17**	**24**

Of interest to note was that none of the independently owned hotel companies considered the country as having qualified manpower for the hotel sector. This may be explained by the difference in operations between the chain and independent hotels where chain hotels may develop their manpower through rotating them between the different units in the group, an advantage that independent hotels may not enjoy.

The quality of Kenya's human resource has been acknowledged in other reports. For instance, the International Chamber of Commerce (UNICC, 2005), the Global Competitiveness Index 2010–2011 (W.E.F, 2011a) and the Investment Policy Review: Kenya (UNCTAD, 2005a). However, as pertains to the tourism industry, the findings of this study demonstrate clear differences in the perception of the quality of Kenya's human resource in matching the needs of the industry. This is in agreement with the *Travel and Tourism Competitiveness Index 2011* report (WEF, 2011b) that shows Kenya's labour force as not being competitive, being ranked position 123 out of 139 countries.

This thus raises a key question as to whether the competitiveness of Kenya's labour force in the other sectors of the economy is not equally reflected in the travel and tourism sector. Further, it seems the country's labour force is regarded as competitive by the local standards and not so by global standards, noting that majority of those who cited the factor were local chains and that only two out the six foreign-owned hotel chains cited labour as a factor for their success.

Infrastructure

The recent government efforts in the development of infrastructure in the country coupled with the advancements in communication were noted as being some of the key factors for the success of the hotel investments in the country. However, only the locally owned chains majorly (about 42%) considered the quality of the Kenya's infrastructure as a source of business success (Table 4.18).

Table 4.18: Relationship between "Quality of Infrastructure" and the Hotel Ownership Type.

Ownership Type	Infrastructure		
	yes	no	Total
Locally Owned Chain	5	7	**12**
Foreign Owned Chain		4	**4**
Foreign Owned Independent Hotel	-	4	**4**
Foreign/Local Joint Venture		2	**2**
Local Independent Hotel	1	1	**2**
Total	**6**	**18**	**24**

It can thus be concluded that while efforts have been undertaken by the government to boost infrastructure in the country, it seems that there still remains much to be done as far as the tourism sector is concerned. For instance, there is need to address the unreliable electricity supply and poor road network particularly to the tourism hotspots.

4.7 Future Investment Plans of Hotels Operating in Kenya

Two key components of future investment plans of the hotel companies operating in Kenya were explored, thus the future business growth plans, and the preferred investment regions in the country.

4.7.1 Future Business Growth Plans of Hotels Operating in Kenya

Majority of the respondents (43%) indicated that they looked forward to establishing new hotel units within the country (Figure 4.17). The other major future investment plans were indicated as "concentrating on the current business" (25%) and "expanding operations into the East African region" (21%).

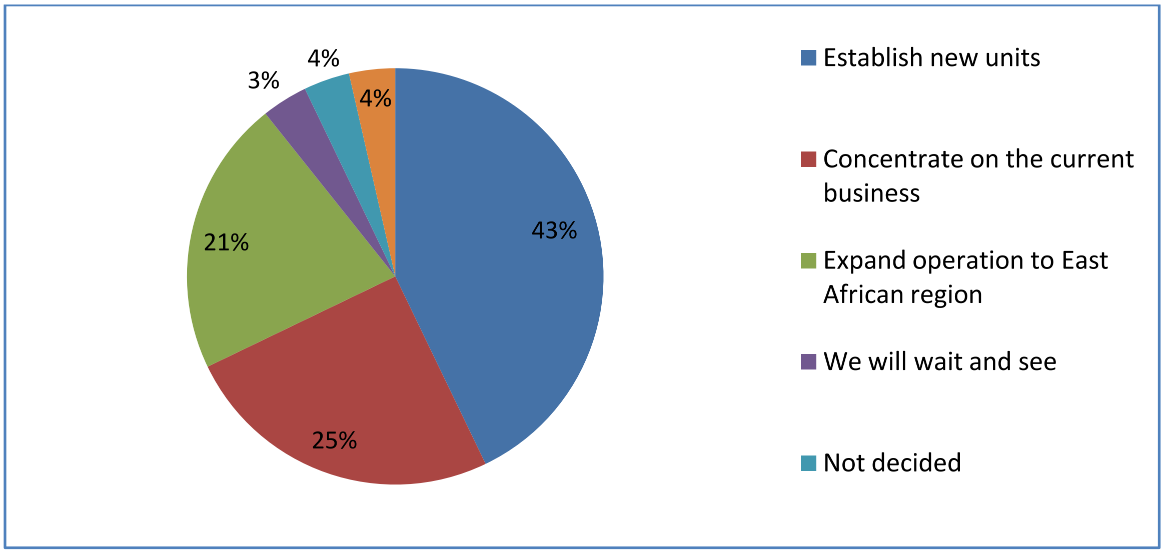


Figure 4.17: Future business growth plans for hotel companies operating in Kenya

These results were further correlated with the type of ownership and the length of time companies had operated in Kenya.

On the basis of hotel company ownership (Table 4.19), more hotel chains than independents cited establishing new units as their preferred future investment plan (35.7% and 3.6% of the total citations respectively) with the local hotel chains forming 25% and the foreign chains 10.7% of the total citations.

Further, positive correlations, though weak, were noted between chain hotels and the desire to establish new units (R=0.19 and 0.02 for foreign and local chains respectively) with all the other ownership types having negative correlations with this option. This implies that chain hotels were willing to expand their businesses in the country given as opposed to the independent and joint ventures. This finding is of interest coming against the backdrop of the identified constraints of doing business in the country, thus indicating the investors' high optimism and confidence in the country's ability to surmount its investment challenges.

