PERCEIVED VALUE OF INVESTMENT PROMOTION INCENTIVES, ORGANIZATIONAL CHARACTERISTICS, MACRO-MARKETING ENVIRONMENT AND PERFORMANCE OF FIRMS IN EXPORT PROCESSING ZONES IN KENYA

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A THESIS SUBMITTED IN FULFILMENT OF THE REQUIREMENTS FOR AWARD OF THE DEGREE OF DOCTOR OF PHILOSOPHY IN BUSINESS ADMINISTRATION, SCHOOL OF BUSINESS,
UNIVERSITY OF NAIROBI

2015

DECLARATION

This thesis is my original work and has not been presented for a degree award in any other university or institution.

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DEDICATION

I dedicate this work to the legendary Odera Akang'o who inculcated in my Gem people the power of letters through academic pursuit.

and

To my late uncle Richard Aruwa Ofinyo

ACKNOWLEDGEMENT

I am grateful to the stewardship of Prof. Francis N. Kibera, Dr. Raymond M. Musyoka and Dr. James M. Njihia through supervision and intellectual contribution that went into this work. The fatherly advice of Prof. Kibera went beyond call of duty. I thank Dr. Musyoka and Dr. Njihia for their guidance, advice and support. As my supervisors, I got such unwavering support that made my work enjoyable with a whole sense of teamwork. I appreciate Professor Martin Ogutu, Coordinator, Doctoral Studies, Prof. Justus Munyoki, Prof. Z.B. Awino, and Prof. G. P. Pokharial for continued guidance and encouragement during my PhD studies. I thank my sponsors Prof. Matthew Buyu (USIU) and Prof. Paul Acholla (Kenyatta University).

I sincerely appreciate and thank the management of Export Processing Zones Authority and particularly Benjamin Chesang, Margaret Waithaka, Fanuel Kidenda, Meshack Kimeu, Paul Dondo, Francis Rotich, Francis Itegi, Jonathan Chifallu and Truphine Sumbeiywo for the great support in providing secondary data and making it possible for my research assistants to collect primary data from the investors. Your steadfast support made this study a success. I also thank the investors who took part in the survey especially for accepting to be part of the study.

I appreciate my colleagues at the Commission for the Implementation of the Constitution for their support. I am indebted to Chairman Charles Nyachae, Dr. Elizabeth Muli, Com. Kamotho Waiganjo and Dr. Kibaaya Laibuta for continuous encouragement. I thank Professor Wanyande for his guidance and advice. I further thank Laurraine Onyango, Phillip Abishai and Vashti Nadayat for the information technology support. My secretary Nina Kabayo, and Daniel Ngetich thank you for continuous encouragement.

I thank my research assistants Denis Tuiyot, Truphine Sumbeiywo, Francis Itegi and John Winjah for doing a great job. Your immense contribution made this study a success. George Okello thank you for the invaluable tutorials in statistics that made this work possible.

Finally, Dr. B.M. Nyonje (Min Daughty), Atieno, Ramogi and Jema-Alando, thank you my clan for the invaluable support and encouragement.

ABSTRACT

The broad objective of this study was to establish the influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on performance of firms in the export processing zones (EPZ) in Kenya. The study had six specific objectives to determine both direct and indirect relationships among variables. A conceptual model was developed, and from it, six hypotheses were formulated. The study was cross-sectional survey where all operating EPZ firms in Kenya formed the population. Secondary data were obtained from various reports and bulletins. Primary data were collected from the study population using structured self-administered questionnaire. The unit of measurement of the study was the firm. Reliability test was undertaken using dimension reduction with Cronbach's alpha of 0.60 as the cut-off point. Pre-testing (pilot) exercise was carried out to determine content validity, and necessary corrections and adjustments made to the instrument. Analysis of data was done using various measures and tests through descriptive and inferential statistics. Simple and multiple linear regression, and correlation analyses were used to test the six hypotheses. The relationships between and the influence of the variables were determined, inferences made and conclusions drawn. Results indicated that perceived value of investment promotion incentives had significant influence on firm performance. The tests also established that there was strong positive relationship between organizational characteristics and firm performance. Equally strong positive relationship was observed between macro-marketing environment and firm performance. Macro-marketing environment was found to have significant moderating influence between perceived value of investment promotion incentives and firm performance. It was further established that organizational characteristics had significant moderating influence on the relationship between perceived value of investment promotion incentives and firm performance. Finally, the study revealed that perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment had significant joint influence on firm performance. However, the contribution of macro-marketing environment to the joint effect was negligible. The study has contributed to theory development, policy and marketing practice to the extent that it made recommendations and offered suggestions on areas of future research. The study had some limitations mainly caused by the scope of work. Only top management was targeted leaving out other employees. Sampling across the organizational hierarchy could ensure a larger and more inclusive sample. Furthermore, as a study variable, organizational characteristics was constructed with limited aspects of culture, structure and design namely age, size and ownership. However, the limitation did not have an adverse effect on the results. Future studies could address these limitations by adaptation to the sampling and instrument designs, which may include longitudinal studies.

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ABBREVIATIONS AND ACRONYMS

AGOA	**:**	African Growth and Opportunity Act
COMESA:		Common Market for Eastern and Southern Africa
Cv	**:**	Coefficient of Variation
EAC	**:**	East African Community
EPZ	**:**	Export Processing Zone
EPZA	**:**	Export Processing Zones Authority
FIAS	**:**	Foreign Investment Advisory Service
FDI	**:**	Foreign Direct Investment
FTZ	**:**	Free Trade Zone
GDP	**:**	Gross Domestic Product
IT	**:**	Information Technology
LaRRI	**:**	Labour Resource and Research Institute
MNC	**:**	Multi-National Corporation
NHIF	**:**	National Hospital Insurance Fund
NSSF	**:**	National Social Security Fund
OLI	**:**	Ownership, Location and Internalization
PAYE	**:**	Pay As You Earn
SEZ	**:**	Special Economic Zone
SPSS	**:**	Statistical Package for Social Sciences

SRI : Social Responsible Investment

UNCTAD : United Nations Conference on Trade and Development

VAT : Value Added Tax

CHAPTER ONE: INTRODUCTION

1.1 Background

International market entry strategies are competition driven where comparative and location advantages are critical in defining market share and entry decisions. With globalization, many firms attempt to expand their market share in the new and potentially more profitable foreign markets (Hollensen, 2007). Bartels (1968) postulates that marketing technology or thought has been elaborately developed, and the concepts and generalizations thereof have been held to have universality transcending national boundaries and cultural differences. Investors venture into foreign markets with motives of resource, efficiency and market seeking.

Export processing zones (EPZs) programme is one of the entry strategies foreign companies may use to establish export manufacturing offshore with the aim of being near the market at competitive costs. The programme is a country marketing policy instrument used by host countries to stimulate exports, manufacturing, foreign exchange earnings, employment and economic growth especially in early stages of industrialization and economic development (Ge, 1999; Wells & Wint, 2000). It is a sub-optimal policy option to spur export growth at the early stages of economic development of a country. Country marketing is often undertaken by trade promotion agencies to position host country as an attractive investment location (Wells & Wint, 2000). These agencies are therefore, established to regulate and promote programmes such as the EPZs on behalf of the host country. In the case of Kenya, the Export Processing Zones Authority (EPZA) regulate and promote the EPZs as one of the country marketing programmes to position Kenya as an attractive trade and investment destination. Performance of EPZ firms may however be affected by several variables in the operating environment. This study considered the influence of investment promotion incentives, macro-marketing environment and the organizational characteristics on the performance of EPZs firms in Kenya.

The relevant theories for the study were Heckscher-Ohlin's Theory of International Trade, which is a development from comparative cost theory that recognizes interdependence of marketing to the societal environment. Macro-marketing Theory

discusses marketing from profit/non-profit, positive/normative and macro-/ micro-perspectives and their effect on societies based on objectives to be achieved and lays foundation for international marketing theory. Theory of Location Advantage advances factors that influence investment movements. Cluster Theory develops spatiality concept, which defines geographic concentration of interconnected firms. Lastly, Eclectic Theory defines determinants for Foreign Direct Investment (FDI) movements across countries stimulated by considerable uncertainties faced by firms about future conditions affecting their costs, demand and profitability hence the need for resource, market and efficiency seeking (Hunt, 1991; UNCTAD, 1998; Hollensen, 2007; Ahuja, 2010; Denisia, 2010). Countries take advantage of these uncertainties and create competitive incentive packages to attract investing firms from their original locations due to challenges in productivity, market dynamics, tastes, and economic policy changes. Holistically, these theories, mainly crystallized into location advantage concept, inform the country marketing approach of the study.

Kenya introduced EPZs programme during the implementation of Structural Adjustment Programmes (SAPs) in the early 1990s offering a number of fiscal and non-fiscal incentives (EPZ Act, 1990). Kenya at the time needed investment promotion incentives that would attract FDI to create employment, generate foreign exchange, expose local workforce to foreign technology and skills as well as create backward linkage with the domestic economy. This study investigates the influence of organizational characteristics and macro-marketing environment on the relationship between perceived value of investment promotion incentives and the performance of firms in the EPZs in Kenya.

1.1.1 Perceived Value of Investment Promotion Incentives

Perceived value is both a uni-dimensional and multi-dimensional construct that defines utilitarian perspective in which economic and cognitive reasoning is used to assess the benefits and costs arising from a transaction (Sanchez-Fernandez & Iniesta-Bonilo, 2007). The value is determined by quality and price, utility and price relationships, risk and image of provider. Investment is current commitment of money for a period of time in order to derive future payments that compensate the investor for the time funds are committed, expected rate of inflation, and the uncertainty of

the future payments (Brown & Reilly, 2009). Investment is made when the present value of expected future revenues is, at the margin, equal to the opportunity cost of capital and where the net present value is equal to zero with expectation to create a stream of future cash flow (Eklund, 2013).

Investment promotion incentive is a country marketing strategy aimed at significantly influencing foreign investment flows into a country. It involves giving promotional information to potential investors, exhibiting attractive country image as an investment destination, and providing services to prospective and existing investors (Wells & Wint, 2000**).** It is an offer or subsidy by a government or an institution that ensures simplified investment procedures in order to affect investment location decision (FIAS, 2008; LaRRI, 2000). Engman, Onodera, and Pinali (2007) posit that the often-offered incentives under EPZ schemes include enhanced physical infrastructure, streamlined administrative services, fiscal incentives, relaxed legal and regulatory requirements, and export promotion services. The modern EPZs have focused on internationally competitive business environment by providing infrastructure in terms of transport and logistical linkages and state-of-the-art communication networks, efficient customs operations, reliable utility services and efficient administration.

Angko (2014) has argued in his study analyzing the performance of export processing zones in Ghana that the benefits of free zones are both static and dynamic. He considers two sets of benefits of EPZs. First are static benefits that directly promote and diversify exports in order to increase foreign exchange earnings, employment creation and income generation. Second, are the dynamic benefits that refer to technological transfer, labor training and skills upgrading, indirect employment creation, backward linkages and regional development with critical contribution to economic development.

In the context of this research, investment incentives are studied in relation to their influence on the performance of EPZ firms in Kenya. Perceived value of investment promotion incentives is a charge or cost to the host country. In this study, the perceived value defines utilitarian assessment of costs arising from establishment and

sustenance of EPZ programme. It includes the tax revenue foregone, and expenses related to promotion, infrastructure development and regulatory management.

1.1.2 Organizational Characteristics

Organization is a process, framework of relationships and group of persons. It is the foundation upon which management structure is built (Barney, 1986). It is a tool used to coordinate actions to obtain something people desire or value (Jones, 2010), and is influenced by environment, structure and culture. Organization characteristics are therefore the sum total of its culture, structure and design that define its set of attributes developed over time and with which the organization is perceived and identified (Barney, 1986). It is characterized by age, size, ownership, level of investment, linkages with domestic economy and human resource management policies practiced over time.

Organizational culture is a set of shared values and norms that control organizational members' interactions with one another and with suppliers, customers and other people outside the organization (Jones, 2010). Barney (1986) refers to organizational culture as a complex of values, beliefs, assumptions, and symbols that define the way in which a firm conducts its business. It has influence on the firm's performance as it defines its relevant employees, customers, suppliers, competitors and the interaction parameters. Organizational structure is the formal system of task and authority relationships including policies, responsibilities, and regulations that control how people coordinate their actions and use resources to achieve organizational goals (ibid, p.29). Organization design is the process by which managers select and manage aspects of structure and culture for the organization to control the activities necessary to achieve its goals (ibid, p.31).

Holistic combination of culture, structure, and design gives an organization its character. It defines the organization to the extent of distinguishing it from the rest. In this study, age, ownership and size were used as they represent critical variables in the organizational characteristics.

1.1.3 Macro-marketing Environment

The concept of macro-marketing environment explains external factors or forces, comprising political, economic, socio-cultural, technological, ecological and legal forces affecting firm performance in its interaction with each marketing system (Bartels, 1968). Dibb, Simkin, Pride and Ferrell (2006) posit that a decision to invest in a particular country is dependent on the awareness and reaction to these forces. Hollensen (2007) explains structure and content of macro-marketing environment that are fundamental in attracting firms into EPZs scheme. Njeru (2013) states the need for the firms to equip themselves with first-hand knowledge in the external environment for superior performance.

Hollensen (2007) posit that factors that may determine investment location decision are frequency of policy changes, stability, economic management, attitude towards foreign investors and international relations. Economic environment, which include efficient management of both fiscal and non-fiscal policies, is important in maintaining a competitive investment location (Radelet, 2004). Technological environment defines the level of technological advancement in the location of an organization. It results in cultural convergence through material culture explaining how a society organizes its economic activities while manifesting itself in availability and adequacy of basic economic, social, ecological, financial and marketing infrastructures. Technological environment affects productivity of human capital, quality of raw material, transformation and infrastructure (Hollensen, 2007). It defines the timeliness and efficiency of delivery of goods and services by the firm. Through information and technology (IT) based operations, a firm is able to transact on real time with its customers and suppliers all over the world making global business local.

Observation and protection of ecological environment is a challenge to many firms. Frey (2003) raises concern over core-based hazardous production processes in Mexican EPZs. Fraj-Andres, Martinez-Salinas and Matute-Vallejo (2009) argue that progressive degradation in the quantity and quality of the environmental resources had encouraged societies to consider their responsibility in environmental problems. It is therefore a factor of influence in the macro-marketing environment. Ecological environment affects performance by causing the organization to balance its economic interests with those of environmental stakeholders whose views are critical in

determining its competitiveness in the market place. Consumers currently demand for environmentally friendly produced goods; hence, firms attempt to put in place policies aimed at energy conservation, communal environmental protection and employee observance of ecological preservation.

Firms that venture into foreign markets face a number of risks. However, these risks may be considered less costly compared to the inherent benefits hence the decision to go global. Some of the macro-marketing environmental risks are policy, competitive, technological and resource risks. Ghosal (1987) define policy or political risks as those arising from actions of national governments, competitive risks arising from competitors' uncertain behaviour or response to firm's own strategy, resource risks caused by failure to acquire resources necessary to undertake a strategy and finally, technological risks that refer to firm response to new or changes in technology. The magnitude or permanency of these risks may have implications on the decision of foreign firms to invest in a location.

The premise of this study was to investigate the moderating influence of macro-marketing environment between perceived value of investment promotion incentives and performance of firms in the Kenyan EPZs. This was relevant in defining the role macro-marketing environment played in attracting or discouraging the flow of FDI into the country.

1.1.4 Firm Performance

Performance is a sum total of accomplishments attained by business or departments involved with an organizational goal within a period of time (Ling & Hung, 2010). It is measured differently depending on the purpose of the study. Level of measurement may be quantitative and qualitative. It may also be subjective or objective. The indicators may be financial or non-financial (Bontis, 2001). At firm level, the performance measurements are financial, highlighting specific aspects of profitability, liquidity, efficiency, solvency, productivity and strength.

The balanced scorecard devised by Kaplan and Norton (1992) shows company performance as a measurement that required holistic approach from financial, customer, internal business, learning perspectives and innovation. Global innovation

as a performance measurement variable, for example, refers to the ability of an organization to tap into new opportunities in world markets in order to deliver superior value to its customers (Ling, 2011). Although financial measurements are cardinal to company performance, they should be supplemented by non-financial measures such as customer satisfaction and other operating efficiency variables. Firm performance can therefore, be measured from different perspectives (Kaplan & Norton, 1992; Kennerley & Neely, 2003; Bontis, 2001). Interest parties may include shareholders, government, community, customers/clients, and other non-state actors.

From the context of EPZ firms in Kenya, this study measured quantitative and qualitative performance on financial and non-financial indicators (Author, 2015). Financial indicators included foreign exchange earnings and employee taxes indicators. Non-financial indicators were the number of jobs created, increment in domestic expenditure, level of technology and skills transferred. This measurement approach was consistent with management theorists who support the argument that there was no agreement on performance measures (Venkatraman & Ramanujam, 1986; Hofer, 1983). They claim that scholars conceptualize measurement parameters depending on their discipline of the study. It is a contextual concept associated with the phenomenon under study. This view agrees with explanation that lack of consensus on the definition arises because the concept is associated with a variety of firm's overall wellbeing ranging from financial profitability, output levels to market levels (Venkatraman & Ramanujam, 1986; Hofer, 1983). Namada, Aosa, Awino, and Wainaina (2014) argue that performance research had been drifting from exclusive use of financial performance measures to the use of non-financial measures as well.

This study adopted practical approach to measuring firm performance. This was due to its scope and intent that focused on host country benefits as opposed to focus on investor benefits. It therefore used quantified measures in order to draw actual inferences to the Kenyan EPZ firm performance.

1.1.5 Export Processing Zones in Kenya

The concept of free zones was in existence in the Phoenician City of Tyre and Greek Island of Delos as early as 300 BC. FIAS (2008) gives the chronology of the city-wide zones that defined the international trade routes with the tradition of storing duty

free goods before re-exporting. The Roman Empire free trade zones were set up along commercial routes with major ones being Trans-Saharan, Hanseatic League, and Rome-India (Marhoz & Szymansky, 1996). The modern EPZs which have become popular trade, industrial and investment policy instruments in a number of countries can be traced to 1958 when Shannon Free Zone in Ireland was established (Angko, 2014; FIAS, 2008).

Export Processing Zone is a designated part of a special economic zone predominantly focused on export manufacture whose concept is characterized by geographical definition where a government proclaims special conditions in a limited area which may include physical, social and economic separation from the rest of the country (Madani, 1999; Ge, 1999; Engman, Onodera & Pinali, 2007). Ge (1999) describes an EPZ as a geographic area within the territory of a country where economic activities of certain kinds are promoted by a set of policy instruments that are not generally applicable to the rest of the country. The separation is to protect local industry from undue, unlevelled competition as the firms in the zone enjoy lucrative incentives with liberal laws. Separation is also for ease of control, monitoring, supervision and protection of government revenue from leakage.

There are several terms used interchangeably with the term EPZ. In countries such as China and Singapore, the often used terminology is special economic zones; Malaysia uses the term Free Trade Zone. Other terminologies used in some countries include Industrial Free Zones, Economic Zones, Industrial Parks, Export Processing Factories, Enterprise Zones and Free ports (Yang, Wang, Chen, & Yuan, 2011; FIAS, 2008; Aggarwal, 2007). Establishment of EPZs has various objectives and roles depending on the needs of the host country. Jayanthakumaran (2003) studying the benefit-cost appraisals of export processing zones observes that the motives range from the need to decongest and reduce pollution citing the case of Thailand; Singapore's objective of investment attraction; and the policy shift from inward to outward looking orientation which motivated China, S. Korea, Malaysia and Thailand to establish EPZs.

In terms of cost consideration, transnational investors use the EPZ concept to move from high cost to low cost production locations where labour is cheap or

competitively affordable. These are locations characterized by low wages, favourable tax structures and lack of government regulations in areas like workplace safety and environmental protection. However, Ghosal (1987) argues that such comparative advantage should include societal comparative advantage relating to quality, quantity and configuration of material, human and institutional resources available within the bounds of a country. The investor mobility may also have side benefits in terms of universalization of skills as workers can be trained anywhere in the world. The impact of this is that EPZs can create market differentiation with homogenized production spaces (Venkatesh, 1999).

Kenya introduced the EPZ programme following enactment of EPZ Act, Cap.517 as an investment promotion incentive policy in 1990 to spur economic and export trade development (Namada, 2013).The EPZs are regulated by the EPZ Authority created by an Act of Parliament to promote and facilitate export-oriented investments and to develop an enabling environment for such investments (EPZ Act, 1990). The Act provides for a number of fiscal and procedural incentives. The fiscal incentives include ten–year corporate tax holiday and 25% tax rate for 10 years thereafter with exception to commercial enterprises; perpetual duty and VAT exemption on raw materials, construction materials, machinery and other business inputs with exception to motor vehicles and certain fuels; stamp duty exemption; and 100% investment deduction on capital expenditure within 20 years of operation.

The procedural incentives are rapid project approval under essentially one licence; no minimum investment level and un-restricted investment by foreigners; access to off shore borrowing; operation of foreign currency accounts without exchange control; autonomous control of investment proceeds; exemption from Statistics Act. The other incentives include fast-tracked issuance of work permits for senior expatriate staff; on-site customs documentation and inspection without charges on import declaration. Investors are offered one-stop shop service by the EPZ Authority for facilitation and after care.

Kenya has a total of 86 EPZ firms (including purely zone developers) operating in 52 zones spread across the country. Mombasa (22) and Nairobi (8) have the largest concentration followed by Kilifi (6). Other areas with EPZs include Machakos (4),

Kiambu (2), Bomet (2) and Taita Taveta, Kajiado, Murang'a, Meru, Laikipia, Elgeyo Marakwet, Uasin Gishu and Nandi counties with one zone each (EPZA, 2014).The firms operating in the zones are in different sectors comprising 63 in manufacturing, 14 service and 9 commercial. Pure zone developers do not engage in processing and export business. They lease out premises to processors and exporters. In 2014, the sub-sectors comprised of agro-processing (26.74%), garments (24.42%), services (15.12%), and garments support services (5.81%) of firms operating in the zones. Beverages/spirits, pharmaceuticals and medical supplies, commercial craft, and relief supplies contributed 3.49% each. Food processing, electricals, minerals, and plastics each contributed 2.33%. Chemicals, dartboard, printing and other contributed 1.16% each. The performance of the EPZ programme in Kenya for the last four years is indicated in Table 1.1.

Table 1.1: Performance of EPZ Key Indicators: 2011 - 2014

Indicator	**2011**	**2012**	**2013**	**2014**	**% Growth (2013 v/s 2014)**
Gazetted zones (no.)	45	47	50	52	4.0
Projects approved (no)	28	20	21	32	52.4
Enterprises Operating (no.)	79	82	85	86	1.2
Employment – (Kenyans) [a]	32,043	35,501	39,961	46,221	15.7
Employment - (Expatriates) [b]	421	428	472	517	9.5
Total Employment (No)=a+b	***32,464***	***35,929***	***40,433***	***46,738***	***15.6***
Total sales (Kshs. million)**	42,442	44,273	50,294	57,192	13.7

Indicator	**2011**	**2012**	**2013**	**2014**	**% Growth (2013 v/s 2014)**
Exports (Kshs. million)	39,067	39,962	44,427	51,377	15.6
Domestic Sales (Kshs. million)	2,553	3,322	4,601	4,211	-8.5
Imports (Kshs. million)	21,443	24,973	27,413	29,461	7.5
Investment (Kshs. million)	26,468	38,535	48,004	44,218	-7.9
Expenditure on local Purchases (Kshs mill.)[1]	6,276	8,027	7,721	8,170	5.8
Expenditure on local Salaries (Kshs mill.)[2]	3,769	4,509	6,043	7,511	24.3
Expenditure on power (Kshs mill.)3	701	757	870	1,004	15.4
Expenditure on Telecommunication (Kshs mill.)4	61	66	63	67	6.3
Expenditure on water (Kshs mill.)5	87	117	117	173	47.9
Other domestic expenditure (Kshs mill.)[6]	4,024	4,619	4,461	4,045	-9.3
Total Domestic Expenditure (Kshs million) = 1+2+3+4+5+6*	***14,921***	***18,097***	***19,275***	***20,970***	***8.8***

** Foreign exchange equivalent injected into the economy*

Source: EPZA Annual Report, 2014

Table 1.1 shows that overall employment (both local and expatriates) level in the EPZs increased by 15.6% from 40,433 workers in 2013 to 46.738 workers in 2014. Direct local employment (Kenyans) expanded by 15.7 % from 39,961 persons recorded in 2013 to 46,221 persons in 2014. The increment could have been because of some EPZ firms expanding their operations. Investment level in the EPZs decreased by 7.9% to Ksh.44.2 billion in 2014 from Ksh.48.0 billion recorded in 2013. This could have been as a result of degazettment of some capital-intensive firms.

EPZ exports increased by 15.6% from KSh.44.4 billion in 2013 to Ksh.51.4 billion in 2014. The major export markets for the Kenyan EPZ products in 2014 were USA recording the highest percentage share which increased to 61.9% in 2014 from 56.4% in 2013, and Europe which had a slight decrease to 13.4% in 2014 from 13.6% in 2013. Asian market increased by 7.7% in 2014 compared to 6.99% in 2013 while COMESA market had biggest drop from 8.74% in 2013 to 5.7% in 2014. The EAC market also dropped from 3.58% in 2013 to 1.5% in 2014 (EPZA, 2014). This could be interpreted to mean that Kenyan EPZs seem to move out of the EAC and COMESA markets as these are gradually transforming into domestic markets with eroded incentives. This concurs with Wells and Wint (2000) who found that investment promotion programme attracted investors to a country if it focused on export – oriented production and not domestic market.

Domestic expenditure (backward linkage) increased by 8.8% from KSh.19.3 billion in 2013 to KSh.21.0 billion in 2014. The expenditure translates to an average monthly contribution of Kshs.1.8 billion to the economy by EPZ firms in the year 2014 compared to Ksh.1.7 billion in 2013. These resources go to the local supply of raw materials, payment of local workers' salaries, power/electricity, telecommunication, water, rent and transportation among others thus stimulating demand and growth of the domestic economy. Meanwhile, imports also increased by 7.5 % from 27.4 billion in 2013 to Ksh 29.5 billion in 2014 reflecting increase of activity within the zones due to demand for EPZ goods in foreign markets (EPZA, 2014).

Literature from a number of EPZA annual reports indicate that the programme contributes to the national economy. The performance of EPZ in the national economy in the period 2011-2014 is shown in Table 1.2.

Table 1.2: EPZ Contribution to the National Economy: 2011— 2014

Indicator	**2011**	**2012**	**2013**	**2014**
Total Kenya Exports (Kshs Mill.)	512,604	517,847	502,287	537,236
Manufacturing sector Value of Output (Kshs Mill.)	1,015,542	1,049,345	1,097,082	1,149,742
Indicator	**2011**	**2012**	**2013**	**2014**
GDP at market price (Kshs Mill.)	3,725,918	4,261,151	4,730,801	5,357,672
Total national employment (number)	12,116,200	12,782,000	13,517,000	14,316,700
Manufacturing sector employment (number)	271,500	277,900	283,000	287,456
Exports EPZ (Kshs. Mill.)	39,067	39,962	44,427	51,377
Total output EPZ (Kshs. Mill.)	42,442	44,273	50,294	57,192
Total Employment EPZ	*32,043*	*35,501*	*39,961*	*46,221*
EPZ contribution to total Kenya Exports (%)	7.64	7.72	8.84	9.56
EPZ contribution to manufacturing sector value of output (%)	4.21	4.25	4.58	4.97
EPZ contribution to total national employment (%)	0.28	0.28	0.30	0.32
EPZ contribution to manufacturing sector employment (%)	11.80	12.77	14.12	16.1
EPZ contribution to GDP; constant prices (%)	1.14	1.04	1.06	1.07

Source: Economic Survey, 2015 and various reports of EPZA (2011 – 2014).

Table 1.2 shows that in the manufacturing sector, value of output in 2014 increased by 4.97% compared to 4.58% in 2013. Manufacturing sector employment was 16.1% in 2014 compared to 14.1% in 2013. Exports contribution increased to 9.56% in 2014 compared to 8.84% in 2013. EPZ contribution to GDP at constant prices had a negligible increase from 1.06% in 2013 to 1.07% in 2014.

Various EPZA reports highlight a number of challenges in the management of the programme. The major ones have been cited to be high cost of production, shortage of raw material, frequent policy changes, unpredictable market factors and enlarged

domestic market that allows only 20% sale of annual production to the East African countries of Kenya, Uganda, Rwanda, Burundi and Tanzania. The other challenges regard high interest rates charged by local banks, intense competition, and the uncertainty surrounding the existence of African Growth and Opportunity Act (AGOA) of the USA which provides the single largest export market for the programme.

1.2 Research Problem

Country marketing is a significant activity for economic development in relation to investment attraction and employment creation. There are a number of promotional techniques which countries apply to attract foreign direct investment (Wells & Wint, 2000) guided by theoretical underpinnings. This study is anchored on Heckscher-Ohlin's Theory of International Trade and related Theory of Location Advantage. While Theory of International Trade is concerned with classical comparative cost and the interdependence of marketing to societal environment, Theory of location Advantage is concerned with competitive location factors. The two theories define factors that create competitiveness of countries for promotion of FDI attraction. Perceived value of investment promotion incentives as factors of location competitiveness have been considered to have significant contribution to the performance of firms in the EPZs. These incentives are compensated by returns on economy wide activities through trade expansion, macro-economic and exchange rate reforms, foreign exchange earnings, job creation, technology transfers and human capital development (Madani, 1999). This study aims to further the knowledge on the country marketing concept in advancing promotion of a country as an investment destination building on the Hecksher-Ohlin's theory and theory of location advantage.

The EPZ concept is a marketing function whose performance is affected by a number of environmental variables. Country marketing activities cost huge sums of money and yet there has not been empirical concurrence on the accrued benefits to the host countries. A number of studies have different views on the performance of EPZs as country marketing policy instrument (Jenkins, 2005; LaRRI, 2000; Wells & Wint, 2000).

Investment promotion incentives are country marketing instruments packaged to create location competitiveness through marketing mix, screening, monitoring and intervening in FDI (Wells & Wint, 2000). Although the role of investment promotion incentives in country marketing has not been adequately studied in Kenya, the costs of these incentives are evaluated from the perspective of revenue foregone. The benefits to host economy may be measured through firm performance in terms of employment creation, foreign exchange earnings, forward/backward linkages and technology/skill transfers. Studies however, show that returns on these incentives to the host countries have faced challenges in meeting conceptual expectations (LaRRI, 2000). These challenges suggest that performance of firms in the EPZs that enjoy the incentive packages do not compare favourably with the perceived value of the incentives offered by host countries.

Other studies have shown that even with investment promotion incentives offered, a host country needs to create favourable macro-marketing environment for the location to be competitive (Engman, Onodera & Pinali, 2007; Akhtar, 2003, Wells & Wint, 2000;) and firms should have supportive organizational characteristics (age, size and ownership) for effective performance (Ibrahim & Shah, 2012). A study by Wei, Samiee and Lee (2013) found no effect of firm age on firm performance while firm size had marginal effect. But Mayende (2013) found contrary results indicating that firm age had positive effect on firm performance. His study further indicated that firm size influenced the increase in firm performance. Akhtar (2003) found out that legislation, political climate, good infrastructure and stable fiscal policies had significant impact of performance of EPZs. The nature of ownership patterns was affected by various factors including incentives the host country offers, local partnership scope, legislation and market opportunities (ibid. p.933). Macro-marketing environment and organizational characteristics thus moderate the relationship between perceived value of investment promotion incentives and firm performance. The host country may forego revenue when offering investment promotion incentives but with unfavourable macro-marketing environment which negatively impacts on the firm performance, it may not achieve the development objective of the EPZ programme. Given the differing findings from various studies, there is need for empirical study to establish the relationship based on the Kenyan environment.