Table 4.19: Relationship between future business growth plans and the hotel ownership in Kenya

FUTURE INVESTMENT PLANS	OWNERSHIP																
	Foreign chain n=4			Local chain n=12			Local /foreign n=2			Local indep. n=4			Foreign indep. n=2			TOTAL N=24	
	x	%	R	x	%	R	x	%	R	x	%	R	x	%	R	x	%
Establish new units	3	10.7	0.19	7	25.0	0.02	1	3.6	(0.08)	1	3.6	(0.12)	0	0	(0.08)	12	42.9
Concentrate on the current business	0	0.0	(0.36)	4	14.3	0.24	2	7.1	0.43	1	3.6	(0.08)	0	0	(0.21)	7	25.0
Expand operation to East African region	1	3.6	(0.06)	4	14.3	0.24	0	0.0	(0.17)	1	3.6	0.00	0	0	(0.17)	6	21.4

Key:

X= frequency

%=percentage

R= Pearson's Correlation value

The intention to establish new units in the country was near-evenly spread across all hotel companies irrespective of their number of years of operation in the country with an exception of those that had operated in the country for 10-20 years (Table 4.20).

Of interest to note was the finding that 67% of all the hotel companies that intended to establish new units in Kenya had operated within the country for more 20 years. Thus indicating a connection between operational experience within a destination and a firm's investment decisions, a fact supported by Dunning and Kundu (1995).

The reason for this connection arises from the fact that as a firm becomes more experienced in a location, it adds to its ownership-specific advantages especially those associated with learning experiences, a deepening of the value chain, customer loyalty, investment in training and trademarks (Dunning and Kundu, 1995).

Table 4.20: Relationship between business growth plans and number of years Hotel Company has operated in Kenya

FUTURE INVESTMENT PLANS	YEARS OF OPERATION IN KENYA										
	Below 10		11-20		21-30		31-40		above 40		Tot.
	x	%	x	%	x	%	x	%	x	%	
Establish new units	3	25.0	1	8.3	3	25	3	25.0	2	16.7	12
Concentrate on the current business	1	14.3	1	14.3	1	14.3	3	42.9	1	14.3	7
Expand operation to East African region	1	16.7	1	16.7	2	33.3	2	33.3	-		6

Key: X= No. of companies

Of those indicating that they wished to concentrate on the current business, local chains still accounted for the majority of the cited responses (14.3%) followed by the joint local and foreign owned companies (7.1%). This may be construed to imply a wait and see approach by withholding any expansion plans probably owing to the prevailing investment environment weaknesses highlighted in this study. Again, this situation was similar among all companies regardless of the length of operation in the country.

Similarly, the local chain hotel companies indicated a higher willingness to expand operations into East African region as compared to all the other ownership arrangements (14.3%). This indicates high optimism on the economic potential of the East African Community integration particularly by the Kenyan-owned firms. This may further be attributed to the reason advanced by the International Chamber of Commerce (UNICC, 2005) that, owing to the country's relatively poor competitiveness, Kenyans are increasingly taking advantage of the better investment environment in the neighbouring countries particularly Uganda and Tanzania, making Kenya the top source of FDI flows into Uganda, and the third biggest source of foreign investments in the United Republic of Tanzania.

Overall, from the findings of this study, local hotel chains showed great enthusiasm in growing their businesses beyond the current capacity by either putting up new hotel units locally, or expanding beyond the country's boundaries. This trend is encouraging noting the level of economic linkages and the contribution to the country's GDP associated with the growth of local companies. It is therefore important that necessary measures be undertaken to support the firms in both their diversification and competitiveness.

In addition, it is important to note that majority of the firms surveyed for this study had operated in the country for quite a long period of time (section 4.2.1) and that virtually all of them intended to further grow their businesses in the country and within the region. This therefore provides a worthwhile pointer to the overall and long term perception of Kenya's appeal as an investment destination for the tourism industry. It is therefore advisable that relevant initiatives be put in place to address the short term constraints that limit the country's competitiveness.

4.7.2 Preferred Kenyan regions for hotel investment

On the preferred regions for investment, there was a unanimous agreement that the Coast and Nairobi continued to be the most popular hotel investment destinations (Figure 4.18).

The Kenyan Coastal region has historically been a popular tourist destination in the country and would naturally be expected to draw a relatively high investor interest. As observed by the interviewees, the region is still considered the tourism capital in Kenya (Interviews) and is ideal for facilities targeting the leisure market because of the beaches.

Nairobi's status as the international business hub for the East and Central African region was cited as the main reasons for its preference by hotel investors. The region was thus regarded as ideal for facilities targeting the business market (interviews). Further, the respondents noted that the demand for hotel accommodation in the region currently exceeds supply.

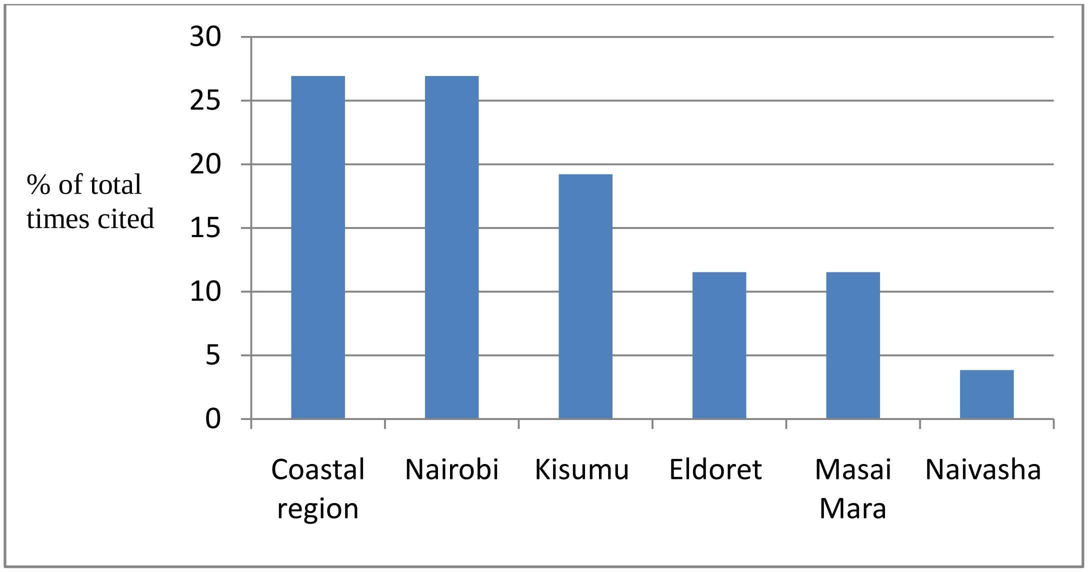


Figure 4.18: Prefered Regions for Hotel Investment in Kenya

Kisumu was mentioned as being more preferred by hotel investors particularly the local investors and those from the East African Community. Two main factors were mentioned as contributing to Kisumu's preference: (1) The Kisumu International Airport and (2) the marketing efforts by the government targeting the Western circuit that have elicited interest among investors and tourists alike.