Several empirical studies on EPZs have focused on economic justification excluding the marketing aspects of investment promotion incentives. Yang, Wang, Chen and Yuan (2011) used factor endowments, governance, incentive policies and infrastructure as variables affecting firm performance. Performance has largely been measured from the perspective of investors and management based on financial and operational indicators such as return on investment, efficiency, sales growth, relevance among other balanced score card instruments (Namada, Aosa, Awino & Wainaina, 2014; Machuki, Aosa & Letting', 2012; Kennerley & Neely, 2003; Kaplan & Norton, 1992). Few studies have used foreign exchange earnings, local employee taxes, employment creation, linkages and technology transfer as performance indicators from the perspective of the host country offering the incentives (Angko, 2014; Aggarwal, 2007; Jenkins, 2005). In analysis of the performance of export processing zones in Ghana, Angko (2014) used export volumes, value addition (net foreign exchange earnings), and employment creation as variables to measure firm performance. Jenkins (2005) reviewed policy instruments for diversification of host nation's exports while researching on economic and social effects of EPZs in Costa Rica. The study focused on employment, backward linkages and incentives but did not embrace country marketing concept which is the promotional motive that drives countries to establish EPZs (Wells & Wint, 2000). Current study focused on marketing concept of EPZs. The methodological gap the current study intended to address is the application of performance measurement from the perspective of host country that focuses on employment creation, backward linkages, technology/skills transfer and foreign exchange earnings in consistence with Anko (2014).

Kenyan EPZ programme was part of government initiative to substantively liberalize the economy putting in place reform measures aimed at developing trade and investment. The EPZs provide international standard industrial and business infrastructure such as factory buildings, warehouses, serviced land, office space, utilities and twenty-hour security and custom services. Activities allowed in the zones include export oriented manufacturing or processing, commercial activities and export services (EPZ Act, 1990).

EPZ programme has however, attracted criticism over its viability and relevance to the host economy as it is often considered sub-optimal policy benefitting a few and

distorts resource allocation (Engman, Onodera & Pinali, 2007; LaRRI, 2000). In contrast, Jayanthakumaran (2003) carrying out a benefit-cost analysis based on S. Korea, Malaysia, Sri Lanka, China and Indonesia concluded that EPZs make positive economic impact for the citizens of a host country. In these countries, the research showed that the EPZs were economically efficient and generated returns far above the estimated opportunity cost.

In Kenya, amendments to the EPZ Act over time have introduced exclusion of commercial activities from income tax holidays, and disallowing of parallel commercial and manufacturing activities by single enterprise (EPZA, 2012). A duty surcharge of 2.5% over and above payable taxes has been imposed on goods sold into the domestic market with the approval of the minister responsible for industry. These provisions have eroded the perceived positive effect of the incentives offered to the investors in the programme. The EPZA annual report for 2013 indicates a number of challenges influencing the performance of EPZ firms thus reducing the competitiveness of the programme in attracting FDI. The report cites high cost of energy, port congestion, enlarged East African Community (EAC) as domestic market, unpredictable market factors especially on the doubts over AGOA extension and high cost of transportation and other utilities (EPZA, 2013). With contrasting views over EPZs viability, challenges and constraints, empirical investigation into the performance of the Kenyan EPZ firms with special incentives could provide knowledge for policy decision on the incentives whose perceived value continue to draw mixed reactions from scholars and policy makers.

Holistic concept of firm performance presupposes the interaction of variables that jointly contribute to the results. Performance being a multidimensional construct, this study intended to establish and contribute to the understanding of the joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance. The research question addressed by this study, was therefore: To what extent do perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment influence performance of Export Processing Zone firms in Kenya?

1.3 Research Objectives

The broad objective of the study was to establish the influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on performance of firms in the EPZs in Kenya.

The specific objectives of the study were to:

i) Determine the influence of perceived value of investment promotion incentives on firm performance.

ii) Assess the extent to which organizational characteristics influence firm performance.

iii) Establish the extent to which macro-marketing environment influences firm performance.

iv) Examine the effect of macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance.

v) Determine the extent to which organizational characteristics affect the relationship between perceived value of investment promotion incentives and firm performance.

vi) Examine the extent to which perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment jointly influence firm performance.

1.4 Value of the Study

The results of the study will add value to theory building in regard to country marketing through offering of investment promotion incentives. The academia will benefit from this study through theory contribution. This study advanced the role of country marketing concept in promoting a country as investment destination using attractive incentives. The study was to establish any structural or environmental weaknesses affecting performance of the firms despite the incentives provided taking cognizance of inadequacy in the area of study. It therefore intended to empirically contribute to more knowledge in the subject and open up further frontier of research

on specialized economic programmes like EPZs based on the theories of international trade, location advantage and country marketing concept.

Policy makers will benefit from the study as it will be useful as a guide in the review or formulation of investment promotion incentive policies for country marketing. They will appreciate the state and effect of the existing incentives and other variables in the study in attracting investments. The findings of the study will contribute to the development of suitable incentive policies for investment promotion to attract more FDI.

Investors in the EPZ program in Kenya will benefit from the study outcome by better assessment of their investments against the concessions given under the programme. This will assist them in reviewing their investment portfolio in Kenya based on the empirical outcome of the study.

Marketing practitioners charged with responsibility to promote the EPZ programme in Kenya will use the results of the current study to develop the strategies necessary in achieving superior performance in their firms. This will further enhance contribution of the programme to economic development.

1.5 Structure of the Thesis

This study is organized into five chapters. Chapter one deals with introduction to the study giving its background, relevant theories and description of variables. The chapter also discusses the research problem motivating the study, research objectives and value of the study.

Chapter two presents theoretical and empirical foundations of the study through literature review. Theories guiding the study are Heckscher-Ohlin's Theory of International trade, Macro-marketing Theory, Theory of Location Advantages, Cluster Theory and Eclectic Theory of Foreign Direct Investments. The study variables reviewed in the chapter include discussion on the relationship between perceived value of investment promotion incentives (as predictor variable); organizational characteristics; macro-marketing environment; (moderating variables) and firm performance (as dependent variable). It summarises the knowledge gaps in

the reviewed literature, proposes conceptual framework designs conceptual model, and develops research hypothesis for the study.

Chapter three presents research methodology. This comprises the research philosophy, design, population, data collection and tests of reliability and validity. The chapter also provides operationalization of study variables and data analysis methods with full summary of objectives, hypothesis, analysis techniques, model estimation and interpretation of results.

Chapter four covers data analysis and presentation of results. Results of demographic profiles are presented in the first part of the analysis where descriptive analysis of data sets related to demography of the respondents and firms is carried out. The variables are cross tabulated and graphical presentations given using frequencies, percentages and bar charts among others. The next parts of the analysis deal with descriptive statistics of items and tests of hypothesis on the relationships of the study variables. It also presents research findings based on the objectives and hypotheses. The discussion on the findings takes into consideration the empirical studies reviewed in order to establish areas of convergence or divergence with the results.

Chapter five summarizes, concludes and recommends actions on findings of the study. It highlights the implications of the study to policy makers, academicians, practitioners and the general stakeholders. The chapter gives the limitations faced during the study and offers suggestions for future areas of research.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The chapter discusses the theoretical foundation and empirical literature, research variables and their relationships. It also reviews the knowledge gaps, designs conceptual model and the research hypotheses.

2.2 Theoretical Foundation of the Study

This study focuses on country marketing concept and five theoretical approaches related to international trade, marketing and investment promotion. The theories underscore the fundamentals of location and competitive advantage in marketing a country. This is in the context of investment location offering specialized incentives for optimal Firm Performance. Theories related to international trade and marketing have undergone several refinements. Heckscher – Ohlin's Theory of International Trade is an improvement of Ricardian Comparative Advantage theory. It is also known as Modern Theory of International Trade or General Equilibrium Theory of International Trade. The anchoring theory for the study is Heckscher-Ohlin's Theory of International Trade. Other theories guiding the study include Macro-Marketing Theory, Theory of Location Advantages, Cluster Theory, and Eclectic Theory of FDI.

2.2.1 Heckscher-Ohlin's Theory of International Trade

This is the anchoring theory of the study. It advances further the classical comparative cost theory recognizing the interdependence of marketing to the societal environment in which it is operating, including the bounds of economic feasibility. Bartels (1968) argues that separation of producers and consumers requires a country to develop attractive incentives to promote its location to foreign investors. He argues that provision of investment incentives by a country is a physical and social process that involves human or national behaviour affected by various socio-economic considerations.

Sit (1985) posits that the change in technology and development approach of Multi-national Corporations (MNCs) and growing differentials in labour costs in different locations contribute to comparative factor advantages thus motivating manufacturing off shore. International Trade Theory explains that the differences in factor

endowments of different countries and different factor proportions needed for producing different commodities account for the difference in comparative costs (Ahuja, 2010). Investments in EPZs move to regions with affordable and competitive production factors (Yang et al., 2011).These may include low production costs, low policy risks, less capital movement restrictions, well developed hard and soft infrastructure. These considerations underpin the core function of marketing. The ability for a country to promote itself by providing competitive investment incentives triggers the power of marketing among nations to compete for investment resources generated from various locations.

In the Kenyan context, EPZs have been used as incentive package to market the country as an investment destination. The firms in the program have largely depended on the incentives provided by the government. This study investigates the influence of the incentives in firm performance and draws statistical conclusions based on this theory.

2.2.2 Macro-marketing Theory

Hunt (1991) advanced the Macro-Marketing Theory in his three dichotomies model suggesting that marketing has impact on society and society has impact on marketing systems. The model discusses marketing problem from profit/non-profit, positive/normative and macro- / micro- perspectives and their effects on societies based on objectives to be achieved. At macro-level, international marketing provides a country with an opportunity to generate economic gains, improve productivity and enhance overall quality of life. At micro-level, international marketing enables individual enterprises to grow, achieve competitive edge and improve performance. Wells and Wint (2000) argue that marketing a country starts in a sequential strategy. It is an attempt to build the country image before undertaking investment generation and service activities that include the use of incentives, investment and trade promotion programmes.

From the context of seven Ps of marketing mix, Wells and Wint (2000) postulate that country marketing is a holistic marketing mix concept. The country is the product through its intrinsic advantages and disadvantages as an investment location. Price of investment attraction is the foregone revenue, which is the perceived value of investment incentives. These are made of tax incentives, grants, tariff protection and

other cost incentive mechanisms offered to attract investment. Promotion mix in country marketing refers to communication to create an image, publication, and dissemination of information on services available to the investor in the country (ibid. p.4). Place mix refers to sales destination through distribution to domestic or international markets. People mix is the public relation activity that defines the conduct of country promotion agencies and governmental officials towards investors who are the customers and suppliers of FDI. Process mix is the value of reliable quality service offered in terms of policy and legal predictability, conformity and sustainability. Finally, physical evidence in the marketing mix refers to packaging of the service in terms of presentation by staff and the service offered in the country.

Macro-marketing theory is relevant to the country's holistic macro-marketing environment, which provides overall medium for market players to interact. The firms in the EPZs depend on the environment they operate in for their performance. This theory recognizes the role of society, investors and the market in achieving optimal firm performance. The theory is important to this study as it explains holistic marketing from incentive provision, investment, production, to societal and organizational interventions thus providing theoretical foundation to country marketing concept.

2.2.3 Theory of Location Advantage

The theory postulates that location factors influence investment decisions of multi-national corporations. The fulfillment of the provisions of location advantage theory is significant to this study as it explains the favorable conditions for FDI attraction that influences firm performance. Engman, Onodera and Pinali (2007) emphasize choice of location as critical for investor attraction and performance of EPZ firms. They point out that access to local suppliers is important in promoting technology transfers into the domestic enterprises.

Yang et al. (2011) refer to location advantages as favorable conditions offered by host countries to attract investments. The advantages are categorized as natural or inherent location advantage denoting proximity to major markets, abundant natural resources, and cheap and high - quality production factors. Acquired location advantages comprise infrastructure such as transport, communication, and public service. The third aspect is institutional location advantage, which includes preferential tax

policies, land acquisition policies, government regulation and adjustments as well as financial climate and system. The last category is other location advantages like similarities in culture, language, and business modes. Similarities in culture, language and business practice are social environmental factors that may encourage and influence business location. The presence of these advantages influences the investor in making favorable investment decision about a location.

In the Kenyan context, the promotion of EPZ program has been considered along the development of favorable procedural and infrastructural facilities that meet world standards. This study investigates the influence that these incentives, based on the location advantage theory, contribute to the performance of firms in the Kenyan EPZs.

2.2.4 Cluster Theory

Cluster theory is a spatial concept defining geographic concentrations of interconnected companies, each of which have distinct development features, principles and problems within proximity. They are concentration of firms within a certain industry (UNCTAD, 1998; Hollensen, 2007). Clusters are categorized into informal, organized, innovative, technology parks and incubators, and export processing zones (UNCTAD, 1998). They are characterized by network of relations with suppliers and competitors. EPZs like industrial parks, technology parks and incubators are typical forms of clustering where concentration of industrial activities are able to gain from economies of scale.

China, India and Singapore among other countries have used the cluster approach in the development of their SEZs. China has been able to attract multinational companies, which have established offshore manufacturing facilities in the country.

The theory is significant to this study in appreciating the benefits clustering offers to a location in terms of employment and services concentration thus creating growth centers. These isolated enclaves have been concentrated in major business sites across the country. More concentrations are in Mombasa, Nairobi and Machakos counties. Clustering supports experience sharing for enhanced Firm Performance.

2.2.5 Eclectic Theory of Foreign Direct Investment

Foreign Direct investment (FDI) is investment in physical capital, which enhances opportunities in job creation, high productivity, competitiveness and technology spillovers (Denisia, 2010). It is a form of capital flows moving from country of origin to host country. FDI promotes entry into international markets through exports.

Eclectic theory contributes to the understanding of causes of decision and movement of FDI at both macro and micro levels using ownership advantages, location advantages and internalization. The three factors are commonly referred to as OLI (Ownership, Location and Internalization). The theory is a holistic and context specific framework for analyzing FDI determinants (Denisia, 2010).

The theory is useful in this study in defining the determinants of FDI and underlying intention of investors in establishing offshore production locations. It is linked to the theories that are related to location advantages. The main purpose of country marketing is to attract FDI to a host country for economic development. This study investigates how the incentives offered by Kenya influences the inflow of FDI and the performance of firms in the EPZs.

2.3 Perceived Value of Investment Promotion Incentives and Firm Performance

Investment promotion is an activity that significantly influences FDI flows into a country. It involves giving information to potential investors, exhibiting attractive country image as an investment destination, and providing services to prospective and existing investors (Wells & Wint, 2000). A study by Yang et al. (2011) conducted in China, Vietnam, Myanmar and Laos revealed that perceived importance of investment incentive policies is dependent on the regions where the firms invest.

While some firms would prefer resources and low cost production incentives, others would go for infrastructure, preferential tax and land use policies. Besides natural resources, management and other factors, performance of a firm is influenced by incentive policies. In order to improve performance, incentive policies need to be specifically designed to the industry (Wells & Wint, 2000). Costa Rica offers differentiated incentives according to regions ranging from 50% to 100% tax exemption for different periods of time (Jenkins, 2005). As a result of the incentives

offered, Costa Rica was able to improve performance of her EPZ firms. EPZ exports rose from 8% in 1989 to 47% in 2011. Mayende (2013) found out that firms with tax incentives performed better in terms of gross sales and value addition than those that did not have the incentives. According to the study, Uganda offered exemptions to investors on import duties and sales taxes, drawback of duties and sales tax payable on imported inputs used in producing goods for exports. Uganda also issued certificates of incentives and offered easy access of credit facilities to foreign investors. Mayende (2013) argues that firms offered tax incentives were more productive in relation to output and value added than the ones without such facility.

Engman, Onodera and Pinali (2007) however, argue that financial and other incentives given to foreign investors may be necessary for only a short term because of revenue implications to government hence should not substitute for policy measures towards sound investment environment. They posit that incentives should be minimal and time bound because long-term commitment may create equity problems through discrimination of a non-EPZ against an EPZ company yet both are equally important to the host economy.

In a study of economic impact of SEZs in China, Wang (2010) concludes that incentive policies affecting firm performance are preferential tax system, land use, financial support, labour use and investment facilitation policies. Ghana offers fiscal and non-fiscal incentives comprising tax holidays, 100% duty exemptions, equal rights to foreign investors, investment guarantees among others (Angko, 2014).The decision on investment is also affected by characteristics and stage of development of the organization. At early stage, a firm may prefer incentive policies that reduce the cost of investment expenditure while at the expansion stage, incentives associated with profits and taxes are preferred (Yang et al., 2011). Firms in the manufacturing sector prefer incentives that relate to asset depreciation due to large investment scale on fixed assets. Investors without local investment resources are more inclined to start-up grants and financial support offered by government rather than tax holidays.

The empirical literature reviewed indicates that perceived value of investment promotion incentives influences the performance of EPZ firms. The current study intended to determine the influence of promotion incentives on firm performance in

the Kenyan EPZ firm. It draws empirical evidence on the relationship between the two variables based on theories of international trade and location advantage.

2.4 Organizational Characteristics and Firm Performance

Organizational characteristics affect performance in terms of financial market outcomes or profitability, which in turn, in the case of EPZ may generate employment, foreign exchange earnings, capital stock increment (investments), backward/forward linkages and technology/skill transfer. Katou and Budhwar (2009) argue that the intensity of the interface between organizational characteristics and firm performance are dependent on the operational model. The model may involve the business strategies, and human resource management policies. The outcome of the interface can be affected by management style, organizational culture and reverse causation, which are controlled by size of the firm, capital intensity, age, degree of staff unionization and the industry to which the firm belongs. Namada (2013) proposes need for right configuration of strategic planning systems to improve performance.

Culture management skills are critical in recognizing and nurturing the organizational characteristics to obtain sustained above normal performance. Aggarwal (2007) proposes that incentive-based compensation plans are central to Firm Performance. These are offered through bonuses, rewards, work place innovations like career growth graph or performance - development graph to employees. In a study carried out in Taiwan by Ling (2011) on the influence of intellectual capital on Firm Performance, it was found out that human capital, structural capital and relational capital had direct positive impacts on a firm's agility and innovation (non-financial performance). But structural capital had a direct positive impact on the firm's financial performance. Ling (2011) defines structural capital to comprise of structures and systems of the organization; human capital to comprise of employees while relational capital is the organization's positive relationship with suppliers and customers. The three components define what he terms in the study as intellectual capital which was conceptualized as the capability of an enterprise to create value in the global market under conditions of constant change.

2.5 Macro-marketing Environment and Firm Performance

A number of environmental factors influence firm performance such as frequent changes in government policy, political stability, economic management, country's attitude towards foreign investments, political relationship with the rest of the world and attitude towards foreign personnel (Hollensen, 2007). Radelet (2004) suggests economic environment as policies that involve adjusting and managing the exchange rate to establish and maintain the profitability of export industries; keeping domestic inflation under control through prudent fiscal and monetary policies; reducing import tariffs and removing import quotas for exporters on capital and intermediate goods. Economic environment is determined by strengthening of efficient administrative systems especially customs administration; stable, predictable fiscal, legislative and procedural policies. Njeru (2013) in her study on market orientation, marketing practices, firm characteristics and external environmental factors observed that there was positive and statistically significant relationship between external environmental factors and firm performance of tour firms in Kenya.

Understanding the social environment in terms of cultural values and norms, and embracing the principle of freedom of association may improve industrial relations and performance. Appropriate education and training to provide the workforce with basic skills enhances human capital productivity and improves the rate of technology uptake and skills development (Aggarwal, 2007; Engman, Onodera & Pinali, 2007; Jenkins, 2005).

Even though one of the objectives of FDI is to transfer technology to the host economy, the investor would be attracted to a location with some level of technological knowhow and uptake potential. Investment locations with technology access such as internet, telephony, computer knowledge, infrastructure, digital high-resolution cameras and televisions are considered attractive to investors. Sustained competitiveness and firm performance in currently globalizing economy require continuous improvement in product, process, technology and organization (Aggarwal, 2007).

Ecological environment preservation has become a challenge to many firms due to high demand by society for environmentally friendly products. Fraj-Andres, Martinez-Salinas and Matute-Vallejo (2009) observe that investing in environmental

initiatives affects firm performance positively. They posit that investing in reduction of environmental impact has positive relationship with organizational productivity and economic system sustainability. Firms can achieve competitiveness through design, development and commercialization of green products, which have increasingly become popular with ever-growing health conscious society. But Nilsson (2008) in his study examining the impact of pro-social attitudes and perceived financial performance on socially responsible investments (SRI) behaviour opines that consumer skepticism about green products and green marketing is on the increase. Consumers have credibility issues with green labeling, packaging and products. Marketers of pro-social products are therefore increasingly facing problems with the credibility of the green claims made in advertising and on packaging (Nilsson, 2008). Fraj-Andres, Martinez-Salinas and Matute-Vallejo (2009) argue that adopting environmental values in organizational culture is not enough to develop a good reputation in the market place, hence the commitment must be translated into specific strategies for the concerned stakeholders to identify and value. Environmental orientation must therefore, be accompanied by environmental transformation in the operation and commercial systems so that organizations can be able to improve their competitiveness (ibid. p.281).

Macro-marketing environment is a critical variable in the performance of firms in the EPZs. Most businesses are sensitive to the operating environment. Bad politics and unfavorable economic policies among other unfavorable conditions can drive away current and potential investors. Kenya therefore needs to formulate and create conducive environment for business to thrive. This study looks at the effectiveness and challenges of the macro-marketing environment in Kenya based on Macro-marketing theory and Eclectic theory of foreign direct investment. It therefore establishes the extent to which macro-marketing environment influences firm performance.

2.6 Perceived Value of Investment Promotion Incentives, Macro-marketing Environment and Firm Performance

Quality of labor, efficiency of the regulatory authority and the possibility of industrial linkages with the domestic economy largely influence firm performance (Sit, 1985). These factors may be constrained by location and local business environment.

Macro-marketing environment in industrialized countries has become challenging for most firms so that favorable investment promotion incentives in developing countries tend to compete favorably for the FDIs from developed countries. But this has ecological degradation concern. Frey (2003) observes lack of accepted factual or methodological basis for identifying, estimating and valuing the costs and benefits of ecological degradation. Jenkins (2005) gives Costa Rican experience with policy and location incentives that led to attraction of investments into the EPZs in the country. In Costa Rica, incentives offered included tax concessions, duty free concessions, and streamlined import / export procedures in her EPZs. Yang et al. (2011) opine that performance of EPZ firms are significantly affected by the investment climate comprising resource availability, infrastructure, governance, geographical location, market potential and political/legal stability. They further propose that preferential tax policy may have close relationship with the probability that firms will invest for resource-seeking purposes and improve firm performance. However, LaRRI (2000) maintains that promotion policies for the attraction and performance of EPZ firms should not dilute the quality of the environment and labour standards. Yang et al (2011) consider factors investors look for to decide on investment location as being predictable and non-discriminatory with stable macro-economic environment that allow for engagement in international trade.

Promotion incentives offered by a host country to the EPZ program may achieve good results in terms of firm performance when the macro-marketing environment is conducive. This study investigates the effect that both promotion incentives and macro-marketing environment have on the performance of firms in the Kenyan EPZs.

2.7 Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Firm Performance

Bontis (2001) argues that intellectual capital measurement practically explains the organizational characteristics that interplay with firm performance. This is a combination of market, human-centred, intellectual property and infrastructure assets. Investment promotion incentives may therefore be successful when a host country attracts investments from firms with strong organizational characteristics but which are adaptable to its environment. Yang et al. (2011) argue that firms' decisions on investment are affected by their characteristics and stage of development. At early

stage they prefer incentive policies that reduce the cost of investment expenditure while at the expansion stage, they prefer incentives associated with profits and tax. Previous studies (Barney, 1986; Jones, 2010; Ibrahim & Shah, 2012) show that organizational structure, design and culture have influence on the Firm Performance.

A study in Malaysia by Ibrahim and Shah (2012) investigating how organizational characteristics variables influence the implementation of strategic human resource practices found that firm performance is influenced by firm's country of origin, ownership, age, and size. Wei, Samiee and Lee (2013) posit that organic organizational culture has influence on the performance of enterprises in the emerging markets. Organic organizational culture is dominated by adhocracy and clannism that encourage quick decision-making and innovativeness hence creating competitive advantage in the performance of an enterprise. They argue in their thesis that mechanistic organizational culture common in the developed economies is hierarchical and market based creating heavy bureaucracy with slow decision-making process. This affects competitiveness in certain industries. The study used firm age and size as these have potential influence on the performance. Age was measured by length of period the firm has been in operation while size was based on the number of employees in the firm. Ndungu (2013) describes success in highly competitive markets as requiring business leaders that create organizational climate that allows employees to apply innovative thinking continually to provide solutions to customers faster than competitors.

The study used size, age and ownership to assess the strength of organizational characteristics in moderating the relationship between perceived value of investment promotion incentives and performance of firms in the EPZs in Kenya.

2.8 Perceived Value of Investment Promotion Incentives, Organizational Characteristics, Macro-marketing Environment and Firm Performance

An attractive investment location provides macro-marketing environment that is predictable, with clear procedures and business operations backed by law where dispensation of justice is quick and transparent. This is necessary to avoid risks related to ownership, operation and transfer applicable through import restrictions, local-content laws, exchange controls, market control, price controls, tax controls and labor restrictions (Hollensen, 2007). A number of studies on foreign investment

decision process indicate that political stability is a major factor in an investor's choice to invest or not in a particular country (Wint & Wells, 2000). The aim of policies for attracting FDI is to provide investors with an environment to conduct business profitably and without incurring unnecessary risks (ibid. p.5). Akhtar (2003) proposes that performance of an EPZ requires availability of sub-contracting facilities, raw materials, affordable labour with less industrial disputes. These factors add up to create location advantages and firm competitiveness for enhanced profitability. An evaluation of an EPZ programme in Pakistan revealed that the program had potential to improve human capital development through on training and transfer of skills thus contributing to social welfare (Akhtar, 2003). The study also found out that successful performance is also dependent on the existence of lowest risks, liberal foreign exchange regime, stable currency, transparency in regulatory policies.

In a study of tour firms in Kenya, Njeru (2013) found out that different market orientation components interact with diverse external environmental factors, marketing practices and firm characteristics in facilitating superior firm performance. Analysis of industry dynamics, macro-marketing environment and competition intensity is important for strategic decision making by the firm to ensure improved firm performance (ibid. p.133).

The current study looks at the joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment has on the performance of firms in the Kenyan EPZs.

2.9 Summary of Knowledge Gaps

Previous studies on performance of EPZ firms affected by the type of investment promotion incentives are limited. Several studies have mainly investigated performance from the perspective of the investor. The impact of performance has therefore been on the effects of generic variables including external environment and organizational characteristics on specific factors such as infrastructure, social effects, employment, poverty, knowledge and human development. Table 2.1 presents the summary of knowledge gaps.

Table 2.1: Summary of Knowledge Gaps

Study by	Focus	Main Findings	Methodology and Context	Comments or Knowledge gap	Focus of the study
Angko (2014)	Analysis of the Performance of Export Processing Zones in Ghana	-free zone exports not consistent with overall increase in national exports -need for coordinated package of incentives, infrastructure & services that can attract foreign investors -Performance affected by attitude & culture	-Data collection method applied quantitative & qualitative. Random & purposive sampling used. Simple estimation & analysis method used to analyse export performance -Concept & context of Ghana experience : exports & value addition	The study focuses on EPZs as economic development policies. No marketing role recognized. Country marketing concept is lacking. -Research methodology not clear	This study linked the factors affecting EPZ firm performance: macro-marketing environment, organizational characteristics and perceived value of investment incentives. Based on country marketing concept, the study used whole population.
Namada (2013)	Influence of strategic planning systems, organizational learning and strategy implementation on performance of firms in the EPZ in Kenya	-Planning resources significantly influence performance - Management participation significantly influence internal business process but not return on investment, sales growth, and market. Organizational learning is significant mediator in non-financial performance	-Cross sectional survey -Descriptive statistics & tests of hypothesis -Use of regression analysis -Context based on performance of financial and non-financial elements by the Kenyan EPZ firms	-The study focused on human resource elements: resources, participation, & techniques -Role of investment incentives not included in the study parameters	This study focused on marketing aspect of investment incentives& how they may influence Firm Performance

Study by	Focus	Main Findings	Methodology and Context	Comments or Knowledge gap	Focus of the study
Yang, Wang, Chen and Yuan (2011)	Factors affecting firm-level investment & performance in border economic zones and implications for developing Cross-Border Economic Zones between the People's Republic of China and its neighbouring Greater Mekong Sub-region (GMS) countries.	-Firms' investment decisions are affected by elements of investment climate: resource availability, market potential, political & legal stability, and infrastructure -Firm's performance is affected by the investment climate including resource availability, infrastructure, transport, governance, logistics, electricity supply and geographical location -Financial support policy has positive relationship with the probability of improved firms' performance	Field and pilot surveys done, data subjected to descriptive statistical analysis: non-parametric and parametric analysis to study the effects of incentive policies on firms' investments & their expectations for policy improvement or new policies -Context based on factor endowments, incentives policies infrastructure, governance & firm performance	The study is comparatively detailed but does not consider organizational characteristics that also influence the performance of firms. -No much focus on technology as an influencing factor on investment location	This study included the influence of organizational culture, structure and design (characteristics) esp. Size, age, ownership and human resource policies on the performance of EPZ firms. -Study focused on technology as a component of macro-marketing environment
Engman, Onodera and Pinali (2007)	EPZs past and future role in trade &development	-Suboptimal policy and interim solution to economic reforms -Policy option to introduce trade liberalization and export industry Location choice critical for competitive advantage	-Field and desk research from secondary data as no documentation of primary data given in the study. -Study covers EPZ activities from countries across the world	-Generic review of EPZs in international trade and development -Effects of EPZs in trade rules and regional trade agreements -Study does not focus on the performance of EPZs in host countries' economies	This study focused on the influence of investment incentives on EPZ firms' performance& inform policy makers on best policy options to attract investors into the scheme

Study by	Focus	Main Findings	Methodology and Context	Comments or Knowledge gap	Focus of the study
Jenkins (2005)	Economic & social effects of EPZs in Costa Rica	-EPZ is a policy instrument for diversification of host nation's exports. - Helps attract foreign investment	-Used econometric models to examine estimations on variables. -EPZs as an industrial composition diversification policy	Focused on employment, backward linkages and incentives. No linkage to marketing models or concepts.	This study contextualized the relationship between investment incentives and the performance of EPZ firms
Frey (2003)	Globalization & The Environment: The Transfer of Core-based Hazardous Production Processes To the Export Processing Zones of the Periphery: The Maquiladora Centers of Northern Mexico	-Hazardous industries damage to the environment: spread of diseases, explosions and fires -Risks due to limited public awareness -Lack of competent risk assessment and management capabilities, irresponsive state agencies -Hazardous industries concentrated in rapidly growing cities with economic, social & health risks	-Methodology not defined -Study discusses behaviour of transnational corporation in transferring hazardous products, production processes and wastes to the peripheral countries of the world system with Mexico EPZs (Maquiladora) as case study	-Not based on methodological research approach to study - No conceptual model explained - No clear hypotheses developed -Mainly desk research	-This study investigated ecological challenges of the firms in the Kenyan EPZs

Study by	Focus	Main Findings	Methodology and Context	Comments or Knowledge gap	Focus of the study
Wells and Wint (2000)	Marketing a Country Promotion as a Tool for Attracting Foreign Investment	An efficient investment promotion programme can attract certain types of investment to a country at a cost that is significantly less than the value of the direct benefits the country receives from the investment. - Country marketing concept fits well with the 7Ps of marketing mix - Export –oriented investment promotion attracts more investors	-Data set of 50 industrial and developing countries Variables: Independent -Effective demand, Market growth, BoP conditions, Inflation, Political stability and Investment Promotion. Dependent: –Foreign Direct Investment -Used multiple regression analysis	-Sample small at approximately 25% of total world nations -Considered only one macro-marketing environment element in the variables (political stability) -No conceptual model explained -No clear hypotheses developed	-Study focused on all EPZ operating firms in Kenya -It considered macro-marketing environment wholly along with organizational characteristics as moderating variables -Independent variables were perceived value of investment promotion incentives and dependent variable was Firm Performance - developed clear hypotheses and conceptual model
Barney (1986)	Organizational Culture: Can it be a source of sustained competitive advantage?	-A firm's culture can be a source of sustainable competitive advantage it is valuable, rare, and imperfectly imitable -Performance may be a reflection of the organizational culture	-Review of the subject of organizational culture - No research methodology defined -Generic context of organizational culture -Key concepts discussed	-Review limited to only relationship between organizational culture and sustained superior financial performance. -No discussion on non-financial performance	-Study considered organizational culture as part of organizational characteristics and its influence on firm performance both non-and financial.