For Eldoret, the region was noted as being mostly preferred by the local investors in the budget hotel facilities. It was also cited as being suitable for investors wishing to take advantage of the need to diversify the tourism product in Kenya, particularly for the sports tourism product.

The Masai Mara's preference was attributed to investors' desire to take advantage of the global reputation of the Wildebeest migration spectacle, the 8^{th} Wonder of the Modern World. However, the study found out that the challenge of carrying capacity was limiting investments into the park.

For Naivasha, the region's proximity to Nairobi was mentioned as the only reasons for its preference. Table 4.21 provides a summary of the reasons for the preference of these regions.

Table 4.21: Kenya's Preferred Hotel Investment Regions and Reasons for Preference

Region	Times Cited (n=7)	Reasons for Preference
Coastal region	7	– The region is still considered the tourism capital in Kenya – Region is ideal for facilities targeting the leisure market because of the beaches
Nairobi	7	– Region is ideal for facilities targeting the business market – The demand for hotel accommodation currently exceeds supply – The status as the international business hub for the region.
Kisumu	5	– The Kisumu international airport has the potential to open the region to tourism – The marketing efforts by the government targeting the Western circuit have elicited interest among investors and tourists alike. – Area is being preferred mostly by the local and EAC investors
Eldoret	3	– The region is suitable for investors wishing to take advantage of the need to diversify the tourism product in Kenya particularly for the sports tourism product – Area is being preferred mostly for budget hotel facilities by the local investors
Masai Mara	3	– To take advantage of the global reputation of the Wildebeest migration spectacle at the Masai Mara but the challenge of carrying capacity is limiting investments.
Naivasha	1	– Proximity to Nairobi

Source: Interviews

It is important to note that the two most preferred investment destinations, thus, Kenyan Coast and Nairobi have also been cited as the most popular tourist destinations for both domestic and international tourist market (Omondi et al, 2000; Mutinda and Mayaka, 2012). This therefore confirms the notion that the localization decisions for tourism flows depend on the extent of tourism demand for a specific destination, as well as its specific tourism-related assets (UNCTAD, 2005a and 2008; Dunning and McQueen, 1982).

While the continued investor interest in the traditional tourism hotspots in the country (thus, Mombasa, Nairobi and Masai Mara) is of great significance to the industry policy makers, it is equally important to note that the preference of other regions in the country (especially Kisumu) was linked to the focus of government initiatives towards such regions. This therefore points to the key role that the government has to play in opening up the many regions in the country that possess tourism potential to investments and by extension, visitors.

The availability of investment incentives biased towards the rather neglected regions (as identified in the country's draft *National Tourism Policy*) may not single-handedly open up such regions to tourism investment. As UNCTAD (2005a) posits, incentives can never be a substitute for a good investment climate, and as the case of the preference for Kisumu city testifies, government initiatives such as tourism marketing and the provision of the relevant infrastructure holds the key to opening up the country's marginalised but tourism potential areas.

CHAPTER 5: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Summary of the Main Findings

As set out in chapter one, the main purpose of this study was to critically examine the hotel investors' perspectives on Kenya's investment climate and the resulting investment decisions. This aimed at providing an investor-perspective to the assessment of the country's tourism investment environment aimed at informing the government's tourism development initiatives as the country endeavours to position the industry as a leading economic sector.

The following is thus a summary of the key findings of this study.

i. In terms of the factors determining choice of an investment destination by the hotel companies operating in Kenya revealed five main categories emerged as critical: political and regulatory factors, economic factors, marketing-related factors, destination resource endowment and, infrastructure. However, some key differences among the different hotel investors' categories were noted.

ii. On what information sources were relied upon by the hotel investors in Kenya while making investment decisions, this study found out that the most significant source of information was feasibility studies. Government reports on the performance of the tourism industry was ranked as the second most important source of investment information, while the media reports from both the local and international media was ranked as the third most significant source of information for investment decision.

iii. An investigation on the preferred equity mode by hotel investors in Kenya, the study found out that the most preferred investment mode by hotel investors in Kenya was the full-ownership mode. The other two preferred modes were the joint venture and the management contract.

iv. An examination of the perspectives held by hotel investors pertaining to the competitiveness of Kenya's tourism investment environment revealed six key weaknesses that characterised the country's tourism investment environment. These ranked as: high cost of doing business, political instability or uncertainty, unfavourable business-related policies, poor and unreliable infrastructure, corruption and, insecurity.

On the other hand, the factors that were found as being the key strengths of the country's tourism investment environment included the Government support to the tourism industry including marketing and investor incentives, the relative political stability in the country, availability of qualified labour force, and infrastructure (particularly transportation and communication infrastructure) in order of importance.

v. In terms of the future investment plans of the hotel investors operating in Kenya, the study found out that majority of the hotel companies looked forward to establishing new hotel units within the country. The other major future investment plans were indicated as concentrating on the current business, and expanding operations into the East African region. The intention to establish new units in the country was near-evenly spread across all hotel companies irrespective of their number of years of operation in the country with an exception of those that had operated in the country for 10-20 years. However some differences were noted in terms of ownership with more hotel chains than independents citing the establishment of new units as their preferred future investment plan.

In addition, of those indicating that they wished to concentrate on the current business, majority were the local hotel chains followed by the joint local and foreign owned companies. Similarly, the local chains indicated a higher willingness to expand operations into East African region as compared to all the other ownership arrangements.

As pertains to the preferred regions for hotel investment within the country, findings from both the government agencies and the hotel consultancy firms revealed a unanimous agreement that the Coast and Nairobi continued to be the most popular hotel investment destinations within the country. Other regions cited included Kisumu, Masai Mara, Eldoret, and Naivasha (in the order of preference).