Source: Researcher, 2015

2.10 Conceptual Framework

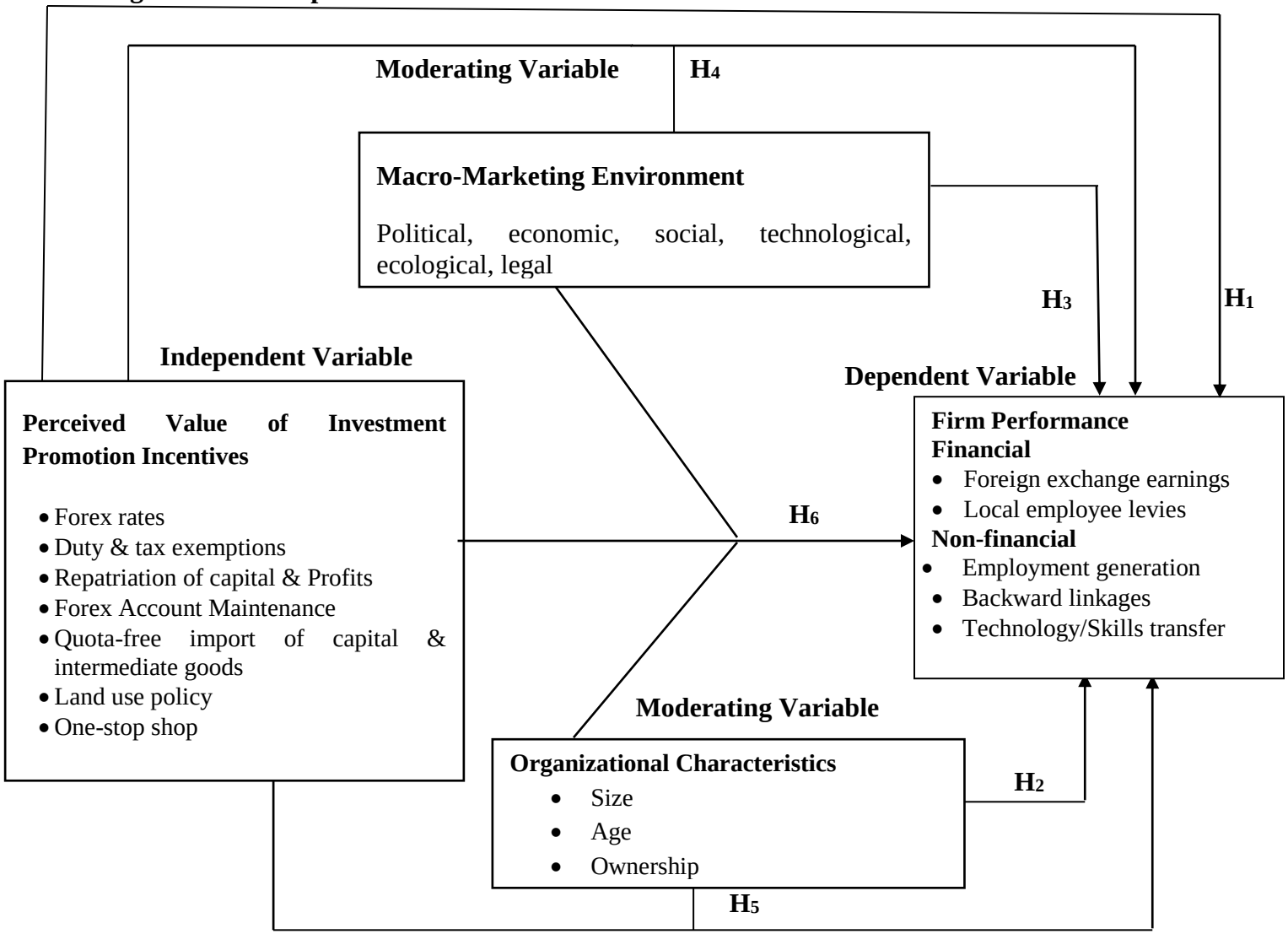
The conceptual model (Figure 2.1) of this study is formulated on the basis of the relationship between perceived value of investment promotion incentives as independent variable and the performance of firms in the EPZs in Kenya as dependent variable. The items comprising perceived value of investment promotion incentives include foreign exchange rates, duty and tax exemptions, repatriation of capital and profits. Others are Foreign exchange account maintenance, quota-free import of capital and intermediate goods, land use policy and one-stop shop operations.

Macro-marketing environment is a moderating variable, which comprise political, economic, social, technological, ecological and legal factors. Its interaction in the model has three levels of influence on firm performance. Firstly, it modelled on direct influence on Firm Performance. The second modelling as a moderating influence between independent and dependent variables. Lastly, it modelled as having joint influence with perceived value of investment incentives and organizational characteristics on firm performance.

The other moderating variable are organizational characteristics. The items in the variable are size, age and ownership. It also has different levels of interaction in the model. The first is its direct influence on Firm Performance. Second interaction is the moderating influence on the relationship between independent and dependent variables. Finally, it has joint influence with macro-marketing environment and perceived value of investment incentives on firm performance.

The model depicts how perceived value of investment promotion incentives, macro-marketing environment and organizational characteristics either individually or jointly influence firm performance. It further depicts how organizational characteristics and macro-marketing environment moderate the relationship between perceived value of investment promotion incentives and firm performance.

Figure 2.1: Conceptual Model



Source: Researcher, 2015

2.11 Research Hypotheses

From the context of the study objectives, literature reviewed and the conceptual model constructed, the following hypotheses have been developed to test the relationships between the variables; perceived value of investment promotion incentives, and firm performance moderated by organizational characteristics and macro-marketing environment:

H_1: Perceived value of investment promotion incentives have statistically significant influence on firm performance.

H_2: Organizational characteristics have statistically significant relationship with firm performance.

H_3: Macro-marketing environment has statistically significant relationship with firm performance.

H_4: Macro-marketing environment has statistically significant moderating effect on the relationship between perceived value of investment promotion incentives and firm performance.

H_5: Organizational characteristics have statistically significant moderating effect on the relationship between perceived value of investment promotion incentives and firm performance.

H_6: Perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment have statistically significant joint influence on the firm performance.

The outcome of the tests from these hypotheses were used to derive conclusions from the study. The strength and direction of relationships among variables from the hypotheses testing defined the parameters of the research and policy recommendations from the study.

2.12 Summary of the Chapter

Chapter two has presented the underpinning theoretical foundation of the study. It reviewed the Heckscher-Ohlin's Theory of International Trade, Macro-marketing Theory, Theory of Location Advantages, Cluster Theory and Eclectic Theory of Foreign Direct Investment. The chapter also presented empirical review of key constructs of the study based on the variables. It presented identified and summarized gaps in the literature. Conceptual framework and model of the study were developed and research hypotheses formulated. The next chapter presents research methodology.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The chapter discusses the methodology used in the study. It outlines the philosophy of the study, the design, and the population. It also discusses the method employed in data collection, the tests carried out in measuring the reliability and validity of the instruments. The chapter further discusses the operationalization of the research variables and presents a summary of the analytical models.

3.2 Research Philosophy

There are two fundamental research philosophies broadly viewed as subjectivist or objectivist (Saunders, Lewis &Thornhill, 2009). The subjectivist in research philosophy includes the phenomenologist whose work is based on qualitative, humanistic and interpretivistic approach where the emphasis is on immediate experience using human characteristics and holistic analysis. The method allows for natural and participatory observation. In the objectivist category, there are the positivists whose research philosophy is based on quantitative, experimental, scientific and traditionalist approach. In the positivist approach, the researcher is distanced from the object of study so that knowledge is established through observation and measurement of the phenomena (Krauss, 2005).

Hunt (1991) emphasizes the relevance of positivist philosophy to marketing observing that marketing is a discipline of dynamic nature that is not dominated by one particular philosophy. "No single philosophy dominates marketing" (ibid. p. 398). It borrows from economics, sociology, mathematics and anthropology among other disciplines. Economic and social environmental dominance of marketing discipline indicates the relevance of positivist philosophy in relation to this study.

The study is anchored on positivist philosophy, which seeks to expand knowledge, reality and reason through scientific research method. The philosophy is premised on the values of reason, truth and validity. It focuses on facts gathered through direct observation,

experience and empirical measurements with the use of quantitative methods. The study embraces the positivist characteristics of independence, value freedom, causality and hypothetico-deductive method that involve quantitative operationalization of concepts (Saunders, Lewis &Thornhill, 2009).

3.3 Research Design

The study adopted descriptive cross-sectional survey. Survey is a design commonly used in business and management research (Saunders, Lewis &Thornhill, 2009). It allows for collection of data that can be quantitatively analyzed using descriptive and inferential statistics to help deduce relationships among variables. Zikmund, Babin, Carr and Griffin, (2010) define research design as a master plan specifying the methods and procedures for collecting and analyzing the needed information. Namada (2013) used the survey method arguing that the design enables the researcher to capture data at a given point in time of the study with minimal temporal effect of the variables.

The design was appropriate for the current study as it allows for description of relationships, factors and direction among variables. It was therefore possible to perform descriptive analyses through cross-tabulation, regression and moderation path which included perceived value of investment promotion incentives, organizational characteristics, macro-marketing environment and firm performance. Secondly, cross-sectional survey was applicable as the study was time constraint hence longitudinal study was not appropriate. Cross-sectional survey method provides comparable data across respondents, which allows for interpretation of the study variable relationships and associations for statistical conclusions to be drawn.

3.4 Population of the Study

The population of the study involved all the 86 firms operating in the EPZs in Kenya in March 2014 obtained from EPZA offices (EPZA, 2014). Census survey was used in the study because the population investigated was small (Zikmund, Babin, Carr & Griffin, 2010). Namada (2013) recently used this approach in a study on strategic planning

systems, organizational learning, strategy implementation and performance of firms in export processing zones in Kenya.

The sectors in the EPZ firms covered in the study were manufacturing, commercial and services. Sector distribution of the population in 2012 was made up of 63 manufacturing, 14 service and 9 commercial firms. The firms were 25.6% local, 24.4% joint ventures and 50% foreign owned (EPZA, 2012).

3.5 Data Collection

Data were collected from both secondary and primary sources. Secondary data were collected through review of documents. Primary data were collected on investment promotion incentives, organizational characteristics, macro-marketing environment and EPZ firm performance by use of structured questionnaire administered to all operating EPZ firms (Appendix IV) except those that were found to have closed, and zone developers who were not engaged in processing or manufacturing activities.

Before data collection exercise, requisite approvals were obtained. A letter of self - introduction was prepared by the researcher (Appendix I). An approval letter from the University was obtained (Appendix II) which further introduced the researcher to the EPZA management. The EPZA management consequently issued a letter introducing the researcher to the EPZ firms (Appendix III) to allow access and collection of data.

The questionnaire was divided into five sections to capture data on key variables based on the objectives of the study. The questionnaire used a rating scale of 1 to 5, reflecting the intensity of the particular judgment involved (Nachmias & Nachmias, 2009). Scale 1 (not at all) denoted the lowest intensity and 5 (very large extent) showed the highest or strongest intensity of preference (Vigoda, 2000; Fraj-Andres, Martinez-Salinas, & Matute-Vallejo, 2009). Ratio scale was also used where quantitative responses were required especially in section 5. The target respondents for the study were the chief executives, general managers and departmental managers of the firms. This provided responses from senior officials. Some of the respondents were owners of the firms. The upper echelons theory guided the choice of top management as respondents. The theory

proposes that top management shapes the destiny of an organization. Namada (2013) observes that top management decisions play crucial role in defining organizational position. The choice of the respondents for this study was therefore valid and credible.

The questionnaire was pre-tested on EPZ firms and adjustments made to the instrument based on the outcome of the pilot study. The final instrument was distributed to the respondents in the months of May and June, 2015 using email and drop and pick up later method. Data collection was done by help of research assistants who were inducted on purpose and objectives of the study. They were also inducted on how to engage with the target respondents. The respondents took an average of three weeks to return the filled in questionnaires through pick up by research assistants or by e-mail as the instrument was self-administered.

3.6 Reliability and Validity Tests

3.6.1 Reliability Tests

Reliability is the consistency of measurement and concerned with estimates of the degree to which a measurement is free of random or unstable error (Cooper & Schindler, 2006). It is stability of measurement over various conditions. Several methods to estimate reliability tests include test-retest for stability, split-half for equivalence, and Cronbach's alpha for internal consistency. Studies also use factor analysis, which is a statistical method for data reduction and removal of redundancies in correlated variables.

All completed questionnaires were cross - checked for data integrity, completeness and consistency. This study used Cronbach's alpha coefficient reliability tests for internal consistency. The Cronbach's alpha reliability coefficient ranges from 0 to 1 where the closer it is to 1, the greater the internal consistency of the items in the scale. Nunnaly (1978) has proposed a cut-off point coefficient of 0.7 and above as being strong measure of reliability. It is argued that when different researchers on similar study achieve similar results with consistency over time, the instrument is considered accurate representation of the population under similar methodology.

However, Drost (2011) opines that coefficients of internal consistency increases as the number of items goes up, to a certain point. She argues that a five-item test might correlate at .40 while a twelve-item test might correlate at .80 with true scores (ibid. p.111). Schmitt (1996) postulates that the relationship between test length and reliability may affect the acceptable level of consistency coefficient. When test items are few or short, a low level of alpha would be expected and therefore the researcher should be allowed to use and interpret the findings (ibid. 352). He concludes, "There is no acceptable or unacceptable level of alpha" (p.353). Gliem and Gliem (2003) argue that Cronbach's alpha value of 0.70 is desirable but also indicates that 0.60 can be considered lower limit. The alpha is largely affected by sample size; hence it is not yet agreed on the exact value of alpha that is applicable as most desirable (Iacobucci & Duhachek, 2003). The current study had reliability cut-off point of coefficient at 0.6. In order to test the instrument for internal consistency, a pilot study was conducted on six EPZ firms to establish reliability of the instrument. The data were obtained from chief executives, general managers or managers of these firms. The results indicated that a number of variables had acceptable levels of alpha values.

From the outcome of the pilot study, the questionnaire was revised and used in collecting the survey data for the study. The summary of reliability tests is given in Table 3.1.

Table 3.1: Summary of Reliability Tests

Variable	N	No. of Items	Cronbach's Alpha Coefficient
Perceived Value of Investment Promotion Incentives	49	7	0.64
Organizational Characteristics	49	5	0.73
Macro-marketing Issues	49	45	0.92
Performance	49	4	0.94
	49	4	0.97
	49	8	0.96
	49	6	0.83
		Average	**0.93**
Overall			**0.86**

Source: Primary Data (2015)

Table 3.1 gives the results of the Cronbach's alpha coefficient analysis of variables in the study, which shows the reliability of the instrument. The highest alpha coefficient was the average for firm performance at 0.93 with four items. Organizational Characteristics with five items had an alpha coefficient of 0.73 and Macro-marketing Environment with thirty-nine items had an alpha coefficient of 0.92. Perceived Value of Investment Promotion Incentives with seven items had the lowest alpha at 0.64. The overall

reliability was 0.86, which was above the proposed cut-off point coefficient of 0.6 (Drost, 2011; Schmitt, 1996). The instrument was therefore reliable.

3.6.2 Validity Tests

Validity test shows how closely a measure correctly represents the concept of the study. Saunders, Lewis, and Thornhill (2009) define validity as the extent to which data collection method accurately measures what was intended to be measured. Various types of validity include statistical conclusion, internal, external and construct validity (Oluwatayo, 2012). Construct validity is of two types namely, translation validity comprised face and content validity; and criterion related validity composed of predictive, concurrent, discriminant and convergent validity. In this study, convergent validity where scores were derived from the measuring instrument correlate with scores from similar variables was determined by use of secondary data such as annual reports and other document reviews. Face validity was tested by engagement and discussing the questionnaire with industry players that included experts in trade and investment promotion agencies and marketing consultants. Content validity was assessed through pre-testing the questionnaire to identify deficiencies in the construction, through comments and suggestions from the respondents to enrich the actual data collection instrument. The respondents involved were the lecturers, supervisors, and students. The feedback from the respondents was used to review the quality of the instrument in terms of quantity of questions, clarity and coverage based on study variables and objectives.

3.7 Tests of Assumptions of Regression Analysis

In this study, assumptions associated with regression analysis were met. The focus was on those assumptions that are not highly robust to violations and a researcher can easily deal with them through the design of the study (Osborne & Elaine, 2002). To test these assumptions a number of tests and examinations were carried out.

The assumptions tested for regression analysis included absence of outliers, normality, linearity, homoscedasticity and collinearity (Appendix VI). To conduct a regression analysis with a valid outcome, there should be no outliers in the data. In the current study, there were no outliers in the data. This confirmation was done through Cook's Distance measurement test. Cook's distance is a common test used to provide an overall measure of the impact of an observation on the estimated regression coefficient (Walfish, 2006).

Cook's distance and Z-scores were calculated on the composite scores of all the variables. Cook's distance for the interaction among perceived value of investment promotion incentives and firm performance was 0.187, which was below the maximum limit of 1. In the interaction among perceived value of investment promotion incentives, macro-marketing environment and firm performance, Cook's distance was 0.514. In the interaction among perceived value of investment promotion incentives, organizational environment and firm performance, Cook's distance was 0.929. Finally, in the interaction among perceived value of investment promotion incentives, organizational characteristics, macro-marketing environment and firm performance, Cook's distance was 0.81. In all the interactions, the values were below the cut-off point of one. Z-scores for all the variables were also within the respective minimum and maximum limits of -3 and + 3.

The dependent variable is assumed to have normally distributed data indicated by a histogram with a bell-shaped curve. Normality was tested by exploring the nature of dependent variable and observing the shape of both the histogram and the frequency curve. The histograms showed normal shapes with the frequency curve also fitting normally.

It is assumed that the relationship between variables is linear. Although it is not practically possible to completely confirm this assumption, multiple regression procedures are not greatly affected by minor deviations from this assumption (Osborne &Elaine, 2002). In the current study, linearity was tested by plotting the independent variable(s) against the dependent variable and checking the concentration of the residuals along the diagonal line in the normal P-P plots.

The standardized residuals of independent and dependent variables must also show a homoscedastic relationship by exhibiting a concentration of the residuals along the line of best fit. A scatter plot of the independent and dependent variables was generated and a line of best fit added to test the homoscedasticity of the data. Osborne and Elaine (2002) explain that homoscedasticity can be checked by visually examining a plot of the standardized residuals (the errors) by the regression standardized predicted value. A little heteroscedasticity however has a slight effect on the significance tests. Marked heteroscedasticity however can cause a marked distortion of findings and seriously weaken the analysis thus increasing the possibility of a Type I error. A visual examination of the spread of regression standardized residuals along this line revealed that the residuals were equidistant and within the limits of -3 and +3.

Multicollinearity was tested using collinearity diagnostics for three separate interactions. The first interaction was between composite scores of perceived value of investment promotion incentives (dimension 1 = .01, dimension 2 = .38) and organizational characteristics (dimension 1 = .01, dimension 2 = .73). Each of these variables was high on only one dimension, which were .38 and .73 respectively. The second interaction was between composite scores of perceived value of investment promotion incentives (dimension 1 = .01, dimension 2 = .85, dimension 3 = .14) and macro-marketing environment (dimension 1= .01, dimension 2 = .45 and dimension 3 = .54). Each variable was high on only one dimension, which was .85, .45 and .54 respectively.

The last interaction was among composite scores of perceived value of investment promotion incentives (dimension 1 = .00, dimension 2 = .37, dimension 3 = .48, dimension 4 = .16) and organizational characteristics(dimension 1= .00, dimension 2 = .30, dimension 3= .06 and dimension 4 = .64) and macro-marketing environment (dimension 1 = .00, dimension 2 = .02, dimension 3 = .03, and dimension 4 = .95). Each variable was high on only one dimension, which was .48, .64 and .95 respectively.

3.8 Operationalization of Study Variables

The study variables were operationalized using methods and recommendations in similar studies (Njuguna, 2013). Attitudinal items in the variables (investment promotion incentives, organizational characteristics, and macro-marketing environment) were measured on a rating scale ranging from 1 to 5. Items in each variable were measured and composite scores calculated to measure the variables. This was consistent with Vinoda (2000) who used a rating scale ranging from 1 (strongly disagree) to 5 (strongly agree) to represent degrees of respondent preference in a study on organizational politics, job attitudes, and work out-comes in the public sector in Israel. Other previous studies have used this rating method to obtain respondent preference (Wei, Samiee & Lee, 2013). Njeru (2013) applied the method when measuring firm size and age in a study on market orientation, marketing practices, firm characteristics, external environment and performance of tour firms in Kenya. In contrast, Lapierre (2000) used seven-point rating scale arguing the suitability of the range was consistent with the knowledge of the target population of the study.

Bland (2008) explains that sometimes when there are several outcome variables there might be interest in the effect of treatment on all of them. Other studies have previously used composite scores. He asserts that the approach was used by Motallebzadeh et al. (2007) in an operation whose aim was to find a combination of 21 variables which contained as much of the available information as possible. The danger in using each individual sub-variable is that it contains only a small part of the information thus reducing the statistical power. It may also increase the possibility of type 1 error

This study had four specific variables, some of which had many sub-variables measured on an ordinal scale. Others had been measured on an interval scale. The predictor and moderator variables had been measured on an ordinal, likert scale. Performance items had been measured on both ordinal, likert and interval scales. Therefore, it was necessary to firstly, standardize the scores of the performance item, and secondly to transform all the four variables into an interval numeric scale. The next step was to derive a combination

variable for each of the four variables that would retain as much of the original information as possible.

First, seven sub-variables in the predictor variable, perceived value of investment promotion incentives were transformed into composite scores or numeric averages. using SPSS Compute Variable functionality. Next, the two sets of sub-variables, each constituting either organizational characteristics or macro-marketing environment were computed into numeric averages. The resultant score from each set was labelled as a composite of the corresponding moderator variable. Lastly, four items in firm performance, namely, foreign exchange earnings, direct local jobs, skills transfer and backward linkages were transformed into numeric averages by the same SPSS functionality used for the predictor and moderator variables. These averages were labelled composite scores of firm performance.

The basic mathematical function for the transformation was SUM (Var1, Var2, Var_n…)/N, where Var1 = First sub-variable in the list; Var2 = Second sub-variable in the list; and N = Number of variables whose averages are being computed (DeCoster, 2012).

The four composite scores one for the predictor variable, two for the moderator variables and one for the dependent variable were then used in subsequent analyses particularly for hypothesis testing.

The operationalization and measurement of the variables are summarized in Table 3.2

Table 3.2: Operationalization of Study Variables

Variable	Type of Variable	Indicators	Measurement	Scale	Supporting Literature	Question
Perceived Value of Investment incentives	Independent	**Fiscal policies:** - Foreign exchange rates -Duty and tax exemptions, repatriation of capital and profits -Quota-free import of capital and intermediate goods **Non-fiscal policies:** -Land use policy -One-stop shop operations, -Foreign exchange accounts	**Rating Scale:** 1. Not at all 2. Small extent 3. Moderate extent 4. Large extent 5. Very large extent	Interval	Njuguna (2013), Yang et al. (2011), Engman, Onodera & Pinali (2007), FIAS (2008), Jenkins (2005), Wells & Wint (2000),	Section 2 Question 12a & b

Variable	Type of Variable	Indicators	Measurement	Scale	Supporting Literature	Question
Organizational Characteristics	Moderating	**Structure, culture and design** -Age – Years in operation Size – level of investment Ownership – foreign or local/ wholly foreign or joint venture	**Rating Scale** 1. Not at all 2. Small extent 3.Moderate extent 4. Large extent 5.Very large extent	Interval	Njuguna, (2013), Katou & Budhwar (2009), Aggarwal (2008), Barney (1986)	Section 3 Question 13a & b
Macro-marketing environment: joint political, economic, social, technology, ecological, legislation,	Moderating	**Political issues: -**Political climate, workers' political freedom, international political relations **Economic issues:** Economic environment - factors for competitiveness **Socio-cultural issues:** Managerial team, Expatriates, Workers' benefits	**Rating Scale** 1. Not at all 2. Small extent 3. Moderate extent 4. Large extent 5. Very large extent	Interval	Njeru (2013), Hollensen (2007), Dibb,Simkin, Pride & Ferrel (2006), Radelet (2004), Frey (2003)	Section 4 Questions 14 - 21

Variable	Type of Variable	Indicators	Measurement	Scale	Supporting Literature	Question
		Technological issues: - Technology capacity, Capital equipment, Management technology, Technology and skills transfer capacity **Legal issues:** -Application of legal and statutory provisions, Confidence in legal provisions **Ecological issues: -** Existence of environmental policy				
Performance of EPZ firms in Kenya	Dependent	**Performance:** Foreign exchange earnings, local employee taxes, Employment creation, Technology and skills transfer**,** backward linkages	Ratio scale	Ratio scale	Namada, Aosa, Awino & Wainaina (2014), EPZA (2012), Bontis (2001), Sit (1985), Yang et al. (2011)	Section 5 Questions 22 - 25

Source: Researcher (2015)

3.9 Data Analysis

The unit of analysis of the study was the firm. Performance measurements were foreign exchange earnings, local employee taxes, employment creation, technology/skill transfer, and backward linkages. Performance parameters of firms in the EPZs were compared against the perceived value of investment promotion incentives. The data was analyzed using descriptive and inferential statistics. Machuki (2011) used descriptive statistics to provide a profile of organizational demographics with fundamental statistical measures including averages and measures of dispersion. In this study, descriptive statistics gave information on the main demographic characteristics of the population such as mean, median, and other measures of dispersion. Inferential statistics determined the relationships between variables through hypothesis testing.

The statistical tests included Pearson's Product Moment Correlation and regression analysis. Regression analysis was relevant to this study as the main objective was to investigate strength of relationships in respect of the influence the various variables had on each other. Due to multiple sub-variables in the main study variables, composite scores were calculated and used in order to ensure reliability and validity in the measures. The composite scores for each of the three sets of independent variables were calculated separately since each set had many sub-variables. This was the same case for the dependent variable. It was possible to use composite scores because each set of both independent and dependent variables loaded in to the same construct, and they were both measured on a ratio scale.

Hypothesis 1 was tested using simple linear regression analysis. Hypotheses 2 and 3 were tested through correlation while hypotheses 4 and 5 were tested by way of hierarchical multiple linear regression. Stepwise multiple regression analysis technique was used to test Hypothesis 6. The tests were computed using statistical tools such as Software Package for the Social Sciences (SPSS) and Microsoft Excel. Data diagnostics was performed for normality, multi-collinearity, homoscedasticity and outliers.

Coefficient of determination (R^2) explained the significance of the influence of independent variable(s) on the dependent variable. The F-Statistic showed the

significance of the model. In order to test causal relations, path analysis technique was used as additional technique. Path analysis is both bivariate and multivariate linear regression analysis technique, which makes it possible to test causal relations among variables (Nachmias & Nachmias, 2009). Ndungu (2013) and Njeru (2013) used the technique to analyze the moderating and mediating relationships in their studies.

The general model for testing the hypotheses was in the form of:

$P_1 = \beta_{01} + \beta_{11}X_{ii} + \beta_2 X_{oc}\, X_{II} + \ldots \beta_n X_n + \varepsilon$

Where:

P = Firm performance (dependent variable)

β_0 =Regression Constant

$\beta_{1\text{-}n}$= Coefficients denoting a change in the dependent variable caused by a unit change in the predictor (independent) variable

ε = Error term that accounted for the unspecified variables or unexplained variables in the model

The regression model for testing the influence of predictor variables on firm performance was:

$P_6 = \beta_{06} + \beta_{16}X_{ii} + \beta_{26}X_{mm} + \beta_{36}X_{oc}X_{II} + \varepsilon$

Where:

P = Composite score of Firm performance

X_{II} =Composite score of Perceived value of investment promotion incentives

X_{oc} = Composite score of Organizational characteristics

X_{mm} = Composite score of Macro-marketing environment

Summary of analytical models is shown in Table 3.3.

Table 3.3: Summary of Data Analysis Based on Objectives, Hypotheses, Analysis Techniques, Model Estimation and Interpretation of Results

Objectives	**Hypotheses**	**Analysis Technique**	**Model Estimation**	**Interpretation of Results**
1.To determine the influence of $\mathbf{X_{ii}}$ on $\mathbf{P_1}$	**H_1:**Perceived Value of Investment Incentives (ii) have statistically significant influence on performance of EPZ firms	Linear regression analysis	$\mathbf{P_1 = \beta_{01} + \beta_{11}X_{ii} + \varepsilon_1}$ P = performance of EPZ firms β_{01} = beta constant of H_1 β_{11} = beta coefficient of H_1 X_{ii} = Investment Incentives ε= error term unexplained	- Coefficient of determination (R^2) is to explain the variation in the dependent variable in terms of its relationship with the independent variable (relationship between $\mathbf{X_{ii}}$ and $\mathbf{P_1}$) - F statistic will show significance of the model
2.To assess the relationship between $\mathbf{X_{oc}}$ and $\mathbf{P_2}$.	**H_2:** Organizational characteristics have statistically significant positive relationship with performance of EPZ firms.	Correlation - Pearson's Product Moment	Correlation	- Pearson's correlation coefficient (R) is to determine the significance of the relationship between $\mathbf{X_{oc}}$ **and** $\mathbf{P_2}$ - Crammer's V will be used to test the strength of the relationship between $\mathbf{X_{oc}}$ **and** $\mathbf{P_2}$

Objectives	**Hypotheses**	**Analysis Technique**	**Model Estimation**	**Interpretation of Results**
3. To establish the relationship between $\mathbf{X_{mm}}$ and $\mathbf{P_3}$.	**H_3:** Macro-marketing environment has a statistically significant positive relationship with performance of EPZ firms.	Correlation-Pearson's Product Moment	Correlation	- Pearson's correlation coefficient (R) is to determine the significance of the relationship between $\mathbf{X_{oc}}$ **and** $\mathbf{P_3}$ - Crammer's V will be used to test the strength of the relationship between $\mathbf{X_{oc}}$ **and** $\mathbf{P_3}$
4.To investigate the influence of $\mathbf{X_{mm}}$ on the relationship between $\mathbf{X_{ii}}$ and $\mathbf{P_4}$	**H_4**: Macro-marketing environment has statistically significant moderating influence on the relationship between perceived value of investment incentives and the performance of EPZ firms.	Hierarchical multiple linear regression	$\mathbf{P_4 = \beta_{04} + \beta_{14}X_{ii} + \beta_{24}X_{mm} + \beta_{34}X_{iimm} + \varepsilon_4}$	- R^2 is to explain the variation of the moderating influence of $\mathbf{X_{mm}}$ on the relationship between $\mathbf{X_{ii}}$ and $\mathbf{P_4}$ - F statistic will show significance of the model

Objectives	**Hypotheses**	**Analysis Technique**	**Model Estimation**	**Interpretation of Results**
5.To determine the extent of $\mathbf{X_{oc}}$ influence the relationship between $\mathbf{X_{ii}}$ and $\mathbf{X_{mm}}$ on **P**	$\mathbf{H_5}$: Organizational characteristics have statistically significant moderating influence on the relationship between perceived value of investment incentives and the performance of EPZ firms.	Hierarchical multiple linear regression	$\mathbf{P_5 = \beta_{05}+\beta_{15}X_{ii}+\beta_{25}X_{oc}+ \beta_{35}X_{iioc}+ \mathcal{E}_5}$	- R^2 value will show the variation of the moderating significance of $\mathbf{X_{oc}}$ on the relationship between $\mathbf{X_{ii}}$ and $\mathbf{P_5}$ - F statistic will show significance of the model
6. To examine the extent to which $\mathbf{X_{ii,,}X_{oc}}$ and $\mathbf{X_{mm}}$ jointly influence $\mathbf{P_6}$.	$\mathbf{H_6}$: Perceived value of investment incentives, organizational characteristics and macro-marketing environment have statistically significant Joint influence on the performance of EPZ firms.	Stepwise multiple regression	$\mathbf{P_6= \beta_{06}+ \beta_{16}X_{ii}+\beta_{26}X_{oc}+ \beta_{36}X_{mm}+ \mathcal{E}_6}$	- R^2 is to explain the variation of the joint influence of $\mathbf{X_{ii}}$, $\mathbf{X_{oc}}$ and $\mathbf{X_{mm}}$ on $\mathbf{P_6}$ - F statistic will show significance of the model

Source: Researcher (2015)

3.10 Moderation Tests

Moderation test was performed through hierarchical multiple regression. Subsequently, path analysis was done to determine the causal influence between perceived value of investment promotion incentives and firm performance.

Moderation is an interaction in which there are different predictions of a dependent variable by an independent variable across levels of a third variable (Baron & Kenny, 1986). The third variable affects both strength and direction of the relationship or either. It could enhance, reduce or influence the predictor.

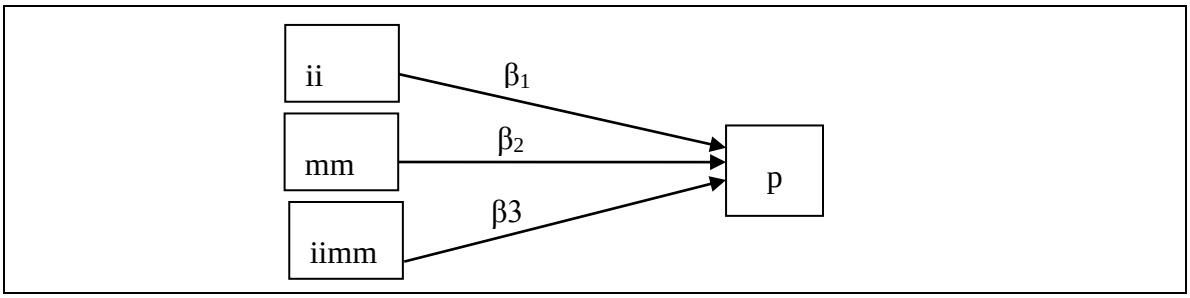


Figure 3.1: Path Analysis Diagram for Moderating Influence Tests

Source: Source: Adopted from Baron and Kenny (1986)

Where:

ii = Independent variable

mm = Macro-marketing environment

P = Dependent variable

β_i = Beta coefficients

3.11 Summary of the Chapter

This chapter has presented the research methodology adopted in the study. It presented research philosophy, population of the study and data collection method used. The chapter also explained reliability and validity of the data instruments. It dealt with the operationalization of study variables, and statistical data techniques namely, descriptive and inferential. The chapter also provided the models used for data analysis, hypotheses testing and moderation tests. The next chapter presents data analysis, findings and discussion.

CHAPTER FOUR: DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents the results of response rate, and detailed results of analysis of the respondents' data on variables classified as socio-demographics, perceived value of investment promotion incentives, organizational characteristics, macro-marketing environment and firm performance. The results are presented in form of both descriptive and inferential statistics. There is also a section-by-section discussion, interpretation of the results and conclusions based on the hypotheses testing.

4.2 Response Rate

This study adopted a descriptive cross-sectional survey of firms operating in the Export Processing Zones in Kenya as at March 2014. The study targeted eighty-six (86) firms in the 50 zones spread across the country. However, only 70 (81.4%) firms participated due to a number of reasons. Six (6) establishments were purely zone developers, which were not engaged in the business of processing and exports. Nine (9) had closed down and one (1) was a subsidiary consultancy firm of one of the companies. Of the 70 participating firms, 49 (70%) returned duly filled questionnaires.

The response rate is consistent with previous studies. For instance, Namada (2013) had a response rate of 62.5% from the same target EPZ firms. Njeru (2013) studying marketing in the tourism sector in Kenya had a response rate of 60%. Nilsson (2008) undertook a study on the impact of pro-social attitudes and perceived financial performance on socially responsible investment behaviour in Sweden with a response rate of 24%. In China, Wei, Samiee and Lee (2014) studied the influence of organic organizational cultures, market responsiveness, and product strategy on firm performance in an emerging market and had a response rate of 60%.

4.3 Respondent Characteristics

Descriptive statistics were used to analyze characteristics of the respondents in terms of their gender, age, level of education, position, and length of service in the firm. The respondents were the chief executives/managing directors, general managers and other managers who constitute top management in the EPZ firms in Kenya. Descriptive statistics were also used to analyze firm characteristics in terms of sector, year of incorporation, value of investments, employee complement and category. The relevant results are presented in the subsequent sections.

4.3.1 Gender

The study had sought information on the respondents' gender in order to determine its spread in the top management of the assessed firms in the Kenyan EPZ. The spread of gender is shown in Table 4.1.

Table 4.1: Respondent Distribution by Gender

Gender	Frequency	Percent
Male	31	63.3
Female	18	36.7
Total	49	100.0

Source: Primary Data (2015)

The results in Table 4.1 show that 63.3% top managers were male and 36.7% female staff. This ratio is consistent with European Union average of 67% male to 33% female employment ratio (UK, 2013). Namada (2013) had a response rate of 75% male and 25% female in top management of EPZ firms categorized as Managing Directors, Accountants, Administrators and Human Resource Managers.

4.3.2 Age

Age is an important characteristic of management. Age, though not necessarily a determinant of positions in the top management of firms, is a variable that may be important in classifying or explaining the portfolio and/or hierarchical spread of personnel. Information on the respondents' age distribution is contained in Table 4.2.

Table 4.2 Distribution of Respondents by Age category

Age	Frequency	Percent
Up to 30 years	4	8.2
31-45	35	71.4
46-60	8	16.3
Above 60	2	4.1
Total	49	100.0

Source: Primary Data (2015)

The data in Table 4.2 indicate that majority of top managers (71.4%) in the EPZ firms in Kenya are within the age bracket of between 31 and 45 years. The employment age bracket in EPZs tend to be relatively young; hence, top management age is within the trend. In Costa Rica, 40.2% of EPZ work force is between 18 and 25 years while ages between 26 and 30 years make up 25% of the work force (Jenkins, 2005). In India, the age range of EPZ work force is concentrated between 20 and 29 years with male workers at 61% and female workers at 71.4% (Aggarwal, 2007). In developing countries, most EPZ firms are low-technology labour-intensive industries that require low skill workforce (ibid, p.5). It means that first time or younger job seekers without experience tend to have employment opportunity in the EPZ firms. Only 4.1% of the top management executives was 61 years and above. This might mean that after gaining skills and experience the managers could be moving out to other jobs in the domestic market or starting own enterprises after gaining technological experience**.**

4.3.3 Respondents' Highest Level of Education

The respondents' level of education is both a key determinant of the positions occupied in firms and influences significantly social upward mobility. High level of educational attainment is generally equated with both expertise and subsequent high and improved performance. It is therefore a key variable assessed to establish the possible level of qualification of the top management and the inferred expertise. Table 4.3 shows the distribution of the respondents by highest level of education attained.

Table 4.3: Distribution of Respondents by Highest Level of Education Attained

Level	Frequency	Percent
Secondary	1	2.0
Diploma	16	32.7
Bachelor's Degree	19	38.8
Master's Degree	13	26.5
Total	49	100.0

Source: Primary Data (2015)

The results summarized in Table 4.3 reveal that 38.8% of top managers had Bachelor's Degree; 32.7% had Diploma and 26.5% had Master's Degree. Education consideration thus seems to be critical in engaging top management cadres. The result is almost similar to Namada (2013) which found out that Bachelor's Degree level of education among top management at the EPZ firms in Kenya was 47.5% comprising 42.5% male and 5% female.

The high level of education with majority at Bachelor's Degree for top management enables them to easily learn and acquire knowledge that can eventually be transferred to domestic firms through copying, reverse engineering and movement of managers

between foreign and domestic companies (Aggarwal, 2005). The level of knowledge also points out to the ability of the managers to make informed managerial decisions.

4.3.4 Respondents' Position in the Firm

Position occupied in a firm in the EPZ was a critical aspect of this study. The suitability of a respondent to participate in filling the questionnaire actually depended on his or her position in the assessed firm. The basis for this decision was that certain positions meant that one was a custodian of and had access to the information at the firm's disposal. In this study, these positions were Chief Executive Officer/Managing Director, General Manager and other managers. Table 4.4 contains results of the assessment of the distribution of the respondents' positions in the firm.

Table 4.4: Distribution of Respondents by Position in the Firm

Position	Frequency	Percent
Chief Executive Officer/Managing Director	11	22.4
General Manager	6	12.2
Manager	32	65.3
Total	49	100.0

Source: Primary Data (2015)

The results in Table 4.4 indicate that 65.3% are ordinary managers and 22.4% are Chief Executives/Managing Directors. The results show that people at the rank of managers form the topmost executives in the management of many EPZ firms in Kenya. It also indicates the level of confidence EPZ firm ownership has in their managers by allowing them to give important company information. It might also suggest possibility of ownership of many firms delegating some responsibility to their managers. The result may further suggest that many EPZ firms being foreign owned may have their top

management stationed in foreign headquarters leaving daily management responsibility to locally hired managers.

4.3.5 Respondents' Distribution by Length of Service in the Firm

The length of time for which the respondents had served in their respective firms had been one of the variables on which information was sought. Duration of service is an important factor in determining who assumes a top managerial position in a firm. It is also often equated with expertise and competencies accumulated overtime. Therefore, length of service was one of the key demographic variables measured in the study. Table 4.5 presents a summary of the results drawn from that assessment.

Table 4.5: Distribution of Respondents by Length of Service in the Firm

Length of Service	Frequency	Percent
0-5 years	28	57.1
6-10 years	10	20.5
11-15 years	11	22.4
Total	49	100.0

Source: Primary Data (2015)

The results in Table 4.5 show that 57.1% of top managers had served in the firms for up to five years. Only 20.5% had served for between 6 and 10 years. This may indicate that there is a high top management turnover. As observed in the general age brackets, the youthful nature of managers might be inspiring vertical and horizontal job mobility to other enterprises within and outside the EPZs.

4.3.6 Respondents' Gender, Duration and Position in the Firm

Distribution of positions in the firms along the lines of gender and duration of service was assessed. Both gender and duration of service can be significant variables for classifying the distribution of top managerial positions in a company. At times, these two may actually influence such a distribution. Table 4.6 is a cross tabulation of gender, duration of service and position in the Company.

Table 4.6: Distribution of Respondents by Gender, Duration and Position in the Firm

Gender	Duration	n	Position in the company			Total (%)
	Years (Age)		Chief Executive Officer/Managing Director (%)	General Manager (%)	Manager (%)	
Male	0-5	20	8.16	6.12	26.53	40.81
	6-10	5	0	0	10.20	10.2
	11-15	6	4.08	4.08	4.08	12.24
Female	0-5	8	2.04	0	14.29	16.33
	6-10	5	0	2.04	8.16	10.2
	11-15	5	8.16	0	2.04	10.2
Total		**49**	**22.44**	**12.24**	**65.30**	**100**

Source: Primary Data (2015)

Table 4.6 shows that majority of the male (40.1%) against female (16.33%) had served in the top management of firms for a period of below five years. Fewer top management executives had worked for a period between 6 and 15 years. However, fewest of top managers, male or female at an equal score of 10.2% had served for a period between 6 to 10 years. Across gender and duration, there was a wide spread of manager positions (65.30%) compared to the others. This could be attributed to the ten-year tax holiday as an incentive for EPZ firms which mean many firms do opt out of the zone programme by

closing down and relocating. Many top managers therefore tend to leave the firms before expiry of the tax holiday period.

4.3.7 Gender, Position in the Firm and Level of Education

The respondents had been asked to provide information on their gender, position in the firm and education. Based on this information cross tabulation was computed to help reveal details of the spread of educational levels or qualifications across gender and position. The result of the cross tabulation is shown in Table 4.7.

Table 4.7: Distribution of Respondents by Gender, Positon in the Firm and Level of Education

Gender	Position	n	Level of Education				Total (%)
			Secondary (%)	Diploma (%)	Bachelor's Degree (%)	Master's Degree (%)	
Male	Chief Executive Officer/ Managing Director	6	0	4.08	2.04	6.12	12.24
	General Manager	5	0	0	4.08	6.12	10.2
	Manager	20	0	10.20	22.44	8.16	40.8
Female	Chief Executive Officer/ Managing Director	5	2.04	6.12	0	2.04	10.2
	General Manager	1	0	0	0	2.04	2.04
	Manager	12	0	12.24	10.20	2.04	24.48
Total		49	2.04	32.64	38.76	26.52	100

Source: Primary Data (2015)

The results in Table 4.7 indicate that 6.12% of the males who responded are Chief Executives/Managing Directors with Master's Degree against 2.04 % of the females in a similar position and with a similar qualification. There were more male top managers across the different managerial positions with either Master's Degree (20.40%) or Bachelor's Degree (28.56%) than their female counterparts were with 6.16% Master's Degree and 10.2% Bachelor's Degree. Only female top managers (2.04%) had secondary level education.

Overall, more respondents had either Master's Degree (26.52%) or Bachelor's Degree (38.76%) compared to the other levels of education. This shows that academically capable people who can make responsible decisions to enhance firm performance manage the EPZ firms.

4.3.8 Gender, Age and Duration of Service

Information had been sought on the respondents' gender, age and duration of service. The purpose of this information was to determine how long the respondents had worked in the respective firm and the status of this aspect based on their gender and age. Age especially can be a critical determinant of the duration of service of an employee in a firm. The relevant data were analyzed and the results presented in Table 4.8.

Table 4.8: Distribution of Respondents by Gender, Age and Duration

Gender	Age (years)	n	Length of service in the firm			Total (%)
			0-5 years (%)	6-10 years (%)	11-15 years (%)	
Male	31-45	24	30.61	10.20	8.16	48.97
	46-60	6	8.16	0	4.08	12.24
	Above 60	1	2.04	0	0	2.04
Female	Upto 30	4	6.12	2.04	0	8.16
	31-45	11	10.20	6.12	6.12	22.44
	46-60	2	0	2.04	2.04	4.08
	Above 60	1	0	0	2.04	2.04
Total (%)		**49**	**57.14**	**20.41**	**22.45**	**100**

Source: Primary Data (2015)

Table 4.8 shows that the highest percentage of top managers, male (48.97%) and female (22.44%), aged between 31 and 45 years, had served the EPZ firms for a period less than five years. In total, across all age categories, 57.14% had served in top management for a period less than five years. Some 20.41% had served for between 6 and 10 years and 22.45% had served for periods between 11 and 15 years. This indicates that most top executives in the EPZ firms are at formative stage of their management career, which may translate to creative, energetic and active approach for superior firm performance.

4.4 Firm Characteristics

This study considered sector categories, ownership structure, age of firm, and year of incorporation in Kenya as important factors for firm performance. The respondents had therefore, been asked to provide information on these items.

4.4.1 Sector of Firm

Information on the sector had been sought to help in categorizing the respondents' firms. Such categorization was important in validating the choice of the key variables. Identification of the category was necessary in analyzing popular sectors, which investors tend to be attracted to in the EPZ programme. The relevant information is provided in Table 4.9.

Table 4.9: Distribution of Firm Characteristics by Sector

Sector	**Frequency**	**Percent**
Manufacturing/Processing	43	87.8
Commercial	4	8.2
Service	2	4.1
Total	**49**	**100.0**

Source: Primary Data (2015)

Results in Table 4.9 indicate that EPZ firms in Kenya are concentrated in manufacturing and processing, constituting 87.8% of the total firms in the study. This can be attributed to the investment incentives offered to manufacturers for exports. Incentives in the EPZ programme are more skewed towards manufacturing activities where investors enjoy duty and tax exemptions, quota-free import of capital and intermediate goods.

4.4.2 Firm Ownership

Ownership of the firm was considered in terms of whether Kenyan owned, foreign owned or both. Firm ownership in the Kenyan EPZs takes the forms stated above and may have a bearing on the type of investment promotion incentives and macro-marketing environment issues considered critical for performance. Table 4.10 shows the distribution of the firm ownership in the EPZs.

Table 4.10: Distribution of Firm Characteristics by Ownership

Ownership	Frequency	Percent
Wholly Kenyan	15	30.6
Wholly foreign	23	46.9
Majority Kenyan	6	12.2
Majority foreign	5	10.2
Total	49	100.0

Source: Primary Data (2015)

Results in Table 4.10 reveal that wholly foreign owned firms were the majority (46.9%). while 30.6% were wholly Kenyan owned. This may be explained by the fact that foreign firms, due to theory of location advantages, move to locations with improved infrastructure, market access opportunities and institutional incentives. Most of foreign-owned manufacturing/processing firms have set up operations in the EPZs to take advantage of the incentives the Country provides and market access provisions of the African Growth and Opportunities Act (AGOA) of the United States of America (USA) and other regional market access preferences to Kenya is a signatory.

The 46.9% foreign ownership may also be attributed to the earlier notion by Kenyans that EPZ programme was focused on foreign investors. The EPZ Authority undertakes investment promotion in foreign countries; hence, the more attraction of foreign investors into the programme compared to local Kenyans. This result is different from Namada (2013) which had 42.5% of the firms being wholly Kenyan and 40% wholly foreign owned.

4.4.3 Firm Ownership and Sector

The spread of sector in which the respondents' firms operated across different categories of ownership was assessed to determine any notable patterns. The relevant results are contained in Table 4.11.

Table 4.11: Distribution of Firm Characteristics by Ownership and Sector

Ownership (%)	n	Sector			Total (%)
		Manufacturing/ Processing (%)	Commercial (%)	Service (%)	
Wholly Kenyan	15	26.53	2.04	2.04	30.61
Wholly foreign	23	42.5	4.26	0	46.76
Majority Kenyan	6	8.61	2.04	2.04	12.69
Majority foreign	5	10.20	0	0	10.20
Total (%)	**49**	**87.84**	**8.34**	**4.08**	**100**

Source: Primary Data (2015)

Table 4.11 indicates that majority (87.84%) of the firms across the ownership category are concentrated in the manufacturing sector. Only Kenyan owned firms operate in all the sectors. The results therefore show that foreigners are mainly interested in the manufacturing/processing sector, which happens to have good incentive packages such as quota-free imports of capital and intermediate goods, and duty and VAT exemptions. EPZ programme is typically meant for export product manufacturing and processing; hence commercial and service sectors are supposed mainly to support the industries.

4.4.4 Age of the Firm

Age of the firm had been defined in terms of the number of years for which the firm had operated in Kenya. The age of a firm significantly determines the evaluation of its success. It is also a criterion for the relevance of the information solicited for eventual analysis. Table 4.12 presents the pertinent results.

Table 4.12: Distribution of Firm Characteristics by Age of the Firm

Age of the firm	Frequency	Percent
1-5 years	17	36.17
6-10 years	13	27.66
11-15 years	13	27.66
16-20 years	3	6.38
21 years and above	1	2.13
Total	47	100

Source: Primary Data (2015)

The results in Table 4.12 show that a substantial proportion of firms (36.17%) in the Kenyan EPZs were between 1 and 5 years old, followed by those (27.66%) between 6 and15 years. This may be explained by the fact that many firms in the Programme tend to wind up or mutate into new outfits when the ten-year tax holiday is expired. However, out of the respondents analyzed, 36.2% were out of the tax holiday bracket as they had been in operation for more than ten years. Firms out of tax holiday could still be in the EPZs because of other incentives and stability in their markets.

4.4.5 Ownership, Age and Sector of Firm

Cross tabulation of ownership, age and sector was done with focus on the distribution of the sector across ownership and age. The study considered these as effective ways of classifying the sector of firms since they could reveal enhanced, finer, and more intricate details of sector distribution. Table 4.13 contains the distribution of firms by age, sector and ownership structure.

Table 4.13: Distribution by Ownership, Age and Sector

Ownership	n	Age of firm in years	Sector			Total (%)
			Manufacturing/ Processing (%)	Commercial (%)	Service (%)	
Wholly Kenyan	6	1-5	12.7	0	0	12.7
	4	6-10	6.38	0	2.13	8.51
	3	11-15	6.38	0	0	6.38
	1	21 and above	0	2.13	0.	2.13
Wholly Foreign	8	1-5	14.89	2.13	0	17.02
	4	6-10	8.51	0	0	8.51
	7	11-15	12.77	2.13	0	12.77
	3	16-20	6.38	0	0	6.38
Majority Kenyan	3	1-5	6.38	0	0	6.38
	2	6-10	0	2.13	2.13	4.26
	1	11-15	2.13	0	0	2.13
Majority Foreign	3	6-10	6.38	0	0	6.38
	2	11-15	4.25	0	0	4.25
Total (%)	**47**		**87.15**	**8.52**	**4.26**	**100**

Source: Primary Data (2015)

The results in Table 4.13 show that majority of the firms irrespective of type of ownership are mainly in the manufacturing sector. They were also mostly in the age bracket of between 1 and 5 years. Although the dominance and spread of the manufacturing/firms across periods of operation and ownership is observable throughout the distribution, wholly foreign owned firms were the most evenly spread throughout the period. This indicates that foreigners pioneered investments and continue to operate in the Kenyan EPZ programme.

Overall, manufacturing sector accounts for the most number of firms across the different ownership categories and periods of operation. This indicates that foreign-owned firms were also more grounded in the manufacturing sector than local firms. The spread across the years may also be considered as a strong factor in sustainable firm performance. Investments in the commercial and service sectors seemed not to be popular. This may be explained by the fact that the two sectors merely offer support facilities for the EPZ enterprises. Furthermore, the two sectors do not attract the traditional incentives offered to the manufacturing/processing sector.

4.4.6 Year of Incorporation

Information on the respondent firms' year of incorporation was necessary to assess whether the time lapse since their incorporation had qualified them as participants in the EPZ programme. It would also help in assessing if the firms were beneficiaries of the investment promotion incentives and exposed to the relevant organizational and macro-marketing issues under investigation. The necessary information is contained in Table 4.14.

Table 4.14: Year of Incorporation in Kenya

Year	Frequency	Percent
1990-1994	3	6.1
1995-1999	4	8.2
2000-2004	8	16.3
2005-2009	18	36.7
2010-2014	16	32.7
Total	49	100.0

Source: Primary Data (2015)

The data summarized in Table 4.14 indicate that 85.7% of firms in the Kenyan EPZs were incorporated within the last fourteen years although the Programme has been in existence for 24 years. Only 14.3% of the firms were incorporated in the first ten years of the Programme. This shows the slow uptake of the EPZ concept in the Country and, possibly, initial low confidence level of the foreign investors in the Kenyan investment climate.

4.4.7 Year of Incorporation and Sector

Cross tabulation was computed to find out the distribution of firm sector across years of incorporation in Kenya. The information on such a distribution would help in determining which sector, for example, had the oldest or newest firms since incorporation. The results are summarized in Table 4.1.

Table 4.15: Distribution of Firm Characteristics by Year of Incorporation and Sector

Year	Sector				Total (%)
	n	Manufacturing/Processing (%)	Commercial (%)	Service (%)	
1990-1994	3	4	2	0	6
1995-1999	4	8.16	0	0	8.16
2000-2004	7	14.28	2	0	16.28
2005-2009	18	30.61	2	4	36.61
2010-2014	17	30.61	2	0	32.61
Total (%)	**49**	**87.66**	**8**	**4**	**100**

Source: Primary Data (2015)

The results presented in Table 4.15 indicate that majority (61.22%) of the firms were incorporated in the last ten years (2005 to 2014). These firms are in the manufacturing sector. Between the years 2000 and 2014, only three commercial, and two service sector firms were established. Between the years, 1990 and 1994 only one commercial sector firm was established. This suggests that the two sectors (commercial and service) were not common in the activities of the EPZ programme. This could have been due to lack of economies of scale that could justify their establishment, as firms were still few in the programme.

4.4.8 Current Investment Value of the Firm

It had been necessary to seek information on the current investment values of the firms. This information was to help get an idea and make inferences on the status of the firms' investment value i.e. size of firm by level. Table 4.16 summarizes the relevant investment value information.

Table 4.16: Distribution of Firm Characteristics by Current Investment Value of the Firm ('Million US. Dollars)

Values in $	Frequency	Percent
100 & Below	29	70.7
101-500	5	12.2
501-1000	4	9.8
5001 & above	3	7.3
Total	41	100.0

Source: Primary Data (2015)

The results in Table 4.16 show that 70.7 % of the investment values in the EPZ firms in Kenya are worth US.$ 100 million and below. The values decrease from 12.2% for investment values between US.$101 to 500 million to 9.8% and 7.3% for investment values US.$ 5001 and above. This implies that the consequence of exemptions and other investment attraction incentives could be reducing investment expenses leading to lower costs for investors. The other reason for low values may be that most investments in the Kenyan EPZs are not of high capital expenditure. They are mainly in the labour intensive sectors such as textile and apparels for the AGOA market in the USA.

4.4.9 Firm Characteristics by Number of Employees 2011-2014

The study had also intended to get information on the composition of the employment structure in the respondent firms from 2011 to 2014. The structure had to be classified in three different categories namely locals (permanent), expatriates and casuals. The pertinent results are contained in Table 4.17.

Table 4.17: Distribution of Firm Characteristics by Number of Employees 2011-2014 (Employment Generation)

Employee Category	Year							
	2011		2012		2013		2014	
	Frequency	Percent	Frequency	Percent	Frequency	Percent	Frequency	Percent
Locals (Permanent	16786	85.2	22874	85.2	28646	84.7	28317	79.0
Expatriates	209	1.1	265	1.0	343	1.0	370	1.0
Casuals	2701	13.7	3704	13.8	4838	14.3	7160	20.0
Total	19696	100	26843	100	33827	100	35847	100

Source: Primary Data (2015)

The results in Table 4.17 show that locals comprised 85.2% in the permanent employment category in the years 2011 and 2012. However, there was a drop in the next three years with the biggest drop (79.0%) being in 2014. Expatriate employment was only 1.1% in 2011 and remained largely the same in the subsequent years. Casual employment had a steady rise from 13.7% in 2011 to 20% in 2014. It is evident that whenever there was an increase in the number of permanent and casual employees, there

was corresponding increase in the number of expatriates. Another trend was that whenever there was a decrease in permanent employment, there was an increase in casual employment. This trend may be attributed to market behaviour in EPZ product orders especially the textile and apparels. When the demand drops and the market future is uncertain, investors tend to reduce permanent employees considered expensive and replace them with casuals who are considered affordable under the difficult circumstances.

4.5 Descriptive Statistics for the Independent and Dependent Variables

Mean score is the average of all the scores in a given variable while standard deviation is a measure of dispersion of the values from a central point. The mean and standard deviations however, cannot be compared in a meaningful way, as they greatly vary in their occurrence in the different variables. Coefficient of variation (Cv) is a standardized measure of dispersion of probability or frequency distribution. It thus depicts the extent of variability in respect the population mean. It is computed as a ratio of standard deviation to the mean. Due to the limitation of the mean for comparison of the items in the variables, Cv was computed to get values that were as close as possible to the actual values. This made clear the true nature of dispersion of the items and their contribution to performance. For purposes of this study, the coefficient of variation ratings were determined as 0 to 25% very good, 26 to 50% good, 51 to 75% fair and 76 to 100% poor.

a. Perceived Value of Investment Promotion Incentives

Descriptive statistics for Perceived Value of Investment Promotion Incentives are shown in Table 4.18. It comprises seven item incentive measurements. The incentives were measured using a rating scale of 1 to 5 where 1 represented a response of "Not at all" and 5 represented "Very large extent". The respondents were asked to indicate the extent to which the enlisted incentives contributed to the performance of their firms. They were also asked to specify any other factor they considered important in their firm performance. The results were measured using mean scores and coefficient of variation.

Table 4.18: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Perceived Value of Investment Promotion Incentives

Perceived Value of Investment Promotion Incentives	N	Mean	Std. Deviation	Cv (%)
Stability of foreign exchange	48	2.17	1.00	46
Free repatriation of capital and profits	47	3.19	1.10	34
Allowance to own foreign currency accounts	48	2.83	1.10	38
Quota-free imports	47	2.60	1.33	51
Land use policy	44	2.91	1.38	47
Duty & VAT	47	1.62	0.68	41
One-stop shop	48	2.73	1.23	45
Overall		**2.58**	**1.12**	**43.14**

Source: Primary Data (2015)

Sub-variables of perceived value of investment promotion incentives were used to determine the extent to which they contributed as incentives to the performance of firms in the EPZs in Kenya. The overall mean score was 2.58 and a coefficient of variation (Cv) = 43%. The standard deviation and mean of a variable are expressed in the same units, so taking the ratio of these two allows the units to cancel. The results in all the variables indicate that investors consider stability of foreign exchange, free repatriation of capital and profits, allowance to own foreign currency accounts, land use policy in Kenya, duty and VAT exemptions, and one-stop shop operations as good contributing incentives to their firm performance. However, quota-free imports of capital and intermediate goods (mean score of 2.60 and Cv = 51%) had little contribution as an incentive to firm performance.

b. Descriptive Statistics for Organizational Characteristics

Organizational characteristics was a moderating variable having six measurement items with the last item soliciting for an open opinion from respondents. Using the same rating method as in 4.4.1 above, respondents were asked to indicate the extent to which the items in the measurement influenced their firm performance. The results are shown in Table 4.19.

Table 4.19: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Organizational Characteristics

Organizational Characteristics	N	Mean	Std. Deviation	Cv (%)
Industry Experience	48	2.8125	1.39	49
Business Culture	49	2.8980	1.36	46
Satisfied with the quality of our human resources	49	3.2653	1.04	31
Size of investment influences the performance	48	3.2500	0.98	30
Ownership structure of our firm gives us advantage over competitors	47	3.5532	1.14	32
Overall		**3.16**	**1.18**	**37.6**

Source: Primary Data (2015)

The result of industry experience indicates a mean score of 2.8 and a Coefficient of Variation = 49%. This explains that investors consider industry experience as a good influence in their firm performance. The ratings of the other measurements (business culture, quality of human resource, size of investment, and ownership structure as an advantage over competitors) ranged from means of 0.98 to 1.36, and Cv ranging from 30

to 46%. Organizational characteristics were therefore considered good indicators affecting firm performance.

c. Descriptive Statistics for Macro-marketing Environment

Descriptive statistics for macro-marketing environment covers political issues, economic issue in general, economic issues related to cost, social issues, legal issues, technology issues and ecological issues. The issues were constructed as opinion statements, and measured using a rating scale of 1 to 5 where 1 represented a response of "not at all" and 5 represented "very large extent". The coefficient of variation rating were determined as 0 to 25% very good, 26 to 50% good, 51 to 75% fair and 76 to 100% not good.

For all the statements, the respondents had been asked to indicate the extent to which they agreed with the statements as presented in respect to the influence macro-marketing environment had on firm performance.

i) Macro-marketing Environment: Political issues

The respondents' opinion had been sought on a number of political issues as part of a wider macro-marketing environment with postulated influence on firm performance. The results are depicted in Table 4.20.