5.2 Conclusions

From the findings of this study, a number of conclusions can be drawn

Kenya's investment climate, dogged by among others, high cost of doing business, political instability/uncertainty, unfavourable business-related policies, poor and unreliable infrastructure, corruption, and insecurity, is not competitive for the hotel sector especially in attracting the leading global hotel brands (crucial to the global image of the destination and in the development of the local hotel companies towards attaining global standards through knowledge transfer and healthy competition). However, the situation appears to be different within the capital city, Nairobi, and the Coastal region which have continued to attract interest from hotel investors, both local and foreign.

Further, though the study found out that the country was regarded as having strengths in key areas necessary for the success of the hotel investments such as Government support (through marketing and investment incentives), availability of qualified manpower, and infrastructure, such strengths have not elicited equal enthusiasm from both the local and foreign investors. This is evident from the findings of this study that Kenya, once described as the region's magnet for FDI (UNCTAD, 2005a), is currently only attracting and sustaining mainly the local investors into her hotel sector. Further, these local hotel companies appear to only favour investing in the traditional tourism regions in the country-Mombasa, Nairobi and Masai Mara.

More so, local investors seem to be more risk averse compared to the foreign investors as demonstrated by their perception of the country's political environment as being relatively stable and their willingness to expand their investments in the country not only in the traditional tourist regions, but also within the emerging regions such as Kisumu and Eldoret.

Finally, the hotel companies operating in Kenya still prefer the full subsidiary mode of investmnent, a mode though optimizing on investment control, is limiting in terms of investment capital requirements and the opportunities to draw into the global experiences, markets, and resources possible through other non-equity modes of investment particularly franchising and management contracting.

5.3 Recommendations

This study provides the following recommendations

i. Overall, the government through the Ministry of Tourism should champion efforts geared towards attracting and retaining hotel investment, both domestic and foreign, through conducting an appraisal and a re-orientation of the country's investment promotion initiatives and business environment in the light of their efficacy to attract and retain investment.

ii. Specifically there is need on the part of the government and other tourism industry stakeholders to address the high cost of doing business, political instability/uncertainty, unfavourable business-related policies and regulations and, the poor and unreliable infrastructure especially the roads leading to tourism-rich areas and electricity, corruption, insecurity, and human resources challenge especially at the managerial level. A starting point would be to borrow a leaf from her relatively successful neighbours, particularly Rwanda, Tanzania and Ethiopia that have made great milestones in attracting investment.

iii. There is need for a deliberate action to be taken by the government and other tourism development stakeholders to open up all tourism-rich regions in the country for both tourism and related investments and hence visitation by providing the necessary infrastructure to improve access and other services relevant in a tourist destination.

iv. In addition to the fully-owned subsidiary mode of investment, the hotel firms operating in Kenya should seek to adapt the non-equity modes of investment in their business growth strategies. This is beacuse evidence exists that such modes posess great benefits including exchange of global experiences, ease of access to global markets and, ease of access to both capital and human resources.

v. Noting the desire expressed by the hotel companies operating in Kenya to expand their operations into the other countries within the East African region, it is imperative that the government and other relevant tourism stakeholders undertake the necessary initiatives to ensure the full operationalization of the EAC as a single tourist destination including addressing the issue of a single tourist visa and tourism labour mobility within the region.

vi. The concept of tourism destination competitiveness be redefined to reflect the different viewpoints, that is, demand versus supply perspectives (although as noted above, some points of convergence do exist between the two perspectives). This would be important if destinations are to use the competitiveness indices as tools to advise tourism policy and practice.

vii. Finally, the willingness of the local hotel companies to invest in the emerging regions in the country such as Kisumu and Eldoret points to the need for a deliberate action by the government and tourism development stakeholders to open up other tourism-rich regions in the country for investment and visitation. The new Constitutional order in the country towards County Governments may soon prove the panacea to this need. These County governments should thus be encouraged and empowered to take delibeate initiatives aimed at attracting investments within their areas of jusrisdiction.

5.3.1 Recommendation for further research

From the results of this study, the following three areas are recommended as deserving further research:

i. There is need to investigate the reasons behind the low presence of global hotel brands in Kenya’s hotel subsector despite the country’s longstanding status as a leading tourist destination in the region.

ii. This study has provided a supply-side perspective of Kenya’s competitiveness as a tourist destination. It is important that a purely demand-side perspective be explored as a means to compare the two different viewpoints.

iii. Finally, this study focused on the perspectives of the accommodation sector (hotels) on Kenya’s competitiveness as a tourism investment destination. For purposes of both the generation of these findings and policy formulation, there is need to replicate this study on the other key sectors of the tourism industry particularly, the restaurants, the entertainment sector, transport, and tourism services.

5.4 Contribution of the Current Study

This study makes key comtributions to the body of knowledge, theory and practice in the twin areas of tourism investments and destination competitiveness.

i. This study makes significant contributions to policy and practice in the positioning of a tourism destination as a competitive investment destination, with specific reference to Kenya using the perspectives of the hotel subsector. The study has achieved this by presenting empirical evidence on the competitiveness indicators of a tourism investment destination; a review of Kenya’s tourism investment climate and its implications on key hotel investment decisions and; finally, by enumerating some of the best practices in addressing the noted impediments to the country’s competitiveness as a tourism investment destination in line with her Vision 2030.

ii. As pertains to the body of knowledge, the study has served to clearly demonstrate the existence of a correlation between the perceived competitiveness of a tourism destination and key investment decisions including the choice of location, mode of investment and business growth strategies. Though to a great extent this relationship alligns with that of other economic sectors, this study has shown that the tourism industry demonstrates some uniqueness.

iii. On its contribution to theory, this study has provided a critique to the theory of destination competitiveness and has provided a presents a supply-side perspective of destination competitiveness that takes into consideration key influences on the perception of destination competitiveness and the resultant destination-specific investment decisions of tourism firms.

As illustrated from the summary of the reviewed literature on destination competitiveness (Table 2.2), the existing models experience a number of key limitations including presenting a generic perspective of destination competitiveness without paying due regard to the supply-demand dichotomy whose perspectives on the competitiveness of a destination, though having some areas of convergence, may differ significantly. Further, the models assume only the influence of the existing situation and fail to capture especially the futuristic focus of the supply-side whereby decisions on the competitiveness of an investment destination are not only based on the current scenario, but also on the futuristic view.

To this end therefore, this study presents a supply-side perspective of destination competitiveness that takes into consideration key influences on the perception of destination competitiveness and the resultant destination-specific investment decisions of tourism firms (Figure 5.1).

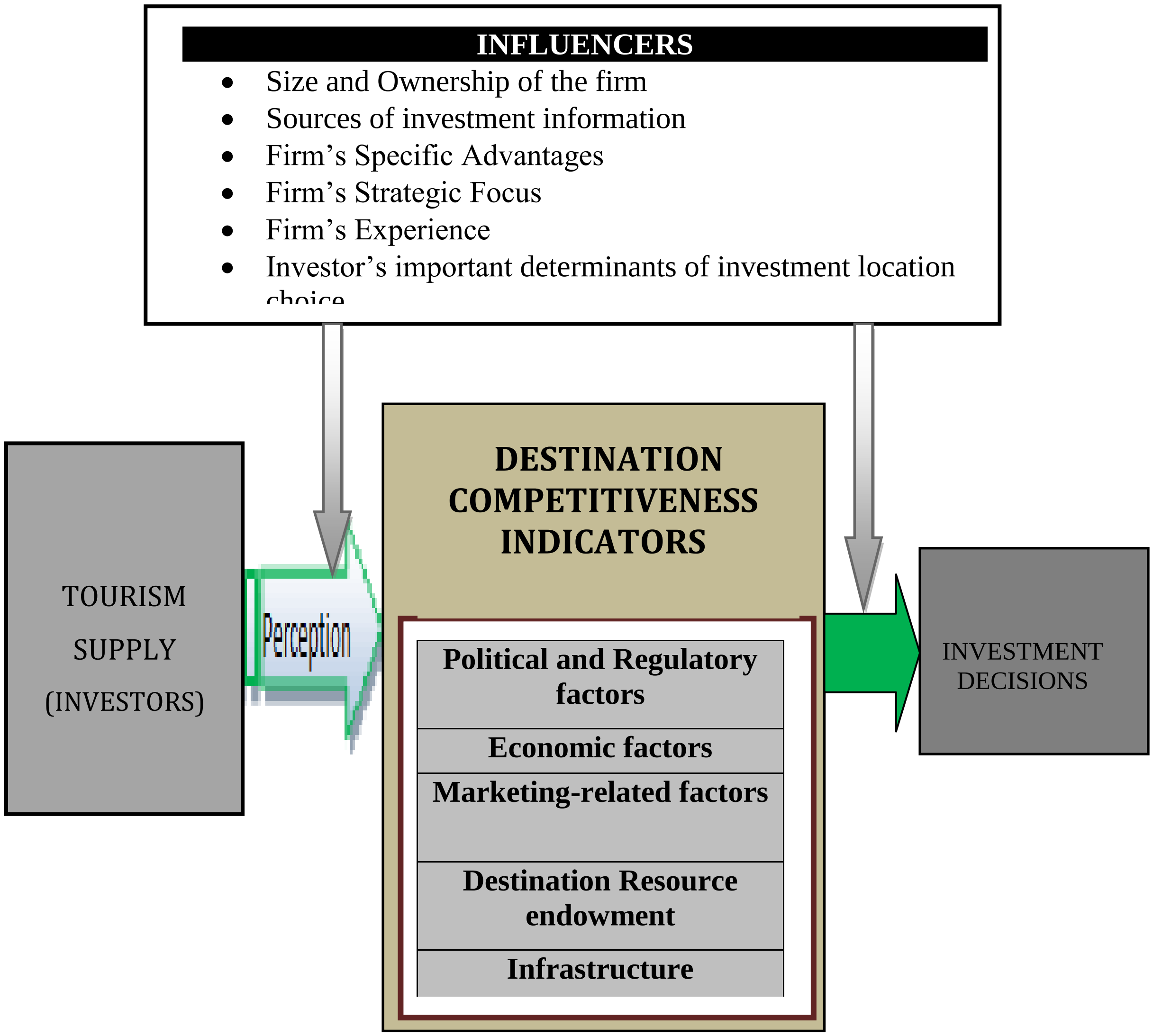


Figure 5.1: A Conceptual Framework of Supply-Side Perspectives of Tourism Destination Competitiveness (Source: researcher, 2013)

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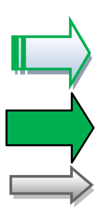

Investors’ perspectives of the destination’s tourism investment climate

Outcome of the perspective on the tourism investment destination competitiveness

Influence of intervening variables on investors’ perspectives of the tourism investment destination competitiveness and the investment decisions

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7.0 APPENDICES

Appendix 7.1: Ranking of Destination Competitiveness Attributes

Attribute Level	Attribute Label	Importance Ranking	Determinance Ranking
Main Factors	Core Resources and Attractors	1	1
	Destination Management	2	4
	Qualifying and Amplifying Determinants	3	5
	Destination Policy, Planning and Development	4	2
	Supporting Factors and Resources	5	3
Sub-Factors	Physiography and Climate	1	1
	Mix of Activities	2	4
	Culture and History	3	2
	Tourism Superstructure	4	3
	Safety/ Security	5	13
	Cost/ Value	6	14
	Accessibility	7	9
	Special Events	8	6
	Awareness/ Image	9	5
	Location	10	11
	Infrastructure	11	8
	Hospitality	12	20
	Market Ties	13	12
	Entertainment	14	7
	Quality of Service/ Experience	15	19
	Political Will	16	15
	Positioning/ Branding	17	10
	Enterprise	18	17
	Facilitating Resources	19	18
	Carrying Capacity	20	24
	Marketing	21	16
	Interdependencies	22	30
	Development	23	26
	Information/ Research	24	29
	Resource Stewardship	25	23
	Vision	26	21
	Monitoring and Evaluation	27	27
	Audit	28	32
	Organisation	29	22
	Philosophy/ Values	30	28
	Competitive/ Collaborative Analysis	31	25
	Human Resource Development	32	34
	Visitor Management	33	36
	Finance and Venture Capital	34	33
	System Definition	35	31
	Crisis Management	36	35