Table 4.20: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Political Issues)

Political Issues	**N**	**Mean**	**Std. Deviation**	**Cv (%)**
The prevailing political climate is good for our firm performance.	49	2.61	1.21	46
We are satisfied with government effort in supporting investments in the country.	49	2.94	0.80	27
Kenya has good international political relations that is good for investment.	49	2.97	0.96	28
Overall		**2.84**	**0.99**	**34**

Source: Primary Data (2015)

Results in Table 4.20 indicate that all the political issues on average are significant aspect of macro-marketing environment with ability to influence firm performance with overall mean=2.84 and Cv =34%. However, the respondents seemed to consider prevailing political climate (mean 2.61 and Cv = 46%) as less significant for investments compared to either satisfaction with government effort in supporting investments (mean 2.94 and Cv = 27%) or the status of Kenya's good international political relations (mean 2.97 and Cv = 28%).

ii) Macro-marketing Environment: Economic Issues

A number of sub variables on economic issues were used to solicit the opinion of the respondents on their firm performance. The study hypothesized these as determinants of factors that influence firm performance despite the incentives offered by the host country. The results are presented in Table 4.21.

Table 4.21: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Economic Issues In General)

Economic Issues	**N**	**Mean**	**Std. Deviation**	**Cv (%)**
Allocation of industrial land for EPZ investors has improved firm performance.	49	2.93	1.68	42
Industrial linkages with the domestic economy has helped us in addressing inputs including raw materials.	49	2.96	1.46	45
Rate of minimum wage in Kenya negatively affects performance of our firm.	49	2.63	1.41	53
We are satisfied with the services at the customs management offices in supporting our performance.	49	2.94	0.80	27
Overall		**2.87**	**1.34**	**42**

Source: Primary Data (2015)

Depicted in Table 4.21 are the statistics on the respondents' opinions. The issue statement "We are satisfied with the services at the customs management offices in supporting our performance", observably, had the highest considered significant influence on firm performance at mean 2.94, Cv = 27%. The issues had an average of mean = 2.87 and Cv = 42%. Based on the Cv interpretation criterion by the current study that 26-50% is a rating of "good", the result leads to a conclusion that the economic issues in general were considered to carry significant weight as contributory factors in firm performance.

iii) Macro-marketing Environment: Economic Issues related to Cost

The respondents were asked to determine the extent of cost effect of listed items as a challenge in their firm performance. To make the determination thirteen items were used to solicit the respondents opinion in a rating scale of 1 (not at all) to 5 (very large extent). The results are in Table 4.22.

Table 4.22: Economic Issues Related to Cost

Economic Issues	N	Mean	Std. Deviation	Cv (%)
Land	44	3.18	1.17	36
Road transport	49	3.88	0.93	23
Rail transport	44	2.64	1.42	53
Air transport	45	3.71	1.24	33
Shipping(Sea Transport)	47	3.79	1.16	30
Power/electricity	49	4.35	0.78	17
Water/Sewerage	47	3.70	1.06	28
Warehousing	47	3.43	1.10	32
Human capital/labour	47	3.81	1.08	28
Information Communication Technology	48	3.46	1.05	30
Licenses, permits	48	3.75	0.91	24
Taxes and levies	48	3.44	1.37	39
Raw materials	47	4.06	1.01	24
Overall		**3.63**	**1.10**	**30.54**

Source: Primary Data (2015)

Results in Table 4.22 show that the cost variables rated at an average of mean = 3.63 and Cv = 30.54% had influence that challenge the performance of EPZ firms.

iv) Macro-marketing Environment: Social Issues

In order to find out the significance of social issues in firm performance, the respondents were asked to rate their opinions on a number of issues based on a five-point rating scale. Descriptive statistics were then computed to determine relevant statistics such as mean and coefficient of variance. The results are indicated in Table 4.23.

Table 4.23: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Social Issues)

Social Issues	N	Mean	Std. Deviation	Cv (%)
The cost of welfare contributions affects the performance of our firm.	43	2.14	1.04	48
We have been able to source our technical staff locally.	48	3.69	1.17	31
Our wage/salary scales are competitively comparable to those in the domestic.	49	3.22	1.01	31
Our wage/salary scales comparatively are higher than those in the domestic economy.	46	2.80	1.29	46
Activities of trade union movement in EPZ affects performance of our firm.	43	2.35	1.31	55
The attitude of the local community towards EPZ scheme affects performance of our firm.	42	2.05	1.06	51
Overall		**2.71**	**1.15**	**43**

Source: Primary Data (2015)

The results in Table 4.23 show that ability to source technical staff locally (mean 3.69 and Cv = 31%), and competitiveness on wage and salaries (mean 3.22 and Cv = 31%) influenced firm performance were considered the best contributors to firm performance. The combined score of all the pertinent social issues within macro-marketing environment was mean of 2.71 and Cv = 43 %, indicating a rating of "good" for the ability of these factors to influence firm performance.

v) Macro-marketing Environment: Technological Issues

Respondents were asked to give their opinion on the extent to which they agree with some technological issues as they affect firm performance. Ratings of the respondents' opinions were then computed into relevant statistics including mean and coefficient of variance and the results displayed in Table 4.24.

Table 4.24: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Technological Issues)

Technological Issues	**N**	**Mean**	**Std. Deviation**	**Cv (%)**
Good technology uptake is important in the performance of our firm.	43	3.74	1.09	29
High cost of technical machinery and equipment negatively affects our firm performance.	49	3.61	1.19	32
Rapid changes in technology influences the performance of our firm.	42	3.24	1.25	38
Technological environment affects quality of factors of production in our firm.	48	3.29	1.22	37
Overall		**3.47**	**1.19**	**34**

Source: Primary Data (2015)

The results in Table 4.24 indicated that statements on the ability of the country on good technology uptake (mean 3.74 and Cv = 29%), negative effect of apparent high cost of technical machinery and equipment (mean 3.61 and Cv = 32%) and rapid changes in technology (mean 3.24 and Cv = 38%). The other statement was technological effects on the quality of factors of production (mean 3.29 and Cv = 37%) on firm performance. On average technology issues had a mean score of 3.47 and Cv = 34%, which demonstrates that they are important aspects of macro-marketing environment due to their considered influence on firm performance.

vi) Macro-marketing Environment: Legal Issues

Opinion statements relating to legal issues in the macro-marketing environment had presented to the respondents who were consequently to rate the importance of these issues in the performance of their firms. The pertinent results are in Table 4.25.

Table 4.25: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Legal Issues)

Legal Issues	N	Mean	Std. Deviation	Cv (%)
We are satisfied with the special legal framework that is different from domestic legislation.	48	3.27	0.76	23
Our expatriates receive their work permit easily without delay.	45	2.69	1.12	41
We get all our statutory legal issues sorted out timely by the EPZ regulatory management authority.	48	3.21	1.01	31
We believe strong legislation against expropriation and domestication is important in attracting EPZ investments and good firm performance.	48	3.69	0.95	25
We consider predictable, clear legal systems with timely service delivery to influence significantly our firm performance.	48	3.85	0.93	23
Overall		**3.34**	**0.96**	**29**

Source: Primary Data (2015)

The variables depicted in Table 4.25 had been used to establish the extent of the respondents' rating of the significance of legal issues to the performance of their firms. The issues which included extent of satisfaction with the special legal framework for the EPZs that was different from the domestic legislation (mean 3.27 and Cv = 23%) and the consideration of predictable clear legal systems with timely service delivery (mean 3.85 and Cv = 23%) had an overall mean score of 3.34 and CV = 29%. The average score indicates that these issues, all together, have a moderate influence on firm performance.

vii) Macro-marketing Environment: Ecological Issues

The respondents' opinions had also been sought on ecological issues and the results presented in Table 4.26.

Table 4.26: Mean Scores, Standard Deviations and Coefficient of Variation (Cv) for Macro-marketing Environment (Ecological Issues)

Ecological Issues	N	Mean	Std. Deviation	Cv (%)
Our firm undertakes energy-conserving production processes.	49	3.20	1.24	38
We observe good waste disposal practice	49	4.10	0.85	20
Our firm supports environmental protection activities in the community.	49	3.84	1.09	28
Our firm has overall environmental policy observed by all employees	49	4.02	1.01	25
Overall		**3.79**	**1.05**	**28**

Source: Primary Data (2015)

Four variables were used to solicit opinions on ecological issues as part of the macro-marketing environment and the results shown in Table 4.26 indicate that the statements, "We observe good waste disposal practice (mean 4.10 and Cv = 20%)" and "Our firm has overall environmental policy observed by all employees (mean 4.02 and Cv 25%)" had the highest scores. This implies that the respondents considered these two issues to have the greatest influence on firm performance compared to all the other ecological issues. The aggregated score of the issues had a mean of 3.79 and Cv =28%, suggesting a substantial cumulative effect on firm performance.

d. Descriptive Statistics for Firm Performance

Descriptive statistics for the dependent variable (firm performance) comprised four-variable measurements. The variables were measured using a rating scale of 1 to 5 after reduction of results into composite scores where 1 represented a response of "not at all" and 5 represented "very large extent". The coefficient of variation ratings were determined as 0 to 25% very good, 26 to 50% good, 51 to 75% fair and 76 to 100% not good. The results of the analysis are presented in Table 4.27.

Table 4.27: Mean Scores, Standard Deviations and Coefficient of Variations (Cv) for Firm Performance

Performance Indicators	N	Mean	Std. Deviation	Cv (%)
Direct local jobs	49	2.45	0.82	33
Average foreign exchange	49	2.53	1.24	49
Technology/Skill transfer	49	2.10	1.10	52
Backward Linkages	49	1.88	0.70	37
Overall		**2.24**	**0.97**	**43**

Source: Primary Data (2015)

The results in Table 4.27 show that 1 sought to establish the number of direct jobs each firm had created between the years 2011 and 2014 and had a mean score of 2.45 and Cv =33%. Item 2 sought to establish the amount of foreign exchange the firms had earned for the country between the years 2011 and 2014. The result was a mean score of 2.53 with Cv = 49%. Item 3 was to find out the rate of transfer of technology/skill transfer to the local employees between the years 2011 and 2014. The result was a mean score of 2.10 and Cv = 52%. Item 4 sought to determine the ratios of cost incurred in backward linkage activities such as payments of local employee salaries, local employee statutory deductions (PAYE, NSSF, NHIF), local purchases of raw materials, local utilities (water, power, telecommunications), local transportation (maritime, land , air, rail) and local sub-contracting. The result was a mean score of 1.88 and Cv =37%.

The performance indicators had a mean score 2.24 and Cv = 43% indicating good performance of the firms in the EPZs in Kenya.

4.6 Screening for Outliers

General preliminary cleaning was done for wrong or missed entries in the questionnaire. This process was followed by more screening tests the data analysis tool, SPSS. Cook's Distance and Z-score tests were done to identify outliers in the data. These residual statistics were computed through regression analysis and descriptive statistics.

The first screening was done to detect outliers in the interaction between perceived value of investment promotion incentives and firm performance. The results of the test showed that there were no outliers with the maximum value of Cook's Distance at 0.187, below the cut-off mark of 1.00. Values below this cut-off mark indicate absence of outliers in the data while those ones above it indicate possibility of extreme values. The residuals of Z-scores were also shown to be within the limits of -3 and +3 for minimum and maximum values, and within a standard deviation of 1.0. Again, this showed that there were no extreme values at either end of the data. Table 4.28 summarizes the pertinent results.

Table 4.28: Results of Cook's Distance and Z-score Tests for Outliers in the Interaction between Perceived Value of Investment Promotion Incentives and Firm Performance

Residuals Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Cook's Distance	49	.000	.187	.020	.031
Z-score: Composite scores of perceived value of investment promotion incentives	49	-2.83656	1.64703		1.0
Z-score: Composite scores of firm performance	49	-2.38259	1.64317		1.0

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

The second screening was done to detect outliers in perceived value of investment promotion incentives and firm performance. The results of the test showed that there were no outliers with Cook's Distance at 0**.**514, which is below the cut-off mark of 1.00. Values below this cut-off mark indicate absence of outliers in the data. Besides, the Z-scores of the composite scores of both perceived value of investment promotion incentives and firm performance fell well within the specified boundaries of -3 and +3 for minimum and maximum scores respectively. All the values were also within a standard deviation of 1.00. The relevant results are in Table 4.29.

Table 4.29: Results of Cook's Distance and Z-score Tests for Outliers in the Interaction among Perceived Value of Investment Promotion Incentives, Macro-marketing Environment and Firm Performance

Residuals Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Cook's Distance	49	.000	.514	.030	.080
Z-score: Composite scores of Perceived Value of investment promotion incentives	49	-2.83656	1.64703		1.0
Z-score: Composite scores of macro-marketing environment	49	-1.97949	1.48461		1.0
Z-score: Composite scores of firm performance	49	-2.38259	1.64317		1.0

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

The third screening was done to detect outliers in the interaction among perceived value of investment promotion incentives, organizational characteristics and firm performance. The results of the test indicated were no outliers, with Cook's Distance, based on the bottom line of 1.00, returning a value of 0.929—below the cut-off mark. The Z-scores computed for the composite scores of each of the variables equally showed lack of extreme values, falling within the standard limits of -3 minimum and +3 maximum. The standard deviation was 1.00 in each case. The pertinent results are contained in Table 4.30.

Table 4.30: Results of Cook's Distance and Z-scores Tests for Outliers in the Interaction among Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Firm Performance

Residuals Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Cook's Distance	49	.000	.929	.047	.147
Z-score: Composite scores of perceived value of investment promotion incentives	49	-2.837	1.647		1.0
Z-score: Composite scores of organizational characteristics	49	-2.397	1.618		1.0
Z-score: Composite scores of firm performance	49	-2.383	1.643		1.0

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

The fourth screening was done to detect outliers in the interaction among perceived value of investment promotion incentives, organizational characteristics, macro-marketing

environment and firm performance. The results of the test showed that there were no outliers with Cook's Distance at 0.81, which is below the cut-off mark of 1.00. The Z-scores for all the composite scores for all the variables fell well within the specified boundaries of -3 and +3 for minimum and maximum in that order, and 1.00 standard deviation in each case. The results revealed no extreme values in the data. The results are summarized in Table 4.31.

Table 4.31: Results of Cook's Distance and Z-score Tests for Outliers in the Interaction among Perceived Value of Investment Promotion Incentives, Organizational Characteristics, Macro-marketing Environment and Firm Performance

Residual Statistics	N	Minimum	Maximum	Mean	Std. Deviation
Cook's Distance	49	.000	.81	.049	.143
Z-score: Composite scores of Perceived value of Investment Promotion Incentives	49	-2.84	1.647		1.00
Z-score: Organizational characteristics	49	-2.43	1.618		1.00
Z-score: Composite scores of Macro-marketing environment	49	-1.979	1.485		1.000
Z-score: Composite scores of firm performance	49	-2.383	1.643		1.000

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

4.7 Correlation Analysis

Correlation analysis was performed using Pearson Product Moment Correlation Coefficient technique. This was to establish the extent of relationship between perceived value of investment promotion incentives, organizational characteristics, macro-marketing environment and firm performance. Table 4.32 shows the results of the analysis.

Table 4.32: Correlation Analysis

Variable		1	2	3	4
1. Composite scores of perceived value of investment promotion incentives	Pearson Correlation	1			
	Sig. (2-tailed)				
2. Composite scores of organizational characteristics	Pearson Correlation	.115	1		
	Sig. (2-tailed)	.430			
3. Composite scores of macro-marketing environment	Pearson Correlation	.335*	.662**	1	
	Sig. (2-tailed)	.019	.000		
4. Composite scores of firm performance	Pearson Correlation	.340*	.674**	.439**	1
	Sig. (2-tailed)	.017	.000	.002	
*. Correlation is significant at the 0.05 level (2-tailed).					
**. Correlation is significant at the 0.01 level (2-tailed).					

Source: Primary Data (2015)

The results in Table 4.32 indicate that the relationship between perceived value of investment promotion incentives and firm performance is weak, positive and statistically significant (R = .340, p = .017). The relationship between organizational characteristics and firm performance is strong, positive and statistically significant (R = .674, p = .000). Macro-marketing environment is positively strongly related to firm performance. The relationship is also statistically significant (R= .439, p = .002)

4.8 Tests of Hypotheses

The hypotheses were tested through inferential statistics to establish the statistical significance using linear, multiple and stepwise regression analyses at 95% confidence level. The moderation effect was tested using path analysis to establish the causal relationships (Baron & Kenny, 1986). Apart from the design of the hypotheses, the study objectives, typology of the data (for example, reduction of the data into composite scores) and the measurement scales informed the type of the analytical tools used.

4.8.1 Perceived Value of Investment Promotion Incentives and Firm Performance

The first objective of this study was to determine the influence of perceived value of investment promotion incentives on firm performance. Respondents had been asked to indicate using a rating scale ranging from 1 (not at all) to 5 (very large extent) the extent to which investment promotion incentives contributed to their firm's performance.

To determine the relationship, the study had developed the following hypothesis:

H_1: Perceived value of investment promotion incentives have statistically significant influence on Firm Performance.

The results of the regression test are presented in Table 4.33.

Table 4.33(a): Regression Results for the Influence of Perceived Value of Investment Promotion Incentives on Firm Performance

Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.340[a]	.115	.096	.94445	.115	6.126	1	47	.017

a. Predictors: (Constant), Composite scores of perceived value of investment promotion incentives

Source: Primary Data (2015)

(b) Coefficients of Perceived Value of Investment Promotion Incentives

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig	R	R^2	F
	B	Std. Error	Beta					
1. (Constant	2.032	.556		3.485	.001			
Perceived value of investment promotion incentives	.378	.153	.340	2.757	.017	340a	.115	6.126

a Dependent Variable: Firm performance

Source: Primary Data (2015)

The results in Table 4.33((a) and (b)) indicate a correlation coefficient (R) of 0.340, coefficient of determination (R^2) = 0.115 and F= 6.126. Perceived value of investment promotion incentives explained 11.5% of the variance in Firm performance. The remaining 88.5% was explained by other factors not in the model. The Standardized beta coefficient shows that the perceived value of investment promotion incentives contribute significantly to firm performance (Beta = 0.340, $p< 0.05$). The relationship was thus statistically significant so the hypothesis is supported. The regression model explaining variation in firm performance as a result of perceived value of investment promotion incentives is stated as follows:

$P_1 = \beta_{01} + \beta_{11}X_{ii}+\varepsilon_1$

$P_1= 2.032 + .340_{Xii}$

Where:

P = Firm Performance

ii = Perceived value of investment promotion incentives

The regression equation above shows that a unit change in perceived value of investment promotion incentives causes an increase of 0.340 in firm performance. This implies that when a country offers investment promotion incentives the investors in the EPZs achieve an increase of 0.340 in their firm's performance.

4.8.2 Organizational Characteristics and Firm Performance

The second objective of the study was to assess the extent to which organizational characteristics is related to firm performance. In order to assess the significance of the relationship between organizational characteristics and firm performance the following hypothesis was formulated:

H_2: Organizational characteristics have statistically significant influence firm performance.

The respondents had been asked to state their opinions using a scale of 1 to 5 with 1 denoting "not at all" and 5 denoting "very large extent". The five items in the variable included views on how experience in the industry positively affected performance, quality of human resource, influence of investment size on performance and the effect of ownership structure on competitive advantage over competitors. The hypothesis was tested using bivariate correlation analysis. Further analysis was done to determine the strength of the relationship established in hypothesis 2. This was because the correlation model did not provide the option for testing the strength of the relationship. The value of Crammer's V was thus computed through cross tabulation and the strength of the relationship determined. Table 4.34 presents the correlation results for the relationship between organizational characteristics and firm performance.

Table 4.34: Correlation Results for the Relationship between Organizational Characteristics and Firm Performance

		Performance Indicators	Organizational Characteristics
Performance Indicators	Pearson Correlation	1	.674**
	Sig. (2-tailed)		.000
	Sum of Squares and Cross-products	47.388	32.020
	Covariance	.987	.667
	N	49	49
Organizational Characteristics	Pearson Correlation	.674**	1
	Sig. (2-tailed)	.000	
	Sum of Squares and Cross-products	32.020	47.633
	Covariance	.667	.992
	N	49	49

**. Correlation is significant at the 0.01 level (2-tailed).

Note. $p < .001$ **, Crammer's V = .796. N = 49

Source: Primary Data (2015)

The results in Table 4.34 indicate that there is a positive relationship between organizational characteristics and firm performance at Pearson Correlation R= .674, p = < .001. There is a strong relationship at Cramer's V = .796.

This indicates that organizational characteristics is a significant determinant of firm performance. Hypothesis is thus supported.

4.8.3: Macro-marketing Environment and Firm Performance

The third objective of the study was to establish the relationship between macro-marketing environment and firm performance. Bartels (1968) contends that macro-marketing environment comprises external factors or forces affecting firm performance in

its interaction with each marketing system. This study was driven by the premise that macro-marketing environment has moderating influence on the performance of firms in the EPZs. To test the relationship between macro-marketing environment and firm performance the following hypothesis was formulated:

H_3: Macro-marketing environment has statistically significant relationship with firm performance.

The respondents had been asked to state their opinions or perceptions about the relevant attributes using a scale ranging from 1 (not at all) to 5 (very large extent). Correlation analysis was used to test the hypothesis. The strength of the relationship was then tested by computing the value of Crammer's V through cross tabulation. The pertinent results are contained in Table 4.35.

Table 4.35: Correlation Results for the Relationship between Macro-marketing Environment and Firm Performance

		Firm Performance	Macro-Marketing Environment
Firm performance	Pearson Correlation	1	.439**
	Sig. (2-tailed)		.002
	Sum of Squares and Cross-products	47.388	18.143
	Covariance	.987	.378
	N	49	49
Macro-marketing environment	Pearson Correlation	.439**	1
	Sig. (2-tailed)	.002	
	Sum of Squares and Cross-products	18.143	36.000
	Covariance	.378	.750
	N	49	49

**. Correlation is significant at the 0.01 level (2-tailed).

Note. p < .01**. Cramer's V = .546. N = 49

Source: Primary Data (2015)

The results in Table 4.35 imply that macro-marketing environment and firm performance are positively significantly correlated ($R = .439$, $p < .01$). The relationship is a strong one (Cramer's $V = .546$). Macro-marketing environment is therefore an important factor in firm performance in the EPZs. The hypothesis is therefore supported.

4.8.3 Macro-marketing Environment, Perceived Value of Investment Promotion Incentives and Firm Performance

The fourth objective of the study was to investigate the influence of macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance. Thirty-nine macro-marketing environment items were used in the study.

To test the influence of macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance the following hypothesis was formulated:

H_4: Macro-marketing environment has statistically significant moderating influence on the relationship between perceived value of investment promotion incentives and firm performance.

The respondents had been asked to state their opinions or perception about the issues using a scale of 1 (not at all) to 5 (very large extent). All the relevant sub-variables had their averages computed into composite scores before being regressed against the composite scores of organizational performance. To test for moderating effect, Baron and Kenny's (1986) four-step method was used. It includes computing two regression models using hierarchical multiple linear regression method. In the first step, the main effects of perceived value of investment promotion incentives (independent variable) and macro-marketing environment (moderating variable) on firm performance were tested. The next step involved testing the interaction between the independent and moderating variables. The significance of the independent variable and the moderator is not particularly relevant in determining moderation (Njeru, 2013). There is assumed a moderation effect

if the interaction between perceived value of investment promotion incentives and macro-marketing environment is statistically significant.

To create an interaction term, the product of perceived value of investment promotion incentives and macro-marketing environment was calculated. The multiplicative term had the risk of multicollinearity so the two variables had their z-scores calculated and used to derive an interaction variable. The pertinent results are contained in Table 4. 36.

Table 4.36: (a) Regression Results of the Influence of Macro-marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

a) Goodness of Fit

Model Summary									
Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.765[a]	.585	.567	.64143	.585	32.456	2	46	.000
2	.788[b]	.621	.596	.62000	.036	4.235	1	45	.045

a. Predictors: (Constant), Composite scores of macro-marketing environment, Composite scores of perceived value of investment promotion incentives

b. Predictors: (Constant), Composite scores of macro-marketing environment, Composite scores of perceived value of investment promotion incentives, Pvmm

Source: Primary Data (2015)

Table 4.36 (b) Overall Significance of the Influence of Macro-marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	26.707	2	13.353	32.456	.000[b]
	Residual	18.926	46	.411		
	Total	45.633	48			
2	Regression	28.335	3	9.445	24.571	.000[c]
	Residual	17.298	45	.384		
	Total	45.633	48			

a. Dependent Variable: Composite scores of firm performance

b. Predictors: (Constant), Composite scores of macro-marketing environment, Composite scores of perceived value of investment promotion incentives

c. Predictors: (Constant), Composite scores of macro-marketing environment, Composite scores of perceived value of investment promotion incentives, Pvmm

Source: Primary Data (2015)

Table 4.36 (c) Individual Significance of the Influence of Perceived Value of Investment Promotion Incentives, Macro-marketing Environment and the Interaction Term on Firm Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.021	.442		-.047	.963
	Composite scores of perceived value of investment promotion incentives	.261	.100	.263	2.607	.012
	Composite scores of macro-marketing environment	.696	.111	.635	6.296	.000
2	(Constant)	-.094	.429		-.218	.828
	Composite scores of perceived value of investment promotion incentives	.230	.098	.232	2.349	.023
	Composite scores of macro-marketing environment	.757	.111	.691	6.827	.000
	Product of composite scores of perceived value of investment promotion incentives and macro-marketing environment	-.138	.067	-.197	-2.058	.045

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

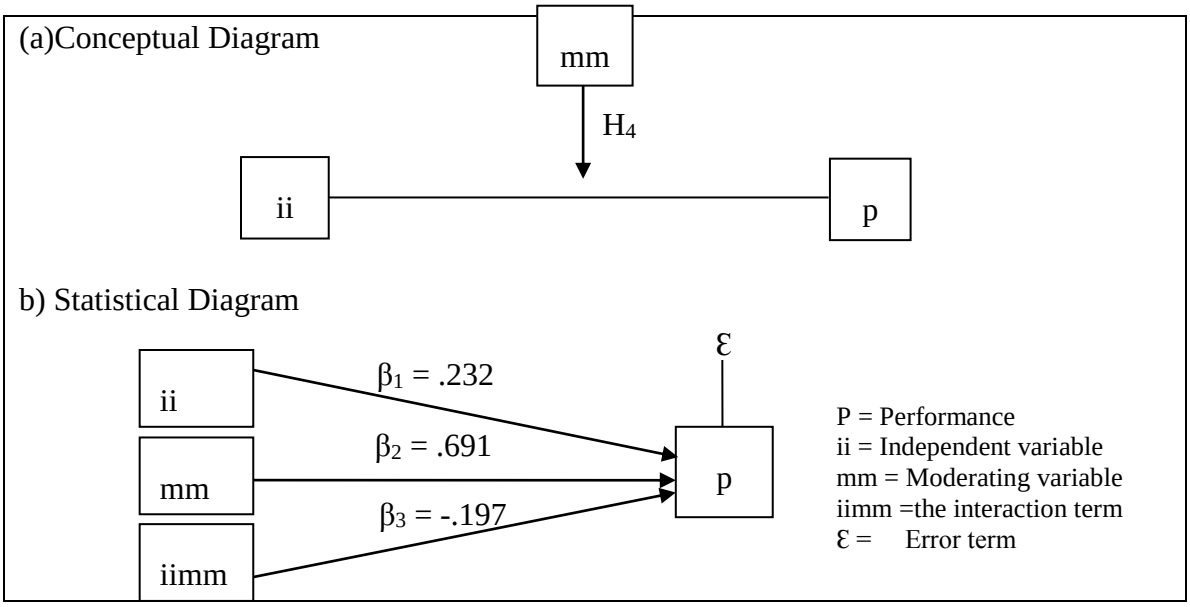
The results in Table 4.36 reveal a correlation coefficient (R) = .765, coefficient of determination, R^2 = .585 and F = 32.456. Perceived value of investment promotion incentives and macro-marketing environment explained 58.5% of the variance in performance. The results also reveal that R^2 value changed by 3.6 % from .585 to .621 with the addition of the multiplicative term (perceived value of investment promotion incentives*macro-marketing environment). Besides, the result was statistically significant,

at p = .045. The overall significance results also reveal a statistically significant relationship between perceived value of investment promotion incentives, macro-marketing environment, interaction term and firm performance (F =24.571, p =.000), explaining the fitness of the model.

The results in model 2, Table 4.36(c) shows a statistically significant relationship between perceived value of investment promotion incentives and firm performance (β =.232, p = .023). The relationship between macro-marketing environment and firm performance is also statistically significant (β = .691, p = .000). The interactive term also had a statistically significant relationship with firm performance. There was a statistically significant relationship between the interaction term and firm performance (β = -.197, p = .045). The results indicate that moderates the relationship between perceived value of investment promotion incentives and firm performance. The hypothesis is therefore supported. It means that certain changes in the macro-marketing environment may negatively affect the relationship between perceived value of investment promotion incentives and firm performance.

Moderation path diagram is contained in Figure 4.1.

Figure 4.1: Moderation Path Diagram of the Effect of Macro-marketing Environment



Source: Primary Data (2015)

The multiple regression equation for estimating the moderation effect of macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance is as follows:

$P_4 = \beta_{04} + \beta_{14} X\ ii + \beta_{24} X_{mm} + \beta_{24} X_{ii} X_{mm} + \varepsilon_4$

$P = -.094 + .232 X_{ii} + .691 X_{mm} - .197 X_{iimm}$

Where:

P = Firm performance

ii= Perceived value of investment promotion incentives

mm = Macro-marketing environment

iimm = Interaction term

The regression equation shows that a unit change in perceived value of investment promotion incentives results in an increase of 0.232 in firm performance. A unit change in macro-marketing environment results in an increase of 0.691 in firm performance. Conversely, a unit change in the product of perceived value of investment promotion incentives and macro-marketing environment leads to a decrease of 0.197 in firm performance. The equation gives empirical validity to the hypothesis that macro-marketing environment plays a significant moderating role on the relationship between perceived value of investment promotion incentives and firm performance.

4.8.4 Organizational Characteristics, Perceived Value of Investment Promotion Incentives and Firm performance

The fifth objective of the study was to determine the extent to which organizational characteristics affect the relationship between perceived value of investment promotion incentives and firm performance. To test the moderation effect, the following hypothesis was formulated:

H_5: Organizational characteristics have statistically significant moderating effect on the relationship between perceived value of investment promotion incentives and firm performance.

The respondents had been asked to state their opinions or perceptions about the issues using a scale of 1 (not at all) to 5 (very large extent). All the sub-variables then had their averages computed into composite scores. The scores were then entered, at the same time, in a regression model and used to test for the moderating influence of organizational characteristics on the relationship between perceived value of investment promotion incentives and firm performance. Hierarchical multiple linear regression analysis based on Baron and Kenny's (1986) four-step method was used to test the hypothesis. The results are contained in Table 4.37.

Table 4.37: Regression Results of the Moderating Influence of Organizational Characteristics on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

(a) Goodness of Fit

Model Summary									
Model	R	R^2	Adjusted R^2	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	Df 1	Df 2	Sig. F Change
1	.725[a]	.525	.504	.68641	.525	25.427	2	46	.000
2	.763[b]	.582	.554	.65144	.056	6.071	1	45	.018

a. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives

b. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives, iioc

Source: Primary Data (2015)

(b) Overall Significance of the Influence of Organizational Characteristics on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	23.960	2	11.980	25.427	.000[b]
	Residual	21.673	46	.471		
	Total	45.633	48			
2	Regression	26.536	3	8.845	20.843	.000[c]
	Residual	19.097	45	.424		
	Total	45.633	48			

a. Dependent Variable: Composite scores of firm performance

b. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives

c. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives, iioc

Source: Primary Data (2015)

(c) Individual Significance of the Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and the Interaction Term on Firm Performance

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	-.173	.510		-.340	.736
	Composite scores of perceived value of investment promotion incentives	.378	.103	.380	3.685	.001
	Composite scores of organizational characteristics	.623	.116	.554	5.365	.000
2	(Constant)	.026	.491		.053	.958
	Composite scores of perceived value of investment promotion incentives	.330	.099	.332	3.324	.002
	Composite scores of organizational characteristics	.606	.111	.538	5.480	.000
	Product of composite scores of perceived value of investment promotion incentives and organizational characteristics	.197	.080	.244	2.464	.018

a. Dependent Variable: Composite scores of firm performance

Source: Primary Data (2015)

The results in Table 4.37(a) reveal coefficient of determination (R^2 = .525) and F = 25.427. Perceived value of investment promotion incentives and organizational characteristics explained 52.5% of the variance in firm performance. The results also reveal that R^2 value changed by 5.7% from .525 to .582 of the multiplicative term

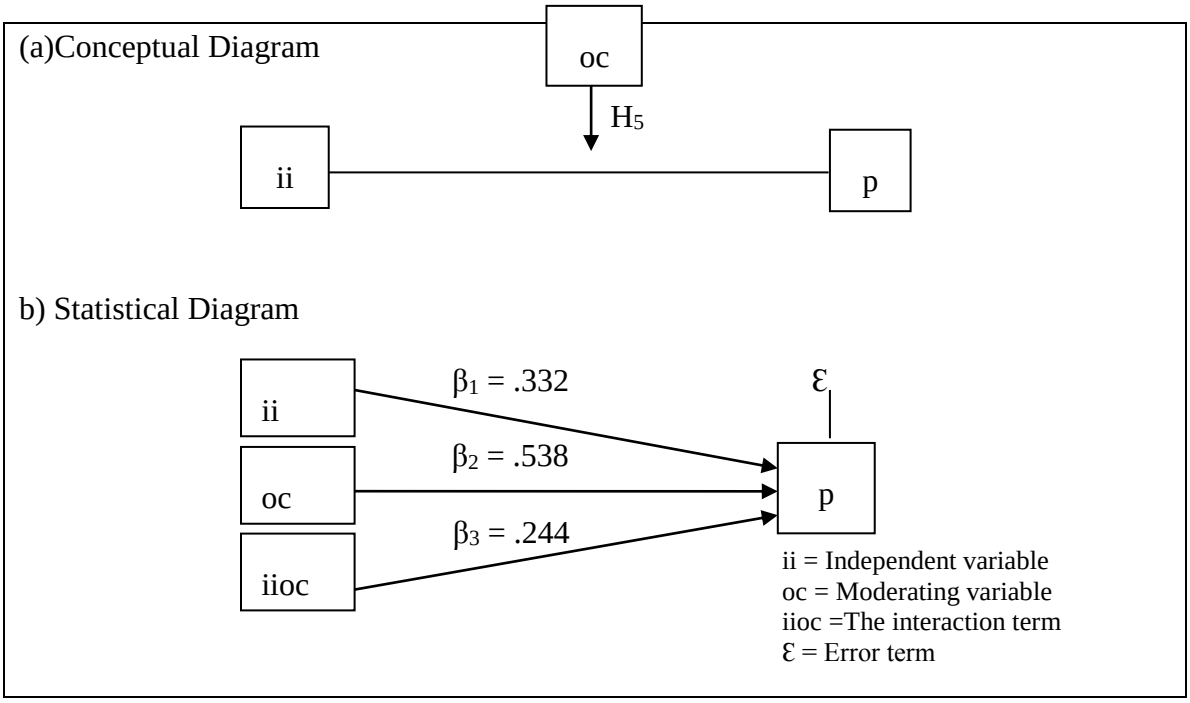
(perceived value of investment promotion incentives* organizational characteristics). The change was statistically significant, at p = .018

The overall results also reveal the relationship between perceived value of investment promotion incentives, organizational characteristics, interaction term and firm performance is statistically significant (F = 20.843; p = 0.000), explaining the fitness of the model.

In model 2, Table 4.37(c) the results show that there is a statistically significant relationship between perceived value of investment promotion incentives and firm performance (β = .332, p = .002). There is a statistically significant relationship between organizational characteristics and firm performance (β = .538, p =.000). The interaction term and firm performance had a statistically significant relationship (β = .244, p = .018). The result implies that organizational characteristics moderate the relationship between perceived value of investment promotion incentives and firm performance. The hypotheses is therefore supported. This means that changes in organizational characteristics may positively affect the relationship between perceived value of investment promotion incentives and firm performance.

Figure 4.2 contains the path diagram illustrating the moderation effect.

Figure 4.2: Moderation Path Diagram of the Effect of Organizational Characteristics



Source: Primary Data (2015)

The multiple regression equation for estimating the moderating effect of organizational characteristics on the relationship between perceived value of investment promotion incentives and firm performance is as follows:

$P_5 = \beta_{05} + \beta_{15}X_{ii} + \beta X_{oc} + \beta_{25}X_{iioc} + \varepsilon_5$

$P = .026 + .332X_{ii} + .538X_{oc} + .244X_{iioc}$

Where:

P = Firm performance
ii= Perceived value of investment promotion incentives
oc = organizational characteristics
$Ɛ_5$ = Error term

The regression equation suggests that a unit change in perceived value of investment promotion incentives causes an increase of 0.332 in firm performance. A unit change in

organizational characteristics causes an increase of 0.538 in firm performance. However, a unit change in the product of perceived value of investment promotion incentives and organizational characteristics causes an increase of 0.244 in firm performance. The equation lends credence to the hypothesis by illustrating that organizational characteristics are significant moderating factors in firm performance.

4.8.5 Perceived Value of Investment Promotion Incentives, Organizational Characteristics, Macro-marketing Environment and Firm Performance

The last objective of the study was to examine the extent to which perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment jointly influence firm performance.

To test the significance of joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance the following hypothesis was formulated.

H_6: Perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment have statistically significant joint influence on firm performance.

Stepwise multiple regression was conducted to establish the joint effect of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance. The pertinent results are contained in Table 4. 38.

Table 4.38: Regression Results of the Test of the Joint Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance (First Analysis)

(a) Goodness of Fit

Model	R	R^2	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.674[a]	.454	.443	.74180	.454	39.118	1	47	.000
2	.724[b]	.524	.503	.70045	.070	6.713	1	46	.013

a. Predictors: (Constant), Composite scores of organizational characteristics

b. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives

Source: Primary data (2015)

(b) Overall Significance of the Joint Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	21.525	1	21.525	39.118	.000[b]
	Residual	25.862	47	.550		
	Total	47.388	48			
2	Regression	24.819	2	12.409	25.293	.000[c]
	Residual	22.569	46	.491		
	Total	47.388	48			

a. Dependent Variable: Composite scores of firm performance;
b. Predictors: (Constant), Composite scores of organizational characteristics
c. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives
Source: Primary Data

(c) Individual Significance of the Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.090	.379		2.874	.006
	Composite scores of organizational characteristics	.672	.107	.674	6.254	.000
2	(Constant)	.150	.510		.294	.770
	Composite scores of organizational characteristics	.642	.102	.643	6.281	.000
	Composite scores of perceived value of investment promotion incentives	.296	.114	.265	2.591	.013

Source: Primary Data (2015)

The results in Table 4.38 indicate perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment were regressed against firm performance. Organizational characteristics was entered first into the regression equation and was significantly related to firm performance (F = 39.118, p = .000). The multiple coefficient of determination (R^2) was .454 thus accounting for 45.4 % of the variation in firm performance.

Second, perceived value of investment promotion incentives was entered in the equation and was statistically significantly related to firm performance (R^2 = .524; F = 25.293; p = .000). Lastly, macro-marketing environment was removed from the analysis, retaining only organizational characteristics and perceived value of investment promotion incentives, with coefficient of determination = .524, explaining 52.4% of the variation in firm performance. The coefficient of determination (R^2) when firm performance was regressed on perceived value of investment promotion incentives alone was .115 (Table 4.33). This result meant that there was a considerable change of 40.9% (.524 - .115) Overall, the model showed statistical significance at p = <.001. The joint influence was thus statistically significant and as such, the hypothesis is supported.

Joint Influence Test (Second Analysis)

In the second analysis, multiple linear regression was computed to test the contributory effect of only perceived value of investment promotion incentives and organizational characteristics on firm performance. This is because the other variable, macro-marketing environment, had been excluded in the stepwise multiple regression in the first analysis. Firm performance was thus regressed on these two variables and the relevant results presented in Table 4.39.

Table 4.39: Regression Results of the Joint Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance (Second Analysis)

(a) Goodness of Fit

Model	R	R^2	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.724[a]	.524	.503	.70045	.524	25.293	2	46	.000

a. Predictors: (Constant), Composite scores of organizational characteristics, Composite scores of perceived value of investment promotion incentives

Source: Primary Data (2015)

(b) Overall Significance of the Joint Influence of Perceived Value of Investment Promotion Incentives and Organizational Characteristics on Firm Performance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	23.747	1	23.747	46.729	.000[b]
	Residual	23.885	47	.508		
	Total	47.633	48			
2	Regression	27.856	2	13.928	32.397	.000[c]
	Residual	19.776	46	.430		
	Total	47.633	48			

a. Dependent Variable: Performance Indicators
b. Predictors: (Constant), Organizational Characteristics
c. Predictors: (Constant), Organizational Characteristics, Perceived value of performance incentives

Source: Primary Data (2015)

(c) Individual Significance of Perceived Value of Investment Promotion Incentives and Organizational Characteristics on Firm Performance

Model	Unstandardized Coefficients		Standardized Coefficients	T	Sig.	R^2
	B	Std. Error	Beta			
(Constant)	.996	.364		2.732	.009	
Organizational Characteristics	.706	.103	.706	6.836	.000	
(Constant)	-.054	.477		-.114	.910	
Organizational Characteristics	.672	.096	.672	7.026	.000	
Perceived value of performance incentives	.330	.107	.296	3.092	.003	.524

a Dependent Variable: Firm performance

Source: Primary Data (2015)

The results in Table 4.39 reveal that perceived value of investment promotion incentives and organizational characteristics jointly have a statistically significant influence firm performance at F statistic (25.293) p = .000.

The coefficient of determination (R^2) = .524, accounting for 52.4% of the variation in firm performance. The coefficient of determination (R^2) when firm performance was regressed on perceived value of investment promotion incentives alone was .115 (Table 4.33). This result meant that there was a considerable change of 40.9% (.524 - .115) in the variation in performance with the addition of organizational characteristics to the regression model.

The results also confirm the variation explained in the first analysis (stepwise multiple regression) with the exclusion of macro-marketing environment. Moreover, it implies that 47.6 % of variation in firm performance was unexplained (explained by other factors). The standardized coefficients indicate that organizational characteristics and perceived value of investment promotion incentives have a joint significant contribution to firm performance (Perceived value of investment promotion incentives, Beta = 296; organizational characteristics, Beta = 672; R^2 = .524, $p < 0.01$). F statistic (32.397) was significant at .000 explaining fitness of the regression model.

It is evident that the overall significance (F = 25.293; p = .000) is different from the one in the second analysis (F = 32.397; p = .000). The result implies that although macro-marketing environment was excluded in the first analysis, it contributes to the overall significance. The joint influence of the three variables on firm performance was thus statistically significant and the hypothesis is supported.

The multiple regression equation for the joint significance test is as follows:

$P= \beta_{06} + \beta_6 X_{ii} + \beta_6 Xoc + \varepsilon_6$

P=- .-054 + .296Xii +.672Xoc

Where:

P = Firm performance
Xii = Investment Incentives
Xoc = Organizational Characteristics

The regression equation gives an indication that a unit change in perceived value of investment promotion incentives causes an increase of 0.296 in firm performance.

However, one unit change in organizational characteristics causes a change of 0.672 in firm performance. The equation is an empirical validation and support of the hypothesis that jointly, perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment significantly influence firm performance.

4.8.6 Summary of Research Objectives, Hypotheses, Results and Interpretation

The overarching objective of the study was to make inferences on the moderating influence of organizational characteristics and macro-marketing (each one separately) on the relationship between perceived value of investment promotion incentives and firm performance. All the hypotheses tested were supported. Table 4.40 summarizes the research objectives, hypotheses, results and interpretation.

Table 4.40: Summary of Research Objectives, Hypotheses, Results and Interpretation

Objectives	Hypotheses	R^2	p-value	F-statistic	Interpretation	Conclusion
1. To determine the influence of perceived value of investment promotion incentives on firm performance	**H_1:** Perceived value of investment promotion incentives have statistically significant influence on firm performance	.115	.017	6.126	-Perceived value of investment promotion incentives is a statistically significant predictor of firm performance -Hypothesis 1 is supported	H_1 is supported

Objectives	Hypotheses	R^2	p-value	F-statistic	Interpretation	Conclusion
2. To assess the extent of to which organization characteristics relate to firm performance	**H_2:** Organizational characteristics have a statistically significant relationship with firm performance	.674	.000		-Organizational has a strong relationship with firm performance at Crammer's V = .796	H_2 is supported
3. To establish the extent to which macro-marketing environment relates to firm performance	**H_3:** Macro-marketing environment has statistically significant relationship with firm performance	.439	.002		-Macro-marketing environment has a strong relationship with firm performance at Crammer's V = .546	H_3 is supported
4. To investigate the influence of macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance	**H_4:** Macro-marketing environment has statistically significant moderating influence on the relationship between perceived value of investment promotion incentives and Firm Performance.	.621	.045	24.571	-Macro-marketing environment has a significant moderating influence on the relationship between perceived value of investment promotion incentives and firm performance	H_4 is supported

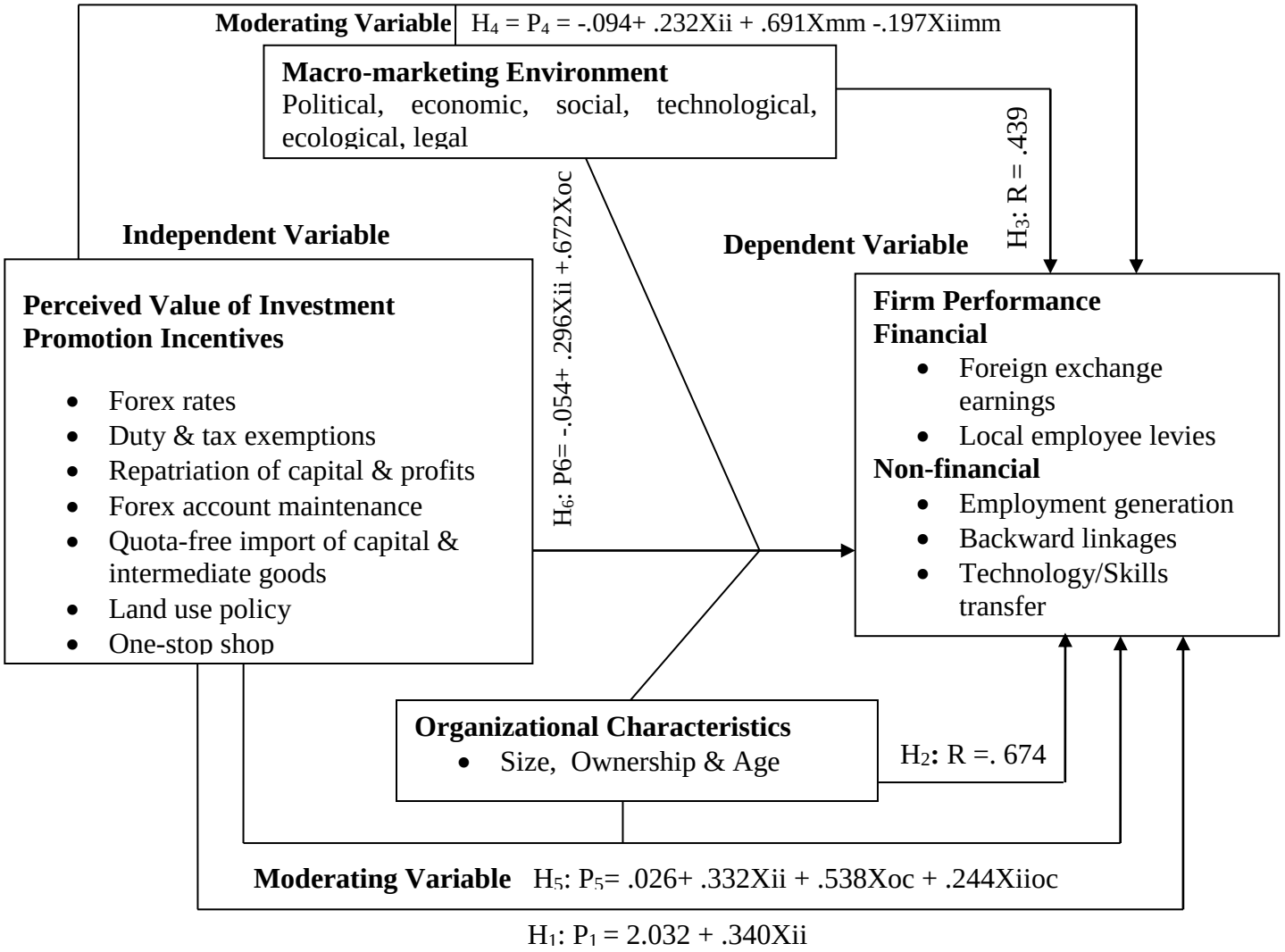
Objectives	Hypotheses	R^2	p-value	F-statistic	Interpretation	Conclusion
5. To determine the extent to which organizational characteristics influence the relationship between perceived value of investment promotion incentives and firm performance	**H_5:** Organizational characteristics have statistically significant moderating influence on the relationship between perceived value of investment promotion incentives and the Firm Performance.	.582	018	20.843	-Organizational characteristics have a statistically significant moderating influence on the relationship between perceived value of investment promotion incentives and firm performance	H_5 is supported
6. To examine the extent to which perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment jointly influence firm performance	**H_6:** Perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment have statistically significant joint influence on the Firm Performance.	.524	.000	32.397	-Perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment have joint significant influence on firm performance -Together the three variables accounted for greater variation (52.4%) in firm performance than each one of them separately.	H_6 is supported

Source: Researcher (2015)

4.8.7 Empirical Model

Empirical model of the study was developed based on the key variables used to construct the conceptual framework. The model provides an enhancement of the framework by linking the variables to the results of the hypotheses tested. Figure 4.3 depicts the empirical model of the study variables.

Figure 4.3: Empirical Model of the Study Variables



Source: Researcher (2015)

4.9 Discussion of the study Findings

This section discusses the results of the tests based on the objectives and hypotheses of the study. A conceptual framework was developed from the existing literature and relationships between variables tested.

4.9.1 Perceived Value of Investment Promotion Incentives and Firm Performance

The current study has shown that perceived value of investment promotion incentives make significant contribution to the performance of firms in the EPZs (Beta = 0.340, R^2 = .115, $p < .05$). This is consistent with the study by Mayende (2013) which found that tax incentives were positive and significant in making firms more productive than firms without such incentives. The results of the current study are also consistent with the study by Jenkins (2005) which concluded that EPZ regime had significant impact on the Costa Rican economy with an average increment in FDI by 19%, employment by 11.8% and gross exports by 32.3% within a period of ten years.

The positive contribution of incentives to firm performance is however disputed by other studies. In a study on Export Processing Zones in Namibia, it was argued that the incentives the Namibian Government offered investors did not result in better firm performance (LaRRI, 2000). Engman, Onodera and Pinali (2007) argue that although incentives attract foreign investors, they are not substitute to policy measures for sound investment environment. Therefore, they should be given for a limited period time due to revenue implications to the Country. Results from a study by Akhtar (2003) also indicate that growth and development of linkages were inconsistent in the countries where quality of raw material was poor. The study argued that poor quality of local raw materials could affect the contribution of incentives to the performance of EPZ firms. This is because the EPZ firms may resort to using foreign exchange earned from their exports for the country to import raw materials thus compromising the gains for the domestic economy. Although perceived value of investment promotion incentives is significantly related to firm performance, failure could be experienced. Such failures could be caused by cumbersome bureaucracy, poor planning and provision of overfriendly fiscal incentives

(Engman, Onodera & Pinali, 2007). Poor location of an EPZ and erosion of the effect of incentives due to policy changes including frequent changes in minimum wage declarations, statutory levies, increased trade union activities, and unpredictable political environment could also be a source of failure. In China EPZs are mainly located along the coast where they have easy access to port facilities making them convenient to international trade (Sit, 1985). Therefore, in designing an EPZ, it is important to consider location that is accessible to raw materials and export-import outlet especially along the coast. Other infrastructural facilities and sustainable economic policies are equally important factors in determining the location of an EPZ.

4.9.2 Organizational Characteristics and Firm Performance

The relationship between organizational characteristics and firm performance has been widely studied (Wei, Samiee & Lee, 2014; Machuki, Aosa & Letting, 2012; Barney, 1986). In this study, organizational characteristics were considered in terms of age, size and ownership structure of the firms.

The result indicated a strong positive relationship between organizational characteristics and firm performance ($R = .674$, $p < .001$, Cramer's $V = .796$). This result shows concurrence with other studies which found that organizational size, age and capital intensity have positive effect on firm performance (Katou & Budwar, 2009). The implication of these results is that improved state of organizational characteristics is linked to improved firm performance. Aggarwal (2007) posits that incentive-based compensation plans are central to firm performance. The result is further consistent with Ling (2011) supporting the direct positive relationship between intellectual capital (quality of human and structural capital) and organizational multiple dimensions of performance including financial performance and global initiatives. Intellectual capital is critical to firm performance as it provides applied experience, organizational technology, customer relationships and professional skills necessary for competitive advantage in the market (Bontis, 2001).

4.9.3 Macro-marketing Environment and Firm Performance

The results of the current study indicated a strong positive relationship between macro-marketing environment and firm performance ($R = .439$, $p < .01$, Cramer's $V = .546$). On their part, Yang, Chen and Yuan (2011) argue that the aim of investment attraction policies is to provide investors with an environment that allows them to conduct business freely, profitably and without unnecessary risks. A conducive macro-marketing environment seeks to provide predictable and non-discriminatory legal or regulatory environment, stable macro-economic environment, socially friendly environment with pragmatic cultural environment. Hollensen (2007) opines that types of actions that can affect macro-marketing environment include import restrictions, exchange controls, market controls, price controls, tax controls, labour restrictions and expropriation.

The result of this study is further consistent with other studies (Njeru, 2013; Wang, 2010; Engman, Onodera & Pinali, 2007) which concluded that external environmental factors had statistically significant relationship with firm performance. Engman, Onodera and Pinali (2007) also conclude in their study that a number of external factors necessary for attraction of FDI and good firm performance are reliable infrastructure (energy, transport logistics, telecommunications), adequate supply of labour, well-functioning legal environment and access to local suppliers. Dependency on tax incentives is however discouraged as it is considered unsustainable in the long term. Akhtar (2003) suggests that success of EPZs requires economic environment with lowest risk, liberal foreign exchange regime and currency stability among others.

4.9.4 Macro-marketing Environment, Perceived Value of Investment Promotion Incentives and Firm Performance

The current study has empirically established that macro-marketing environment has statistically significant moderating effect on the relationship between perceived value of investment promotion incentives and firm performance (Beta = - .197; $R^2 = .621$; $p < .05$). This result is consistent with Njeru (2013) which established significant moderating effect of external environment on the relationship between market orientation and firm performance. The implication of the current result is that even though a country may

offer lucrative incentives to attract investments, the macro-marketing environment significantly influences the performance of such investments. As the quality of macro-marketing environment improves, so does the outcome of the interaction between perceived value of investment promotion incentives and firm performance. This may include establishment of stable political climate in the country, sound economic policies, favorable social environment and a level of technological capacity that can be attractive to investors. Legal and ecological environment should also be responsive and conducive to the expectation of investors (Hollensen, 2007; Radelet, 2004; Bartels, 1968).

The results of the current study are also consistent with and largely corroborate the observations of Yang et al. (2011) asserting that performance of EPZ firms are significantly affected by the investment climate comprising resource availability, infrastructure, governance, geographical location, market potential and political/legal stability. Preferential tax policy may have close relationship with the probability that firms will invest for resource seeking purposes in order to improve firm performance. However, LaRRI (2000) maintains that promotion policies for the attraction and performance of EPZ firms should not dilute quality of the environment and labour standards.

4.9.5 Organizational Characteristics, Perceived Value of Investment Promotion Incentives and Firm Performance

The fifth objective of the study was to determine the extent to which organizational characteristics affect the relationship between perceived value of investment promotion incentives and firm performance. The pertinent results revealed that organizational characteristics had a significant moderating influence on the relationship between perceived value of investment promotion incentives and firm performance (Beta = .244, R^2 = 582, p <.05). These results are consistent with Yang et al's. (2011) assertion that decisions of the firms on investment are affected by their characteristics and stage of development. At the early stage investors prefer incentive policies that reduce the cost of investment expenditure while at the expansion stage, they prefer incentives associated with profits and tax. Previous studies (Ibrahim & Shah, 2012; Jones, 2010; Barney, 1986) concluded that organizational structure, design and culture have influence on firm

performance. On their part, Ibrahim and Shah (2012) emphasized that improved performance was influenced by country of origin, ownership, age, and size of the firm.

4.9.6 Perceived Value of Investment Promotion Incentives, Organizational Characteristics, Macro-marketing Environment and Firm Performance

The final objective of the study was to examine the extent to which perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment jointly influence firm performance. The test results were statistically significant (Beta = .265, R^2 = .524, $p < 0.01$). Compared to the single influence perceived value of investment promotion incentives exerts on firm performance, notable variation was evident. The change in the coefficient of determination, R^2 = .409 (.524 - .115), meant the variables (organizational characteristics and macro-marketing environment) explain 40.9 % of variation in firm performance. Therefore, the three variables together significantly influence how a firm performs. Firstly, an attractive investment location is characterized by a macro-marketing environment that is predictable, with clear procedures and business operations backed by law where dispensation of justice is quick and transparent (Aggarwal, 2007; Engman, Onodera & Pinali, 2007; Yang et al., 2011).

Secondly, previous studies have observed that organizational characteristics have influence on firm performance (Akhtar, 2003; Barney, 1986). Previous authors have equally discussed the contributory aspect of macro-marketing environment in a joint interaction involving both organizational characteristics and perceived value of investment incentives and firm performance. Finally, Njeru (2013) concluded that different market orientation components interact with diverse external environmental factors, marketing practices and firm characteristics in facilitating superior firm performance.

4.10 Summary of the Chapter

This chapter has presented results of various analyses performed on the study variables including the descriptive statistics and hypotheses testing through linear, hierarchical and stepwise multiple regression techniques. The results presented were demographic profiles

and respondent firm characteristics. There is also a presentation of the various hypotheses tested and the results thereof.

The chapter has shown how the direct relationships were tested through simple linear regression and correlation. It has also shown how indirect relationships (moderation) were tested through hierarchical multiple regression. Finally, it has shown how the joint influence was tested through stepwise multiple regression technique.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter provides summary, conclusions and recommendations of the study. It also discusses the theory contribution to the academia, the implications to the policy makers, and the industry stakeholder. It further observes the limitations and proposes areas of future research.

5.2 Summary

The purpose of this study was to establish the influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on the performance of firms in the export processing zones in Kenya. Six objectives and six hypotheses were developed to guide the study. The data for the study were generated from both secondary and primary sources. Secondary data were accessed from various reports and bulletins. Primary data were obtained using structured questionnaires self-administered by top management in the EPZ firms. Top management included chief executive officers/managing directors, general managers and departmental managers who were in decision-making position and privy to the relevant information in the firms.

Descriptive statistics analyzed respondent and firm characteristics while inferential statistics dealt with hypotheses testing. The data were analyzed using cross tabulations. Inferential statistics were used to test the relevant hypotheses. Tests were administered using various methods such as regression analysis (linear, multiple and stepwise) at 95% confidence level.

The study established that male executives manage most of the EPZ firms in Kenya. The executives are relatively young and mostly work for a period of one to five years before moving to other positions or organizations. Most of the executives have highest level of education at Bachelor's Degree. It means that they are able to make reliable decisions.

Perceived value of investment promotion incentives were found to contribute significantly to the performance of firms in the Kenyan EPZs. By use of bivariate

correlation analysis, the study showed that there was a significant positive relationship between organizational characteristics and firm performance. The study also established that organizational characteristics contributed significantly in moderating, the relationship between perceived value of investment promotion incentives and firm performance. A significant positive relationship was observed between macro-marketing environment and firm performance. Finally, it was established that there was statistically significant joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance. However, the study indicated that macro-marketing environment had minimal contribution on the joint influence as a single item.

5.3 Conclusion

This study was based on country marketing concept and theories related to international trade. Heckscher-Ohlin's Theory of International Trade, Macro-marketing Theory, Theory of Location Advantages, Cluster Theory, and Eclectic Theory of Foreign Direct Investment specifically guided it. The study was to establish the influence of organizational characteristics and macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance. All the hypotheses formulated to test the relationships were supported. The relationships among variables were found to be statistically significant implying that the incentives Kenya offers investors are relevant and need to be maintained. It confirmed that investment promotion incentives have strong positive influence on firm performance. It further established that the influence is significantly moderated by both macro-marketing environment and organizational characteristics. Each of the two moderating variables independently correlate positively and significantly with firm performance.

The joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance was also found to be statistically significant. This implies that investment promotion incentives are effective tools for marketing a country as an investment destination.

5.4 Implications of the Study

This study contributes to the knowledge on the relationship between perceived value of investment promotion incentives and the performance of firms in the Kenyan export processing zones.

5.4.1 Theory Implications

The findings of the study showed that perceived value of investment promotion incentives are significant contributing factors in country marketing theory. Investors considered incentives explained in the study as good contributors to their firm performance. This supports Heckscher Ohlin's Theory of International Trade on comparative cost whose advantage may be achieved through development of attractive incentives (Bartels, 1968). Previous studies indicated that investment promotion incentives were important in attracting investments to a country offering them (Mayende, 2013; FIAS, 2008; Wells & Wint, 2000). In testing the joint influence of perceived value of investment promotion incentives, organizational characteristics and macro-marketing environment on firm performance, the results showed that there was significant contribution of the joint variables on performance. The results have therefore, supported the Theory of Location Advantage affirming that societal, economic and procedural advantages are contributing factors in firm performance (Yang et al., 2011; Engman, Onodera & Pinali, 2007).

The moderating influence of organizational characteristics and macro-marketing environment on the relationship between perceived value of investment promotion incentives and firm performance confirms findings of previous studies (Ibrahim & Shah, 2012; Akhtar, 2003). A dichotomy however exists in the behaviour of macro-marketing environment in its relationship with firm performance when combined with other variables. It indicated very negligible contribution to the joint influence but showed a positive statistically significant relationship when tested directly with firm performance. Its moderation effect is also statistically significant. The fact that the variable accounts for negligible variation when tested on performance jointly with other variables could be due to a reduced influence in a joint relationship. Perceived value of investment

promotion incentives and organizational characteristics may be exerting a stronger effect and accounting for relatively greater variation in firm performance.

Country marketing theory would contribute greatly in harnessing and consolidating concepts that focus on the marketing of countries as preferred investment and business destinations. Country marketing theory will seek to address the current approach by countries based on un-coordinated policy configurations that do not take into account the uniqueness of a country as a marketing product.

5.4.2 Policy Implications

The results of the study provide evidence that EPZ firms significantly contribute to the Kenyan economy. The firms generate employment, foreign exchange earnings, transfer of technology / skill, and create backward linkage with the domestic economy through local purchases of raw materials, consumables, salaries and other utilities. Increased results in these performance indicators might be achievable if the country addressed the shortcomings observed by the respondents. The study indicated that investors considered issues of political climate, and economic issues such as high cost of energy, frequent economic policy changes, cost of labour and other utilities as factors affecting their performance. Kenya should therefore, consider developing sustainable policies and enact strong laws that protect investment activities in order to attract more international investors.