Source: Ritchie and Crouch (2007)

Appendix 7. 2: 3-5 Star Hotels in Nairobi and the Coast

HOTEL CLASS	NAIROBI	COAST	
		NORTH COAST	**SOUTH COAST**
3*	1. Crown Plaza Hotel Nairobi 2. Jacaranda Hotel 3. Nairobi Safari Club 4. Pride Inn Hotel & Conferencing Nairobi 5. Red Court Hotel 6. Safari Park Hotel 7. Sarova Panafric 8. Sentrim 680 Hotel 9. Southern Sun Mayfair Nairobi 10. The Strand Hotel 11. West Breeze Hotel	1. Castle Royal Hotel 2. Mombasa Beach Hotel 3. Nyali Beach Hotel 4. Reef Hotel 5. Silver Star Beach Hotel 6. Voyager Beach Resort 7. Kilifi Baharini Resort 8. Law fords Hotel& Beach Club 9. Turtle Bay Beach Hotel 10. Woburn Residence	11. Alliance Africana Sea Lodge 12. Alliance Jadini Beach Hotel 13. Baobab Beach Resort 14. Diani Reef Grand Hotel 15. Diani Sea Lodge 16. Hotel Diani Palm Resort 17. Jacaranda Indian Ocean Beach Club 18. Jadini Beach Hotel 19. Leisure Lodge Beach Golf Resort 20. Papillon Lagoon Reef 21. Safari Beach Hotel 22. Safari Beach Hotel 23. Shaanti Holistic Health Retreat 24. Southern Palms Beach Hotel 25. The Cove Resort
4*	1. Sankara Nairobi 2. Hilton Nairobi 3. LAICO Regency Hotel 4. Nomad Palace Hotel Nairobi 5. Ole - Sereni Hotel, Nairobi 6. Palacina Residence & Suites 7. Sarova Stanley 8. Windsor Golf Hotel and Country Club	1. Bamburi Beach Hotel 2. Mombasa Serena Hotel 3. Nyali Beach Hotel 4. SENTIDO Neptune Village Resort 5. Travelers Beach Hotel 6. Severine Sea Lodge	7. L.T.I Kaskazi Beach Hotel 8. Leisure Lodge Hotel 9. Southern Palms Beach Resort 10. The Sands At Chale Island 11. The Sands at Nomad 12. Leisure Lodge Beach Hotels 13. Leopard Beach Hotel 14. TravelersTiwi Beach Hotel
5*	1. Fairmont The Norfolk 2. InterContinental Nairobi 3. Nairobi Serena Hotel 4. The Panari Hotel 5. Tribe Hotel	1. The Funzi Keys 2. The white sands Hotel 3. Hemming Ways 4. Sun N' Sand Beach Resort	**5.** AfroChicDiani

Source: Adapted from Kenya Hotel keepers and Caterers

Appendix 7.3: Hotel Groups/Chains Operating Three- to- Five –Star Hotel Properties in Kenya

1. Aberdare Safari Hotels
2. Alliance Hotels & Resorts
3. AndBeyond Africa (Previously *CC Africa*)
4. Express Kenya
5. Fairmont Hotels
6. Heritage Hotels Ltd
7. Hotel Sirikwa Ltd
8. Intercontinental Hotel Group
9. Jacaranda Hotels
10. Kenya Safari Lodges & Hotels
11. Leisure Lodges Ltd
12. Leopard Beach Hotel, Ukunda
13. LTI Kaskazi Beach, Ukunda
14. Merica Group of Hotels
15. Paradise Group
16. The Red Cross Society of Kenya
17. Rex Resorts
18. Sanctuary Lodges
19. Sarova Hotels
20. Sentrim Hotels
21. Serena Hotels
22. Severin
23. Silver Springs Hotel
24. Simba Lodges
25. Sopa Lodges
26. Sucham Investments
27. The Hilton *Chain* Of Hotels
28. Travellers Group of Hotels
29. Turtle Bay Hotels
30. Wilderness lodges Ltd

Adapted from*: www.***worldtourismdirectory.com/rbk/kenya/;Kenya gazette, 2003; 2004**

Appendix 7.4: Interview Schedule for Investment Promotion Organizations in Kenya

(***Greet the respondent and introduce yourself. Explain the purpose of the study and thank him/her for sparing time for the interview. Then request if you can proceed with the interview)***

1. Give a brief background of organization
2. What is the scope of services/information that investors into this country seek from your organization?
3. How has been the trend of investors seeking to invest in Kenya's tourism industry in terms of growth? (***please provide any reports where applicable***)
4. In terms of countries of origin, where do investors to the Kenya's hotel's sector mainly come from in order of frequency?
5. From your experience with hotel investors to Kenya, which investment modes are most preferred and why?
6. From your experience, why are the above methods preferred for the Kenyan market?
7. In the order of importance, what factors are crucial to investors seeking to invest in Kenya's tourism sector?
8. In terms of regional distribution of investment, which regions in the country do most hotel investors prefer and why?
9. What are the current tourism industry-specific investment promotion strategies that your organization has been using? (***please provide any reports where applicable***)

NB: Once through, thank the respondent of their time and responses.

Appendix 7.5: Interview Schedule for Hotel Investment Consultancy Firms in Kenya

Greet the respondent and introduce yourself. Explain the purpose of the study and thank him/her for sparing time for the interview. Then request if you can proceed with the interview)

1. How long has your organization been involved in carrying out feasibility studies for the hotel sector?
2. To date, how many hotel feasibility studies have you conducted for tourist class hotels?
3. What is the scope of services/information that investors into this country seek from your organization?
4. When advising on hotel investment, what sources of information do you use?
5. In terms of countries of origin, where do investors to the Kenya's hotel's sector mainly come from (*in order of frequency)?*
6. From your experience with hotel investors to Kenya, which investment modes are most preferred and why?
7. In the *order of importance,* what factors are crucial to investors seeking to invest in Kenya's tourism sector?
8. In terms of regional distribution of investment, which regions in the country do most hotel investors prefer and why?