The study has revealed need for policy makers to consider laying emphasis on the promotion of high capital-intensive investments into the zones to enhance the rate of technology/skill transfer as the results showed that sub-contracting activities were still minimal in the programme. Policy intervention is also required in the service sector, which had the lowest investor participation.

5.4.3 Implications for Marketing Practice

The results of this study demonstrate that although perceived value of investment promotion incentives significantly influence the performance of firms in the Kenyan EPZs, they are moderated by macro-marketing environment and organizational

characteristics. Managers must therefore, recognize this interaction and formulate their promotion strategies accordingly.

First, the study showed that the incentives offered were not the only drivers of firm performance hence managers must continuously monitor any changes in the macro-marketing environment. Political climate, economic policy changes, social dynamics, legal provisions and ecological environment changes are underlying environmental conditions managers must regularly analyze and adapt to in order to sustain their firm performance.

Secondly, the results are consistent with previous studies, which indicate that the incentives offered by the host country may not be of permanent feature and often have limitations (Yang et al., 2011; FIAS, 2008; Engman, Onodera & Pinali, 2007). For example, incentives especially tax holidays are usually time-bound. This study therefore, provides understanding to the managers for the need to strategize on what other alternatives may make their firm performance sustainable.

Third, the results confirmed that organizational characteristics significantly moderate the relationship between perceived value of investment promotion incentives and performance of firms in the Kenyan EPZs. It therefore contributes to the understanding of managers in developing marketing strategies that recognize their firm characteristics in terms of the structure, size, age and ownership as factors that affect performance.

5.5 Limitations of the Study

The study had a number of methodological, operational and technical limitations due to its magnitude. These limitations however did not significantly affect the overall design and the outcome of this research.

Being a cross-sectional survey, the current study had latent difficulty in predicting causal relationships among variables. Longitudinal study would therefore, be best option to determine the causal relationships.

Second, the study focused on top management (Chief executive/managing directors, general managers, and managers) as respondents. Application of single respondent per firm using self-administered instrument in collecting data had the inherent concern on the quality of the information given. Furthermore, the data provided were from the perceptions or opinions of the respondents. The study excluded general employees, the EPZA management, zone developers, and local community despite being relevant stakeholders. Their inclusion could have given a balanced opinion from all categories of people who interact with EPZ investments across the country. However, due to the scope of the study and its objectives this was not possible. The limited choice of top management had a basis in the ability of the respondent to provide the relevant information to which they were relatively more privy in view of the research design. This approach might have had limited the outcome of the study. A more inclusive study needs to be undertaken and results compared with the ones of the current study for coherent understanding of the programme.

The final limitation was that the construction of organizational characteristics as a study variable was not exhaustive. This could have affected the results especially on the strength of relationships. However, this limitation did not have an adverse effect on the results because age, size and ownership are important aspects of any organization, providing an adequately summative way of looking at and providing critical bases upon which firm performance can be evaluated either directly or indirectly. Future study needs to include all aspects of culture, design and structure in constructing organizational characteristics as a study variable to provide additional findings.

The limitations observed above did not however, compromise the overall quality of the study.

5.6 Recommendations

This study has looked at the influence of organizational characteristics and macro-marketing environment on the relationship between perceived value of investment incentives and firm performance. From the results, the following recommendations may be considered:

First, the current policies on investment promotion incentives need to be reviewed to enhance country-marketing activities. The review should take into account issues related to incentives being offered such as tax holiday or exemption. The literature available provide arguments about their sustainability in the long-term. Tax incentives may be considered a compensation to deficient policies. They are like rewarding or cushioning inefficiency to the detriment of economic development. Policy makers should therefore, focus on formulation of policies aimed at creating efficient administrative and infrastructural incentives that are long-term and sustainable.

Second, the power of Cluster theory advancing spatial concept that defines geographic concentration of interconnected industries was evident in the EPZ firms studied. The firms were concentrated in specific sites with only a few in standalone locations. Athi River and Mombasa had the highest concentration. This study therefore recommends that the government and private developers should consider developing EPZ firms in concentrated clusters to create economies of scope. This approach will encourage emergence of service sector industries, which the study observed, had not picked up well in the EPZs programme. Clustering will create cost effective operations with higher returns to investors, government and the EPZ regulatory authority.

Third, the results show that macro-marketing environment is a significant moderator in the relationship between perceived value of investment promotion incentives and firm performance. The current study therefore recommends that the government formulates and implement policies that encourage conducive business environment. This may be done through ensuring stable political environment, efficient infrastructural facilities, predictable legislative framework and investment in technological facilities.

5.7 Suggestion for Future Research

While the study focused on the influence of perceived value of investment promotion incentives on performance, its scope did not involve the use of quantitative values of the incentives Kenya offers to investors in the specialized EPZ programme. This is despite firm performance (dependent variable) indicators having been in actual figures and ratios. This gap calls for future research to analyze quantitative cost and benefits of EPZs in the

country. It would be important to determine the quantitative value of the perception of investment promotion incentives and compare that with the performance of firms benefitting from the incentives. This would produce conclusive evidence on the relationship between the investment promotion incentives as country marketing policy option and the actual benefits the country receives in return.

Secondly, firm performance indicators included number of direct jobs generated, and the rate of technology/skill transferred from expatriates to locals. However, the scope of the investigation did not consider the quality, value and type of employment generated and technology transferred. Further research is required to determine empirically the actual composition, quality and type of employment created, quality of technology and skill transfer in real values, and the resources generated by the firms in EPZs. These statistics are lacking in the realm of empirical studies, making it difficult to quantify real benefits or losses the country might be experiencing by operating the EPZ programme.

Finally, the significance of backward linkage by way of sourcing of raw materials, consumables, local payments and other utilities is also of research interest. Research needs to be undertaken to identify the sectors that have high potential in the linkage with domestic economy so that marketing efforts are focused on them. The reason for this is the significant impact backward linkage has on the host economy. The indicator has direct connection with the local economy where various raw materials and other utilities are sourced.

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APPENDICES

Appendix I: Researcher's Letter of Introduction

Dear Sir/Madam,

THE INFLUENCE OF ORGANIZATIONAL CHARACTERISTICS AND MACRO-MARKETING ENVIRONMENT ON THE RELATIONSHIP BETWEEN THE PERCEIVED VALUE OF INVESTMENT INCENTIVES AND PERFORMANCE OF FIRMS IN EXPORT PROCESSING ZONES IN KENYA

I am student at the School of Business, University of Nairobi pursuing a Doctor of Philosophy studies in Business Administration, Marketing. Part of the requirements for the award of the degree is to undertake a research study in the area of interest. I am therefore, carrying out a survey intended to assess the influence of organizational characteristics and macro-marketing environment on the relationship between the perceived value of investment incentives and performance of firms in export processing zones in Kenya**.** The survey is only for academic purpose and policy enrichment. The outcome of the research will therefore be used for academic purposes and policy recommendations to improve the performance of the EPZs scheme in Kenya in view of the current policy debate on the transformation of EPZ scheme into the wider Special Economic Zones Programme.

I am therefore seeking for your kind participation in the study by taking a bit of your time to fill in the attached questionnaire.

All the information gathered will be treated with confidentiality and in aggregated form without revealing identity of the respondent. Your contribution to this research by way of response in such a timely manner is highly appreciated. If you wish to have a summary of the findings of the study, kindly indicate at the end of the questionnaire.

Yours faithfully,

Joseph N. Kosure

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Tel. +254-725620610

Appendix II: University Letter of Introduction

UNIVERSITY OF NAIROBI
COLLEGE OF HUMANITIES AND SOCIAL SCIENCES
SCHOOL OF BUSINESS
DOCTORAL STUDIES PROGRAMME
Telephone: 4184160/1-5 Ext. 225
Email: dsp@uonbi.ac.ke
P.O. Box 30197
Nairobi, Kenya

05th May, 2015

TO WHOM IT MAY CONCERN

RE: JOSEPH NYONJE KOSURE: D80/60239/2011

This is to certify that, **JOSEPH NYONJE KOSURE: D80/60239/2011** is a Ph.D candidate in the School of Business, University of Nairobi. The title of his study is: **"The Influence of Organizational Characteristics and Macro- Marketing Environment on the Relationship between the Perceived Value on Investment Promotion Incentives and Performance of Firms in Export Processing Zones in Kenya ".**

The purpose of this letter therefore, is to kindly request you to assist and facilitate in carrying out the research/study in your organization. A questionnaire is herewith attached for your kind consideration and necessary action.

Data and information obtained through this exercise will be used for academic purposes only. Hence, the respondents are requested not to indicate their names anywhere on the questionnaire.

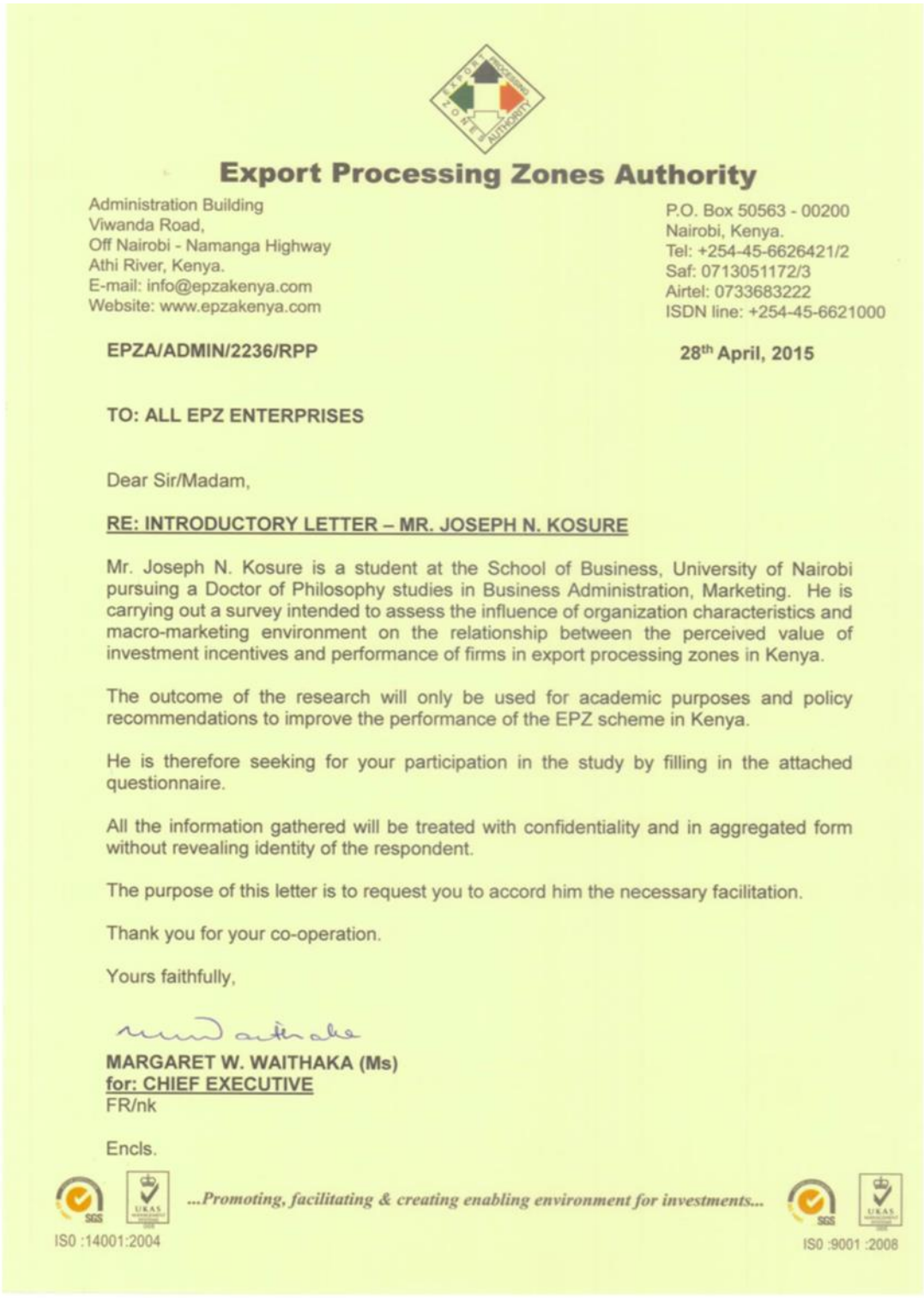
We look forward to your cooperation.

Graduate Studies Co-ordinator
P. O. Box 30197
NAIROBI
Faculty of Business and Management Science

PROF. MARTIN OGUTU
FOR: ASSOCIATE DEAN
GRADUATE BUSINESS STUDIES
SCHOOL OF BUSINESS

MO/nwk

Appendix III: EPZA Letter of Introduction



Export Processing Zones Authority

Administration Building
Viwanda Road,
Off Nairobi - Namanga Highway
Athi River, Kenya.
E-mail: info@epzakenya.com
Website: www.epzakenya.com

P.O. Box 50563 - 00200
Nairobi, Kenya.
Tel: +254-45-6626421/2
Saf: 0713051172/3
Airtel: 0733683222
ISDN line: +254-45-6621000

EPZA/ADMIN/2236/RPP

28th April, 2015

TO: ALL EPZ ENTERPRISES

Dear Sir/Madam,

RE: INTRODUCTORY LETTER – MR. JOSEPH N. KOSURE

Mr. Joseph N. Kosure is a student at the School of Business, University of Nairobi pursuing a Doctor of Philosophy studies in Business Administration, Marketing. He is carrying out a survey intended to assess the influence of organization characteristics and macro-marketing environment on the relationship between the perceived value of investment incentives and performance of firms in export processing zones in Kenya.

The outcome of the research will only be used for academic purposes and policy recommendations to improve the performance of the EPZ scheme in Kenya.

He is therefore seeking for your participation in the study by filling in the attached questionnaire.

All the information gathered will be treated with confidentiality and in aggregated form without revealing identity of the respondent.

The purpose of this letter is to request you to accord him the necessary facilitation.

Thank you for your co-operation.

Yours faithfully,

MARGARET W. WAITHAKA (Ms)
for: CHIEF EXECUTIVE
FR/nk

Encls.

...Promoting, facilitating & creating enabling environment for investments...

ISO :14001:2004

ISO :9001 :2008

Appendix IV: Questionnaire

Introduction

This questionnaire is designed for collection of data from all firms in the Export Processing Zones in order to contribute to the study on the influence of perceived value of investment promotion incentives on the performance of the EPZ firms in Kenya. Your participation and accurate response to the questions is therefore, very important for the kind of data required for the study. The data will be treated with utmost confidentiality.

Note: The questionnaire is divided into five (5) sections. Each section has questions dealing with a specific issue. The instruction on how to answer each question is supplied beside the question. You may seek clarification from the researcher in case there is an area you do not understand.

SECTION 1: DEMOGRAPHICS

(Tick ONE BOX as appropriate)

Respondent:

1. Gender: Male ☐ Female ☐

2. How old are you?

No. of years in age	**Up to 30 years**	**31 - 45 years**	**46 - 60 years**	**61 & Above years**
Tick one box as applicable				

3. Highest level of education attained:

Secondary ☐ Diploma ☐

Bachelor's Degree ☐ Master's Degree ☐ PhD Degree ☐

4. Position in the company:

Chief Executive/Managing Director ☐

General Manager ☐ Manager ☐

5. How long have you worked in this firm?

No. of years	**0 – 5**	**6 – 10**	**11 – 15**	**16 - 20**	**21 & Above**
Tick one box as applicable					

6. Which sector is the firm in? Manufacturing/Processing ☐

Commercial ☐ Service ☐

Other (Specify)…….....

7. Ownership: Wholly Kenyan ☐ Majority Kenyan ☐

Wholly Foreign ☐ Majority Foreign ☐

8. How old is the firm?

No. of years	**1– 5**	**6- 10**	**11–15**	**16- 20**	**21 & Above**
Tick one box as appropriate					

9. When was the firm incorporated in Kenya? | |

10. State the current investment value of the firm

Investment level **('Million US Dollars)**	**100 & Below**	**101-500**	**501-1000**	**1001-5000**	**5001 & Above**
Tick one box as appropriate					

11. State the number of employees in the firm during the years indicated

Year	**Number of Employees**		
	Permanent		**Casual**
	Local	**Expatriates**	
2011			
2012			
2013			
2014			

SECTION 2: PERCEIVED VALUE OF INVESTMENT PROMOTION INCENTIVES

12 a. Please indicate the extent to which the following incentives contribute to the performance of your firm by ticking in the appropriate box.

	Perceived Value of Investment Promotion Incentives	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1	Stability of foreign exchange rate					
2	Free repatriation of capital and profits					
3	Permission to maintain foreign currency accounts					
4	Quota - free imports on capital and intermediate goods					
5	land use policy of country					
6	Duty & VAT exemptions					
7	One-stop shop operations					
8	Other (Please specify)					

12b. Following your response in 12a, please indicate the extent to which the incentives contribute to the performance of your firm by ticking the appropriate box.

Perceived Value of Investment Promotion Incentives	Not at all	Small extent	Moderate extent	Large extent	Very large extent

SECTION 3: ORGANIZATIONAL CHARACTERISTICS

13a. Please indicate the extent to which the following organizational characteristics influence the performance of your firm (Tick the appropriate box for each statement).

Organizational Characteristics		**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very large extent**
1	Our experience in the industry affects our performance positively					
2	Our business culture built over time makes us a leading firm in the export market					
3	We are satisfied with the quality of our human resources					
4	The size of investment influences the performance of our firm positively					
5	Ownership structure of our firm gives us advantage over competitors					
6	Other (specify)					

13b.Following your response in 13(a), please indicate the extent to which the organizational characteristics contribute to the performance of your firm. (Tick the appropriate box)

Organizational Characteristics	**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very large extent**

SECTION 4: MACRO-MARKETING ENVIRONMENT

Macro-marketing environment has influence on the performance of EPZ firms.

14. To what extent do you agree with the following statements? (Tick the appropriate box for each statement)

	Political issues	**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very large extent**
1	The prevailing political climate is good for our firm performance					
2	We are satisfied with government effort in supporting investments in the country					
3	Kenya has good international political relations that is good for investment					
4	Other (specify)					

15. To what extent do you agree with the following statements? (Tick the appropriate box for each statement)

	Economic issues	**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very large extent**
1	Allocation of industrial land for EPZ investors has improved firm performance					
2	Industrial linkages with the domestic economy has helped us in accessing inputs including raw materials					
3	Rate of minimum wage in Kenya negatively affects performance of our firm					

4	We are satisfied with the services at the customs management offices in supporting our performance					
5	Other (specify)					

16. Costs are major economic factors in business competitiveness. Success of EPZ firm performance world over depends on competitiveness of costs of factors of production. How do you rate the elements of costs of the following as challenges to the performance of your firm?
(Tick the appropriate box for each statement).

Economic issues contd.		**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very large extent**
1	Land					
2	Road transport					
3	Rail transport					
4	Air transport					
5	Shipping (Sea transport)					
6	Power/Electricity					
7	Water/Sewerage					
8	Warehousing					
9	Human capital/labor					
10	Information Communication Technology					
11	Licenses, permits					
12	Taxes and levies					
13	Raw materials					

17. Please indicate the extent to which the following factors influence the performance of your firm by ticking the appropriate box for each statement.

	Social issues	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1	The cost of welfare contributions to society affects the performance of our firm					
2	We have been able to source our technical staff locally					
3	Our wage /salary scales are competitively comparable to those in the domestic economy					
4	Our wage/salary scales are higher than those in the domestic economy					
5	Activities of trade union movement in EPZ affects performance of our firm					
6	The attitude of the local community towards EPZ scheme affects performance of our firm					
7	Other (specify)					

18. Please indicate to what extent the following statements are true by ticking the appropriate box for each statement.

	Technology issues	Not at all	Small Extent	Moderate Extent	Large extent	Very Large extent
1	Good technology uptake in the country is important in the performance of our firm					
2	High cost of technical machinery and equipment negatively affects our firm performance					
3	Rapid changes in technology influences the					

	performance of our firm					
4	Technological environment affects quality of factors of production in our firm					
5	Other (specify)					

19. Please state the extent to which the following statements are significant in the performance of EPZ firms in Kenya by ticking the appropriate box.

	Legal issues	**Not at all**	**Small extent**	**Moderate extent**	**Large extent**	**Very Large extent**
1	We are satisfied with the special legal framework that is different from domestic legislation					
2	Our expatriates receive their work permits easily without delay					
3	We get all our statutory legal issues sorted out timely by the EPZ regulatory management authority					
4	We believe strong legislation against expropriation and domestication is important in attracting EPZ investments and good firm performance					
5	We consider predictable clear legal systems with timely service delivery significantly influence our firm performance.					
6	Other (specify)					

20. Please state the extent to which the following statements are true of your firm by ticking the appropriate box.

	Ecological issues	Not at all	Small extent	Moderate extent	Large extent	Very large extent
1	Our firm undertakes energy conservation production processes					
2	We observe good waste disposal practice					
3	Our firm supports environmental protection activities in the community					
4	Our firm has overall environmental policy observed by all employees					
5	Other (specify)					

21. Having considered all the stated political, economic, social, technological, ecological, legal and issues in questions 14 to 21, to what extent do you think these issues affect the performance of EPZ firms? (Tick the appropriate box)

Macro-Marketing Environment	Not at all	Small extent	Moderate extent	Large extent	Very large extent

SECTION 5: PERFORMANCE OF EPZ FIRMS IN KENYA

22. How many new direct local jobs has your firm created in the years indicated?

No. of Jobs	**1 – 1000**	**1001 – 2000**	**2001 – 3000**	**3001 – 4000**	**4001 & Above**
Year 2011					
Year 2012					
Year 2013					
Year 2014					

23. How much foreign exchange earnings has your firm generated through exports in the years indicated?

Foreign exchange earnings **('000 US. Dollars)**	**1000 & Below**	**1001 -2000**	**2001 -3000**	**3001 – 4000**	**4001 & Above**
Year 2011					
Year 2012					
Year 2013					
Year 2014					

24(a). Has your firm transferred technology and skills in terms of number of expatriates to locals? (Tick the appropriate box).

Yes ☐ No ☐

24b. Incase question 24 above is **Yes**, at what rate has your firm transferred technology and skill in terms of number of expatriates to local employees during the years indicated?

Year	Expatriates to locals		
	Managerial %	Technical %	Not applicable
2011			
2012			
2013			
2014			

25. We spend the following ratios (%) of our operating expenses on:
(Tick appropriate column for each statement)

Item of domestic (backward) linkage	2011 %	2012 %	2013 %	2014 %
1 Local employee salaries				
2 Local employee levies (PAYE, NSSF, NHIF)				
3 Local purchases of raw material				
4 Local Utilities (water, power, telecommunications)				
5 Local transportation (maritime, land, air and rail)				
6 Local sub-contracting				
7 Other (specify)				

Thank you very much for our time and contribution.

Appendix V: List of Operational EPZ Firms

	Company Name & Contacts	Licensed Activity	Location
1.	Africa Apparel EPZ Ltd.	Manufacturing – Garments –Ladies woven bottoms	Sunflag, Runyenjes Rd, Nairobi
2.	All Fruit EPZ Ltd.	Manufacturing – frozen passion fruit juice concentrate & mango puree & concentrate.	Kingorani, Changamwe, Mombasa
3.	Alpha Logistics EPZ Ltd.	Developer/operator and Service. Marine logistical support services in gas and oil exploration projects	Alpha Logistics, Mombasa
4.	Alltex EPZ Ltd.	Manufacturing – Woven & Knitted Garments	Athi River EPZ – Athi River
5.	Asante Gifts & Souvenirs EPZ Ltd.	Manufacturing – curios & handicrafts	Athi River EPZ
6.	Ashton Apparel EPZ Ltd.	Zone Developer/ Operator & Manufacturing – Garments	Ashton Apparels EPZ - Mombasa
7.	Avenue Fresh Produce EPZ Ltd.	Manufacturing – Assorted fruits & vegetables.	Athi River EPZ
8.	Balaji EPZ Ltd.	Manufacturing – Garments	Balaji EPZ Ruaraka
9.	Barnes EPZ Ltd.	Developer/Operator— Manufacturing-chewing tobacco :- poanmasala ,khaini Gutka	Athi River

10.	Belat EPZ Ltd.	Manufacturing – Fruit juices and wine	Athi River EPZ
11.	Blue Sky Films EPZ Ltd.	Service – Film Production	Athi River EPZ – Athi River
12.	Botanical Extracts EPZ Ltd.,	Manufacturing – Plant Extract (Artemisinin)	Athi River EPZ – Athi River
13.	Brilliant Garments EPZ Ltd.	Manufacturing- Garments	Talab EPZ - Mtwapa
14.	Capital Industrial Park EPZ Ltd.	Service – Leasing out industrial buildings	Athi River EPZ – Athi River
15.	Celebrity Fashions K. EPZ Ltd.	Manufacturing – Garments	Athi River EPZ
16.	Central Africa Trading EPZ Ltd.,	Commercial- General merchandise (Kenyan coffee, Kenyan tea, UHT Milk, soap, Kenyan beef and, pork products, electronic goods and appliances & toilet paper	Athi River EPZ
17.	De La Rue Currency and Security Print EPZ Ltd.	Zone Developer/ Operator & Manufacturing – Currency and Security Documents Production	De La Rue Security Print EPZ – Ruaraka, Nairobi
18.	Earth Oil Kenya Proprietary EPZ Ltd.	Manufacturing – Natural products derived from Plant extracts	Athi River EPZ – Athi River
19.	Emrok Tea Factory (EPZ) Ltd.	Manufacturing – Tea	Nandi – Keben Business Park EPZ Ltd

20.	Erdemann (EPZ) Ltd.	Manufacturing – wines and spirits & Mineral water	Erdemann Industrial Park Beijing Rd. Mlolongo, Mavoko
21.	ET Elasto Tech (EPZ) Ltd.	Commercial – O-rings	German Kilifi EPZ - Kilifi
22.	Exotic EPZ Ltd.	Manufacturing— Processed macadamia Nuts	Sameer Industrial Park EPZ
23.	Forest Gate EPZ Ltd.	Developer/Operator And Enterprise Manufacturing–Processed Horticultural Produce and flowers	Laikipia
24.	Ginger InkFilms EPZ Ltd.	Service – Film & TV Production	Athi River EPZ - Athi River
25.	Global Apparels (K) EPZ Ltd.	Manufacturing – Garments	Athi River EPZ - Athi River
26.	Gokal Beverages (EPZ) Ltd.	Manufacturing— Blended Teas, Packet Teas and Tea Bags	Emirate Agencies EPZ - Changamwe, Mombasa
27.	Gold Crown Foods EPZ Ltd.,	Manufacturing – Tea Blending and packaging	Gold Crown Foods EPZ – Shimanzi, Mombasa
28.	Hantex Garments EPZ Ltd.	Manufacturing- Garments	Mazeras EPZ - Mombasa
29.	Halai Brothers (EPZ) Ltd.	Developer /Operator	Changamwe, Mombasa

30.	Hui Commercial EPZ K. Ltd.	Manufacturing - Plastic bottle flakes	Kingorani, Changamwe – Mombasa
31.	Imperial Teas (EPZ) Ltd.	Manufacturing - Tea	King'orani EPZ – Changamwe, Mombasa.
32.	Indu Farm EPZ Ltd.	Manufacturing - Packaged horticulture	Sameer Industrial Park EPZ - Nairobi
33.	Insta Products EPZ Ltd.	Manufacturing – Food Products	Athi River EPZ - Athi River
34.	Ivee Aqua EPZ Ltd.	Manufacturing - Pharmaceuticals	Athi River EPZ - Athi River
35.	Ivee Infusions EPZ Ltd.	Manufacturing – Infusion fluids, water for injections, Eye/Ear/Nose Drops, Inhalations and small volume Injectables	Athi River EPZ – Athi River
36.	Jungle Cashews EPZ Ltd.	Manufacturing – Cashew nuts	Saw Africa EPZ – Thika
37.	Jungle Mac EPZ Ltd.	Manufacturing – Macadamia nuts	Saw AfricaEPZ – Thika
38.	Kapric Apparels EPZ Ltd.	Manufacturing – Garments	Pwani Industrial Park EPZ – Changamwe, Mombasa
39.	Katchy Kollections EPZ Ltd.	Manufacturing- fashion accessories, shoes, leather bags, sisal clutch bags & fabric bags	Athi River EPZ
40.	Kencall EPZ Ltd.	Service - Call Centre/Back Office Operations	Sameer Industrial Park EPZ

			- Nairobi
41.	Kensis EPZ Ltd.	Manufacturing – Refined sisal fibre	Athi River
42.	Kenya Fluorspar EPZ Ltd.	Zone Developer /Operator & Manufacturing - Processing of Fluorspar	Kenya Fluorspar EPZ - Kimwarer, Kerio Valley
43.	Kenya Marine Contractors EPZ Ltd.	Services - Fabrication of sea going vessels	Comarco Properties EPZ -Liwatoni, Mombasa
44.	Kikoy Mall EPZ Ltd.,	Manufacturing – Kikoy towels, Bags, and bath robes	Athi River EPZ
45.	Kenya Trading EPZ Ltd.	Manufacturing – Garments	Sameer Industrial Park EPZ
46.	Leatherlife EPZ Ltd.	Manufacturing - Plant Extract (wattle tannin) Leather tannin powder, Mimosa Powder	Athi River EPZ - Athi River
47.	Life Sciences Consultants EPZ Ltd.	Service – Provision of Pharmaceutical Project Consultancy Services	Athi River EPZ
48.	Longyun Garments Kenya EPZ Ltd.	Manufacturing- Garments	Zois , Miritini, Mombasa
49.	Lycan (EPZ) Enterprises Ltd.	Manufacturing- Horticultural products	Athi River EPZ
50.	Mac Nut International EPZ Ltd.	Manufacturing- Processing macadamia nuts	Athi River EPZ

51.	Mega Garments EPZ Ltd.	Manufacturing -Garments	MJP EPZ - Mombasa
52.	Middle East Texco EPZ Ltd.	Commercial – Garment washing chemicals	Athi River EPZ - Athi River
53.	Mohazo EPZ (K) Ltd.	Manufacturing- Commercial crafts, bags & baskets, soapstone items, Interior decorative items	Athi River
54.	Mombasa Apparels EPZ Ltd.,	Manufacturing- Garments	Emirates EPZ - Mombasa
55.	New Wide Garments (K) EPZ Ltd.	Manufacturing – Knit Garments	Transfleet – Athi River Zone
56.	Nodor Kenya EPZ Ltd.	Manufacturing – Dart board/Cut sisal fibre/Darts	Athi River EPZ - Athi River
57.	Olivado EPZ Ltd.	Manufacturing – Avocado, macadamia nut oils	Hopetoun EPZ Ltd. Murang'a
58.	Pure Fry EPZ Ltd.	Manufacturing – crude palm oil	Athi River EPZ - Athi River
59.	P.J. Dave EPZ Ltd.,	Manufacturing – Dried Herbs and Roses	PJ Dave EPZ – Isinya, Kajiado
60.	Premium Machinery Distributor EPZ Ltd.	Commercial Activity— Importation and Sale of Sewing Machines and spare parts.	Athi River EPZ – Athi River

61.	Real Beverages EPZ Ltd.	Manufacturing – wines and spirits	Sandton Park EPZ Ltd
62.	Red Dot Distribution EPZ Ltd.	Commercial – computers, printers, laptops, LCD monitors, servers, ink (black), ink (others), toners	Athi River EPZ - Athi River
63.	Redington EPZ Ltd.	IT Hardware i.e. Desktops, Monitors, scanners Projectors, switches	Athi River EPZ
64.	Reltex Tarpaulins Africa EPZ Ltd.	Manufacturing – polyethylene tarpaulins	Athi River EPZ - Athi River
65.	Revital Healthcare EPZ Ltd.	Manufacturing – Plastic Disposable Syringes	Ashton Apparel EPZ - Changamwe, Mombasa
66.	Ricardo EPZ International Co. Ltd.	Manufacturing – Garments	Athi River EPZ - Athi River
67.	Royal Garments EPZ Ltd.	Manufacturing - Garments	Athi River EPZ - Athi River, Transfleet godown
68.	Rupa Cotton Mills EPZ Ltd.	Manufacturing - Cotton Yarn	Athi River EPZ - Athi River
69.	Sameer Industrial Park EPZ Ltd.	Developer/ operator	Sameer; Nairobi
70.	Sajan Trading EPZ Ltd.,	Commercial - Textile Apparel Consumables, Supplies, Machinery	Kipevu EPZ - Mombasa