NB: Once through, thank the respondent of their time and responses.

Appendix 7. 6: Interview Protocol

While booking an interview appointment with the interviewee, introduce the study to them and request to provide them with the interview guiding questions.

On arrival for the interview, greet the interviewee and introduce yourself and the study you are carrying out (as the box below):
During the interviewee, ask factual information before opinion and use probing questions as needed.

INTRODUCTION REMARKS

I want to thank you for taking the time to meet with me today. My name is ______________________________ and I would like to talk to you about your ***Perspective of Kenya's Competitiveness as a Tourism Investment Destination*.** This study is part of a doctorate degree being undertaken at Kenyatta University.

The interview should take less than thirty minutes. During the interview session, I will be taking since I want to capture as much information as possible from our conversation.

All responses will be kept confidential. This means that your interview responses will only be shared with research team members and we will ensure that any information we include in our report does not identify you as the respondent. You are at liberty to skip any question(s) or withdraw from the survey at any time.

Might you be having any questions about what I have just explained to you?

Are you willing to participate in this interview? (If the response is YES, continue with the interview; if NO, thank the interviewee and excuse yourself).

CLOSING REMARKS

Is there anything more you would like to add?
I'll be analyzing the information you and others gave me and I will be happy to send you a copy to review at that time, if you are interested.

Thank you for your time.

Appendix 7. 7: Questionnaires for Hotel Investors

INTRODUCTION

Dear Sir/madam.

My name is Ray' Mutinda, a Tourism doctorate (PhD) student in Kenyatta University and a member of the teaching staff in the department of Tourism Management of the same university.

As part of my Ph.D. studies, I am doing a research on ***Hotel Investors' Perspectives of Kenya's Competitiveness as a Tourism Investment Destination*.**

The purpose of this study is to critically examine the tourism investors' perspectives on Kenya's investment climate and the resulting investment decisions. The findings of this study will be important in informing any tourism investment promotion initiatives both by the Kenyan government and any other stakeholders, as the country endeavours to position tourism as a leading economic sector.

The survey is anonymous and thus does not require you to disclose your name or that of your organization. You are at liberty to skip any question(s) or withdraw from the survey at any time without any type of penalty. I however assure you that your opinion is very important to this study and therefore utmost confidentiality pertaining to any information that you may provide in this survey will be observed.

For any queries and further clarification, you may kindly contact:

The dean
Graduate School
Kenyatta University
Email: dean-graduate@ku.ac.ke
Tel: +254-20-810901

Thank you in advance for your time and cooperation.

Ray' Mutinda

A) About yourself

1. What is your position in your organization?
2. How long have you served in your current position?
3. What's your nationality?

B) About your firm

4. What type of ownership is your company?
5. How long has this company operated in Kenya?
6. In which country is the headquarters of your company?
7. How many hotel units does your company have in Kenya under the following classes:

	Hotel Category	**Number of units**	**Ownership of Hotel premises**	
			Fully owned (*number of units)*	**Lease** *(number of units)*
1	5-star			
2	4-star			
3	3-star			

C) Choice of investment destination

8. In the order of importance, which are the factors that you consider when deciding on the country for investment?
9. What are the main sources of information that your company uses when making investment decisions?

D) Business Growth strategies

10. There are various methods that hotel firms use to expand within a country. Which ones does your company prefer?
11. Why choose that specific method of business growth?

E) Perspectives on Kenya's investment climate

12. What are the main challenges you are facing in doing business in Kenya?
13. What factors can you credit for your company success in Kenya?

F) Future Investment Plans

14. What are your company's growth plans within Kenya in the next 10 years?
15. Which regions in Kenya would you consider as viable for hotel investments and why?

............END.............

Appendix 7.8: Factors Determining Choice of Hotel Investment Destination

Rank	Investment Factors	Times Cited			
		HC (n=24)	CF (n=5)	AG(n=2)	Total (N=31)
1	**Political and Regulatory factors**	**38(34.5%)**	**7(21.9%)**	**8(57.1%)**	**53(34.0%)**
	The stability of the Political environment	17	2	1	20
	Government policies and regulations	8	1		9
	Ease of business registration, less bureaucracy	6		1	7
	Security level in the destination	4	1	1	6
	Availability of Government incentives/investor support	2	1	1	4
	Level of official transparency	1	1		2
	Amicable regulatory environment especially on the repatriation of profits			2	2
	Sound legal framework with open and transparent legal recourse		1		1
	How investor-friendly are the labour laws			1	1
	Investment protection			1	1
2	**Economic factors**	**26(23.6%)**	**8(25%)**	**4(28.6%)**	**38(24.4%)**
	Cost of doing business	7	2	1	10
	How competitive is the tourism sector to guarantee ROI	7	1	1	9
	Economic conditions in the country	7	1		8
	Availability of essential supplies locally	5			5
	Cost of land for development	3		1	4
	Ease of accessing credit	2			2
	Level of technological advancement	2			2
	The stability of the business environment		2		2
	Where the chances of business success are high		1		1
	Currency stability in the country		1		1
	Country’s economic stability			1	1
3	**Marketing-related factors**	**18(16.4%)**	**10(31.2%)**	**0**	**28(18%)**

Rank	Investment Factors	Times Cited			
		HC (n=24)	CF (n=5)	AG(n=2)	Total (N=31)
	Availability of market for the tourism industry	7	2		9
	Level of competition within the destination	6	3		9
	How competitive is the destination in attracting tourists	4	1		5
	The outlook of the market trends in terms of source, growth and spending power		3		3
	The tourism Industry growth potential	1			1
	Reputation of the country as a tourism destination (attracts tourists).		1		1
4	**Destination Resource endowment**	**14(12.7%)**	**5 (15.6%)**	**2(14.3%)**	**21(13.5%)**
	Availability of qualified workforce	12	3	1	16
	Land: Availability of suitable land for development and expansion/ Land banks set aside for tourism investment/ Space because of the type of product being developed	2	1	1	4
	Attractiveness of the natural environment including the climate, wildlife and other attractions		1		1
5	**Infrastructure**	**14 (12.7%)**	**2 (6.3%)**	**0**	**16(10.3%)**
	Infrastructure including efficient public transport and communication systems	14	2		16
	Total times cited	**110**	**32**	**14**	**156**

Key:

HC: Hotel Companies;

CF: Consultancy Firms;

AG: Investment Agencies

Appendix 7.9: Challenges Facing Hotel Businesses in Kenya

Rank	Factor	Times cited				
		HC (N=24)	**CF (N=5)**	**AG (N=2)**	**Total**	**%**
1.	High cost of doing business	24	5	1	30	25.4
2.	Political uncertainty/Instability	12	4	2	18	15.3
3.	Unfavourable regulatory environment	11	2	3	16	13.6
4.	Infrastructure (particularly the road network and electricity)	7	2	2	11	9.3
5.	Corruption	6	3	2	11	9.3
6.	Insecurity	6	2	2	10	8.5
7.	High level of local competition	6			6	5.1
8.	Competition from other regional destinations	2			2	1.7
9.	The all-inclusive concept/ Power of international tour operators on hotel profitability	1	1		2	1.7
10.	Existence of substitute products in the market	1			1	0.8
11.	Shrinking global market	1			1	0.8
12.	Business Seasonality	1			1	0.8
13.	Effects of Climate change e.g. drought	1			1	0.8
14.	Inadequate funding especially for the local investors			1	1	0.8
15.	Economic instability		1		1	0.8
16.	Locals have no purchasing power (no domestic market to cushion the industry against global shocks)		1		1	0.8
17.	Fatigued product		1		1	0.8
18.	Depletion of the natural environment which has been a key attraction to this country		1		1	0.8
19.	Lack of collaboration and coordination between private sector and government.			1	1	0.8
20.	Distance from source market(Kenya is a long-haul destination)		1		1	0.8
21.	External factors e.g. travel advisories from source markets			1	1	0.8
	Total	**79**	**24**	**15**	**118**	**100**

Appendix 7.10: Factors for the Success of Hotel Investment in Kenya

	Success factor	Times cited	%
1.	Government support (policies and legislation, incentives, government commitment to the growth of the tourism industry and Aggressive destination marketing by the KTB)	18	24.0
2.	Relative political stability	10	13.3
3.	Availability of qualified labour force (availability of skilled labour force, Well trained manpower, Availability of competent and professional labour force,)	7	9.3
4.	Infrastructure(Transportation and communication)	5	6.7
5.	Growth of the international tourism demand for Kenya	4	5.3
6.	Conducive business environment	4	5.3
7.	Hospitable Kenyan culture (Friendship of the Kenyan people , The natural skills of the Kenyans in the hospitality trade especially in customer relations)	4	5.3
8.	Goodwill by the market (Loyalty to the hotel and country)	4	5.3
9.	Destination attractiveness /Natural attractiveness of destination/ Tourism product: Combined safari and beach experience/ The natural beauty of the country	3	4.0
10.	Economic growth and stability/Vibrant economy/Economic stability)	3	4.0
11.	Growth of the tourism industry in Kenya	3	4.0
12.	Availability of domestic market growth	2	2.7
13.	Technology Advances within the destination	2	2.7
14.	Kenya’s reputation as a tourist destination	2	2.7
15.	New tourism demand segments especially MICE /Growth of the MICE market in Kenya	1	1.3
16.	Foreign exchange variation	1	1.3
17.	Favourable climatic conditions	1	1.3
18.	Healthy competition	1	1.3
19.	support from Federation f Kenya Employers (FKE), KTB, Hotel and restaurants Authority and Kenya Association of Hotel Keepers and Caterers	1	1.3
	Total	**76**	100.0

Appendix 7.11: Categorization of Factors for the Success of Hotel Investment in Kenya

Factor Category	Frequency	Percent
The Political environment/Governance related factor		
Government support (policies and legislation, incentives, government commitment to the growth of the tourism industry and Aggressive destination marketing by the KTB)	18	24.0
Relative political stability	10	13.3
Support from FKE, KTB, Hotel and Restaurants Authority and KAHC)	1	1.3
Sub Total	**29**	**38.6**
Destination Resource endowment		
Availability of skilled labour force	7	9.3
Kenyan culture of hospitality	4	5.7
Natural attractiveness of destination	3	4.0
Favourable climatic conditions	1	1.4
Sub Total	**15**	**20.0**
Marketing-Related factors		
Growth of the international tourism demand for Kenya	4	5.3
Goodwill by the market (Loyalty to the hotel and country)	4	5.3
Growth of the domestic market	2	2.7
Destination Reputation as traditionally a tourist destination	2	2.7
New tourism demand segments especially MICE	1	1.4
very healthy competition	1	1.4
Sub Total	**14**	**18.8**
Economic factors		
Growth of the tourism industry in Kenya	3	4
Conducive business environment	4	5.3
Vibrant Kenyan economy	3	4
Foreign exchange variation	1	1.4
Sub total	11	**15.7**
Infrastructure		
Infrastructure(Transportation and communication)	5	6.7
Technology Advances within the destination	2	2.7
Sub total	**7**	**10.0**

Appendix 7.12: Study Work Schedule

Duration	**Activity**	**Outcome**
1month	Preparation and Presentation of concept paper	Concept paper Prepared and successfully presented at departmental level
8 months	Development of research proposal	research proposal ready for submission
2 month	Submission and defense of proposal	Successful defense of the research proposal
1month	Proposal corrections	Proposal corrections effected
3 months	Preparation and testing of research instruments	Research instruments prepared and successfully tested
1 month	Recruitment and Training of research assistants	Research assistants recruited and trained for data collection
6 months	Data collection	Both primary and secondary data successfully collected
2 months	Data analysis	Data successfully analysed
6 months	Writing and submission of first thesis draft	Thesis report ready for first draft submission
3 months	Corrections and Submission of the final thesis	Thesis successfully defended at both the departmental level and the University Postgraduate Board level
1 month	Final thesis correction and submision to graduate school	Corrections undertaken and passed
34 months		