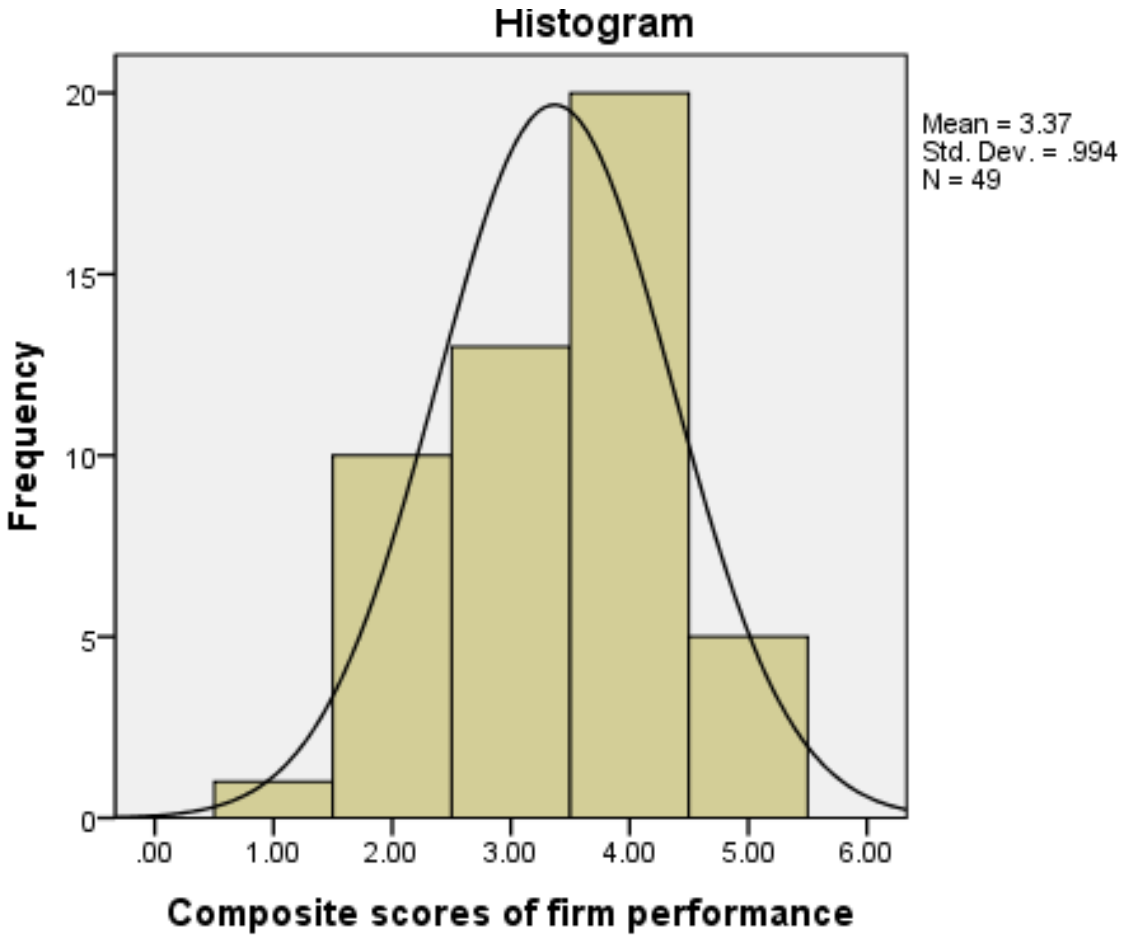
		and Wastes	
71.	Sandton Park EPZ Ltd.	Service – Zone operator for Sunflag (i) EPZ, Leasing out industrial space	Sunflag (i) EPZ – off Enterprise Rd., Nairobi
72.	Savannah Cement (EPZ) Ltd.	Manufacturing - Cement	Athi River EPZ – Athi River
73.	Saw Africa EPZ Ltd.	Zone Developer / operator	Saw Africa EPZ - Thika
74.	Solitaire Gems EPZ Ltd.	Manufacturing – processed & cut diamonds & gems, gold bars & ingots Ordered	Sameer Industrial Park EPZ
75.	Soko EPZ Ltd.	Manufacturing – Woven and knitted women's Jackets, Dresses, Skirts and Trousers	Wild Life Works EPZ - Voi
76.	Suman Shakti EPZ Ltd.	Manufacturing- Garments for Ladies, men and children	Balaji EPZ - Baba Dogo Ruaraka Nairobi (former Apex Apparels EPZ Ltd)
77.	Spartan Relief EPZ Ltd.	Commercial -Refugee kits, Fishing kits ,Agricultural kits, School kits, Household kits, Hygiene kits, Shelter kits, Packaging material, Water and sanitation, Hospital items, Therapeutic foods, Aquatabs and Bladder Tanks	Erdemann Industrial Park – Beijing Rd. Mlolongo, Mavoko
78.	Tailormade Jeanswear (EPZ) Ltd.	Manufacturing -	Athi River EPZ
79.	Techno Relief Services	Commercial – Emergency Relief	Sameer Industrial

	EPZ Ltd.	Supplies	Park EPZ - Nairobi
80.	Transfleet EPZ Ltd.	Services – Leasing out Industrial Buildings	Athi River EPZ – Athi River
81.	United Aryan EPZ Ltd.	Manufacturing – Garments; Men, boys, toddlers denim pants	Balaji EPZ - Ruaraka, Nairobi
82.	Unity Beverages (EPZ) Ltd.	ManufacturingAlcoholic beverages ie. Gins & Brandy	Athi River EPZ
83.	Vermont Flowers EPZ Ltd.	Manufacturing - Natural Flowers and Leaves	Sameer Industrial Park EPZ - Nairobi
84.	View Finders EPZ Ltd.	Service – Film Production	Athi River EPZ - Athi River
85.	Wild Life Works EPZ Ltd.	Manufacturing – Garments	Wildlife Works EPZ – Maungu, Voi
86.	YKK Kenya EPZ Ltd.	Commercial and manufacturing – Garment accessories (zip fasteners, metal buttons, rivets, hook and loop fastener tapes)	Kapric EPZ, Mombasa

Source: Kenya Export Processing Zones Authority (March, 2014)

Appendix VI: Tests of Regression Analysis Assumptions

Chart A1: Normality Test for Firm Performance



Plot A 1: Normality Test for Firm Performance

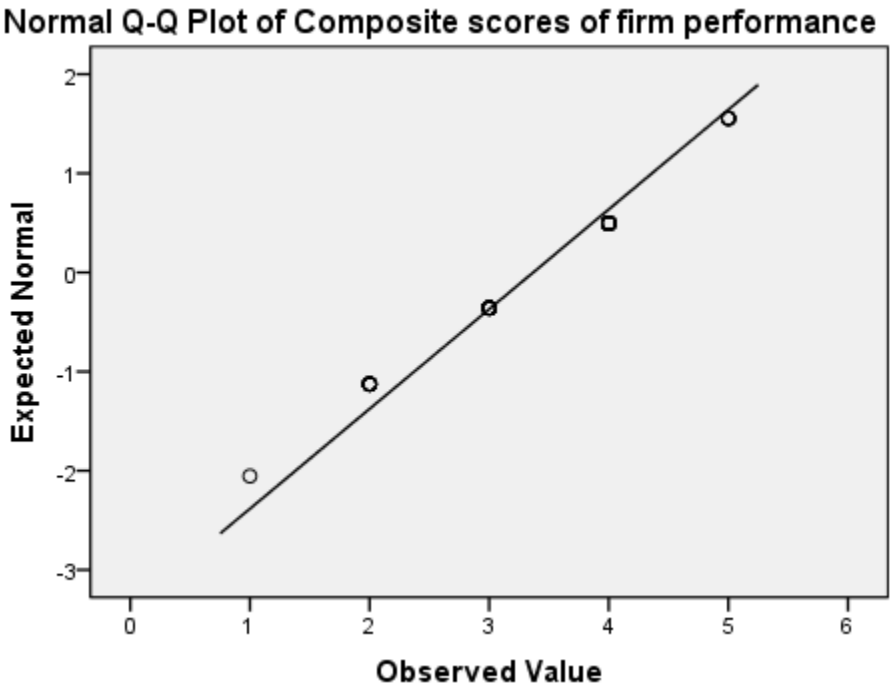
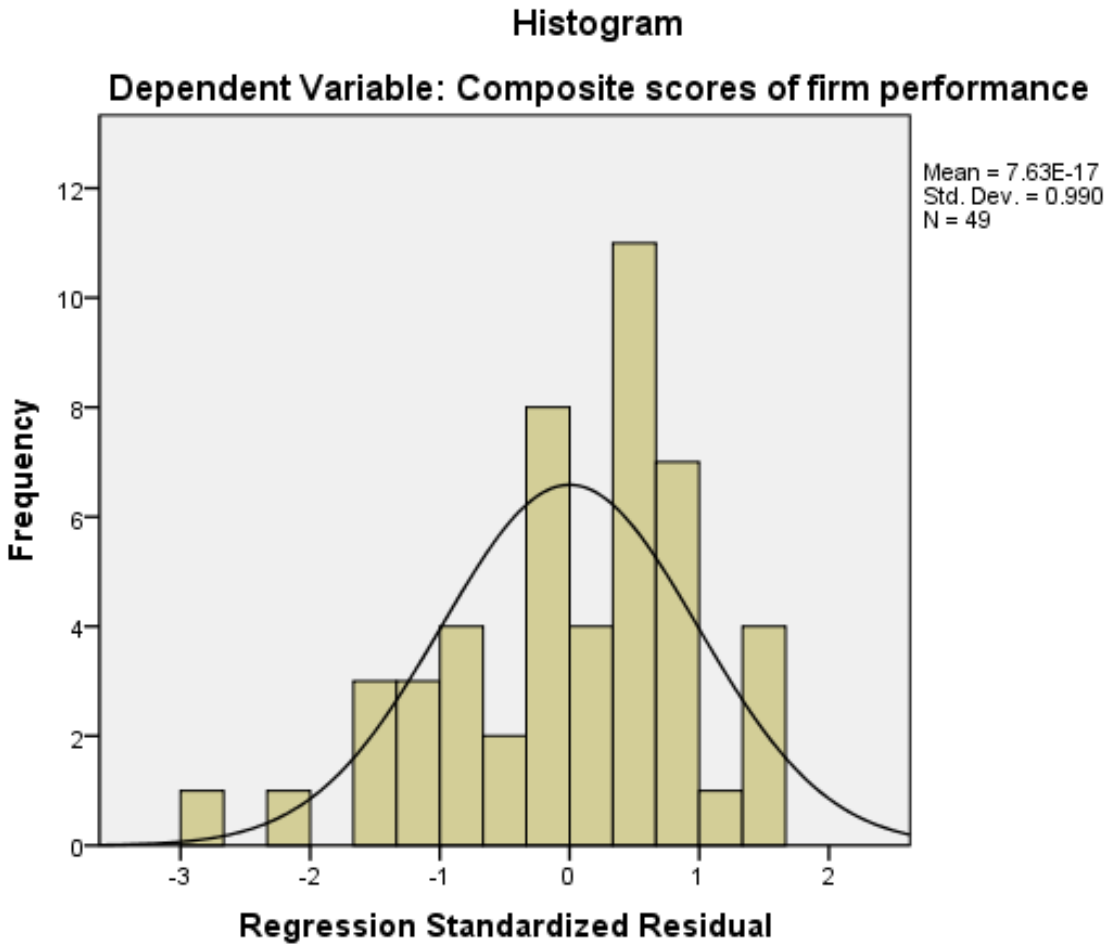
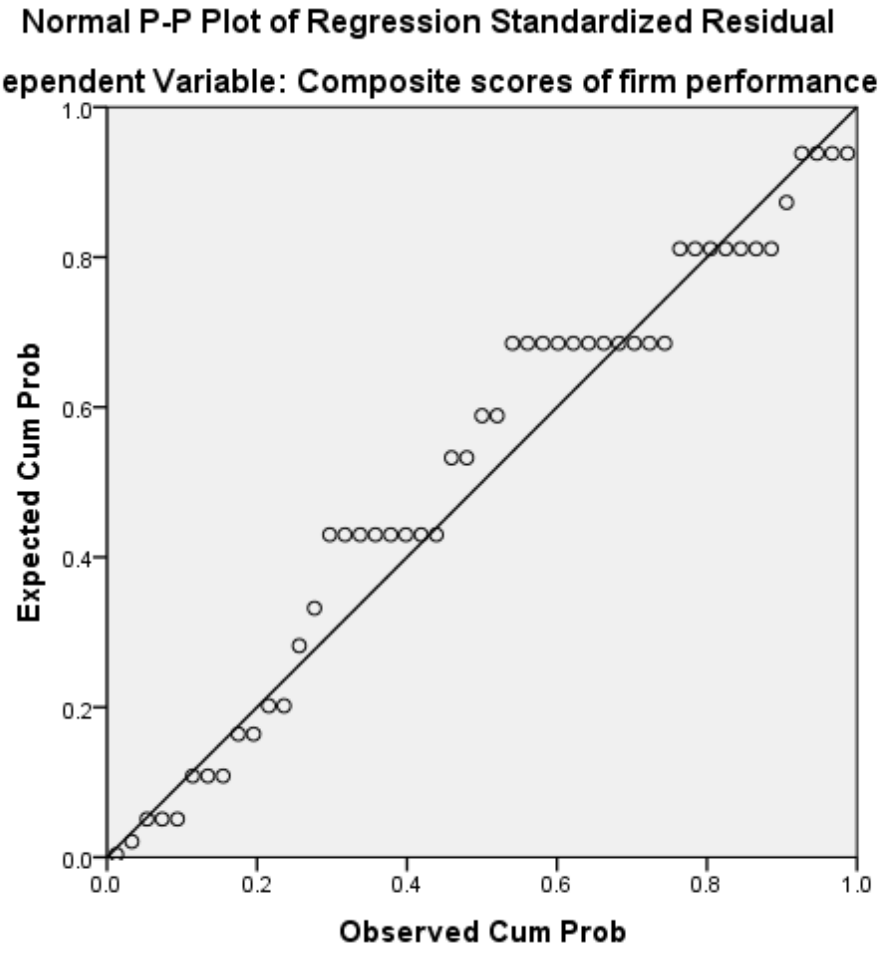


Chart B1: Normality Tet for the Influence of perceived Value of Investment Promotion Incentives on Firm Performance



Plot B 1: Linearity Test for the Influence of Perceived Value of Investment Promotion Incentives on Firm Performance



Plot B 2: Homoscedasticity Test for the Influence of Perceived Value of Investment Promotion Incentives on Firm Performance

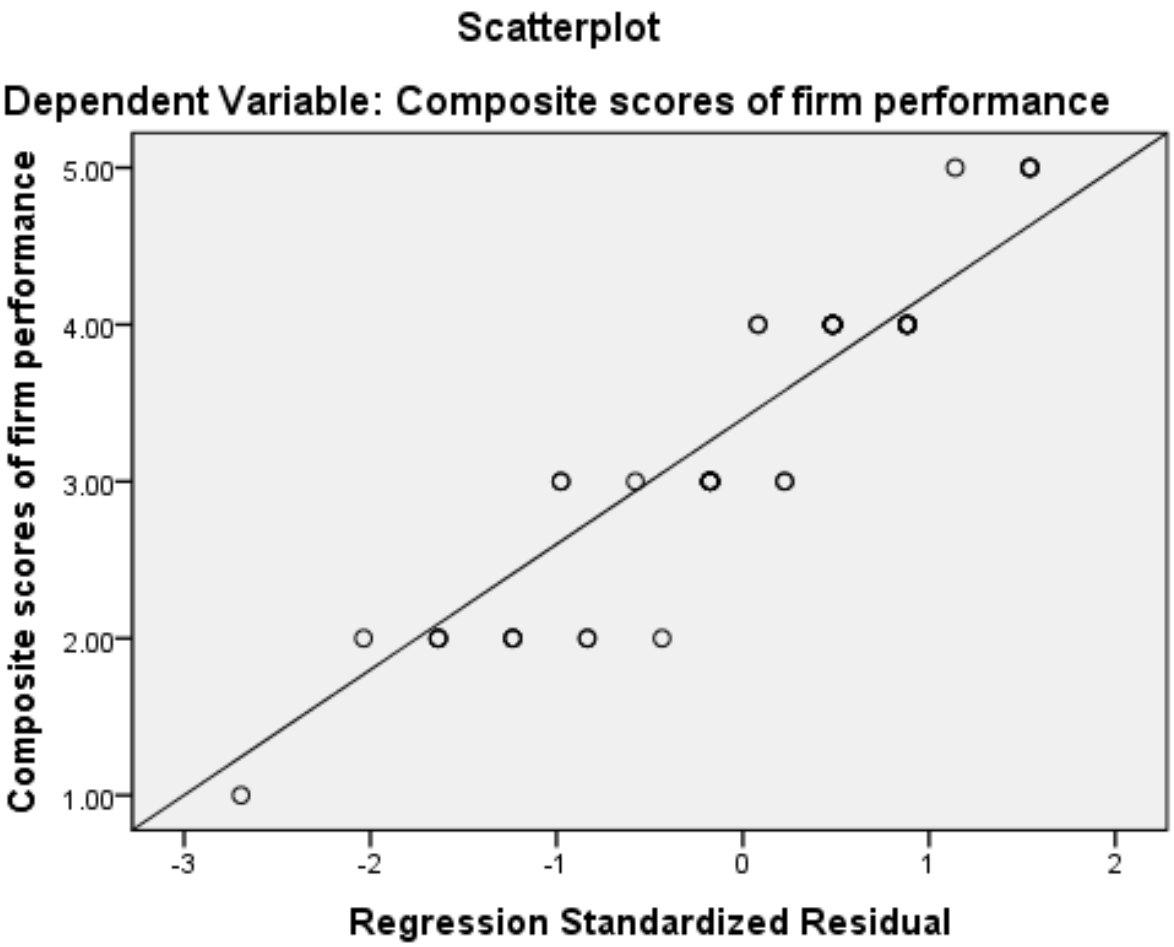
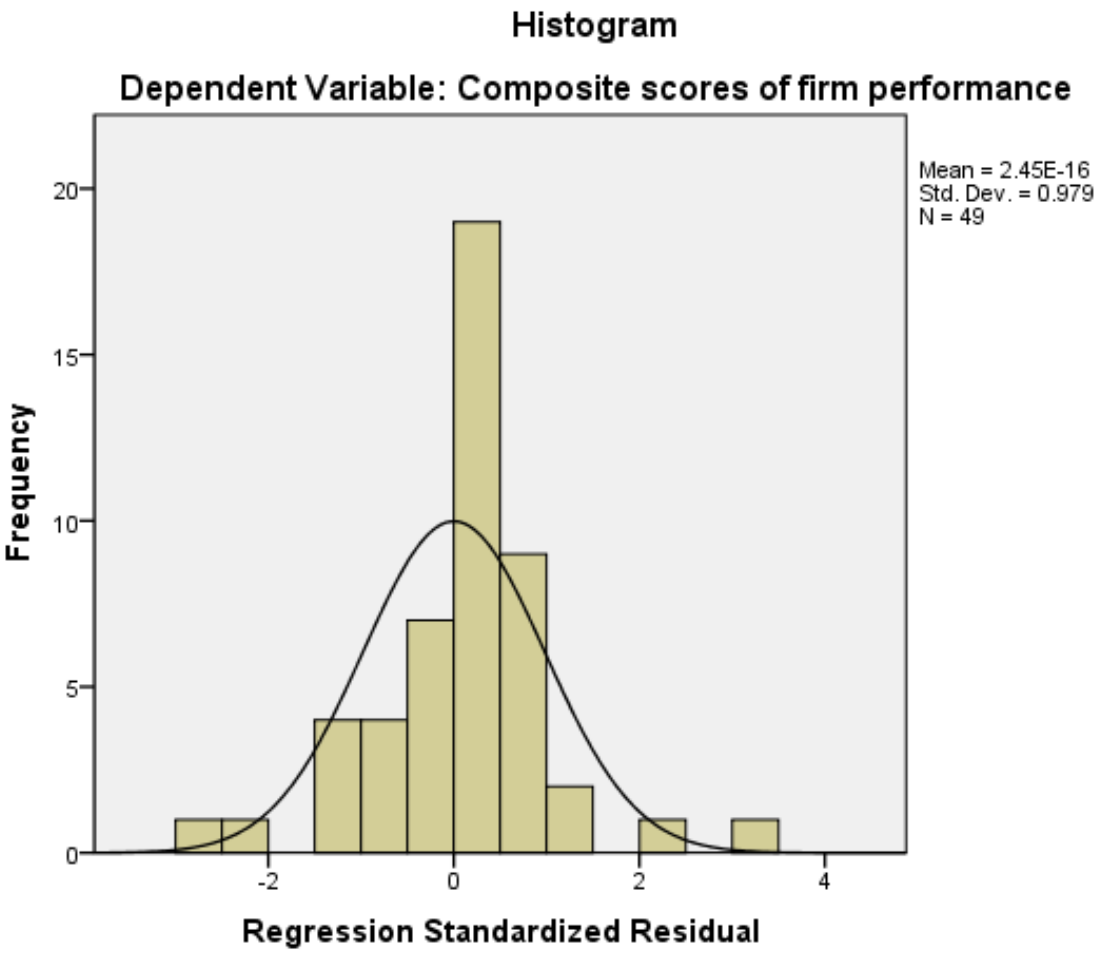
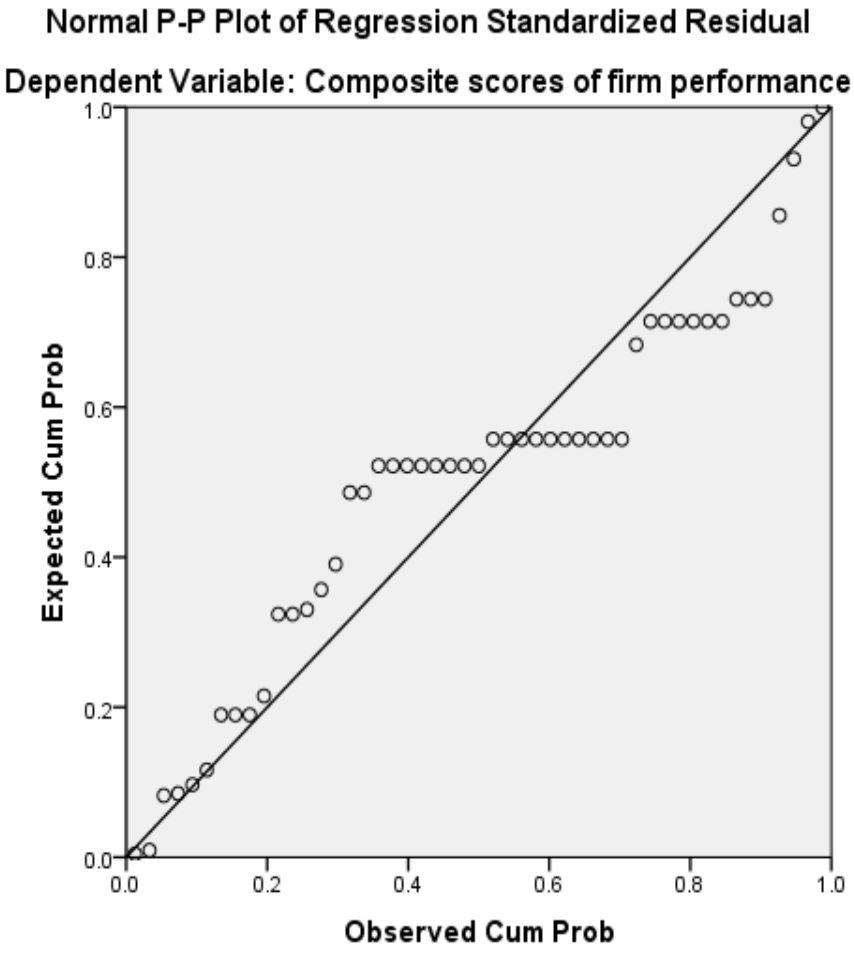


Chart B 2: Normality Test for the Influence of Organizational Characteristics on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance



Plot B 3: Linearity Test for the Influence of Organizational Characteristics on the relationship between Perceived Value of Investment Promotion Incentives and Firm Performance



Plot B 4: Homoscedasticity plot for Influence of Organizational Characteristics on the relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

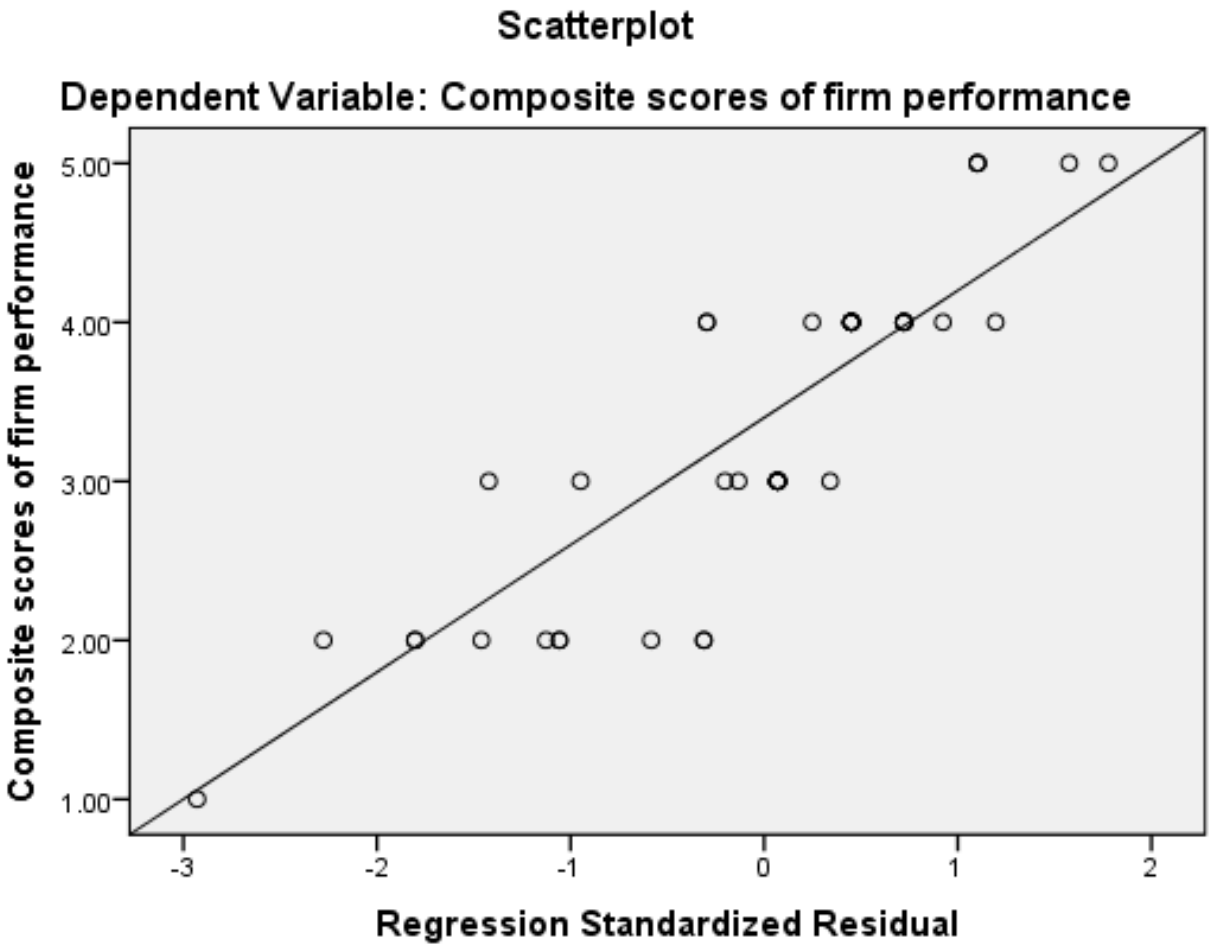
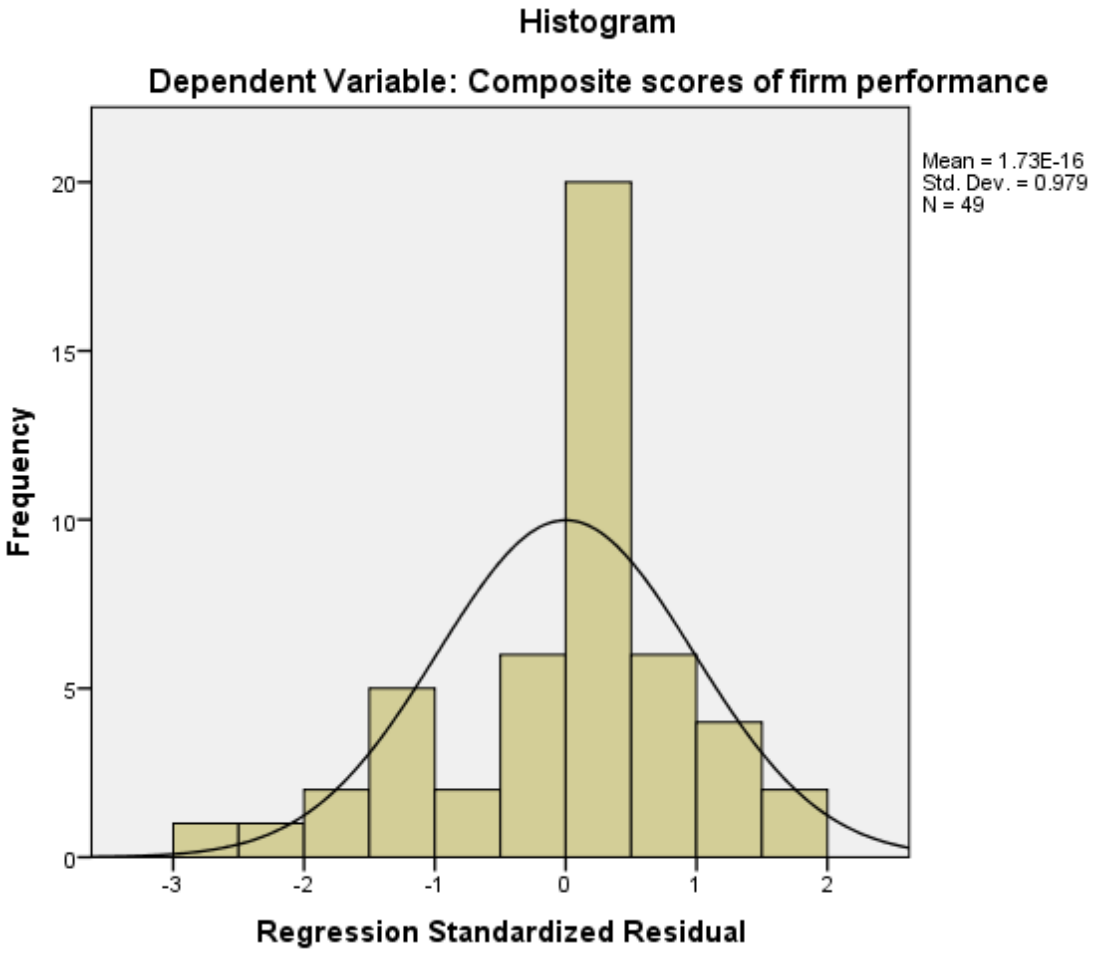
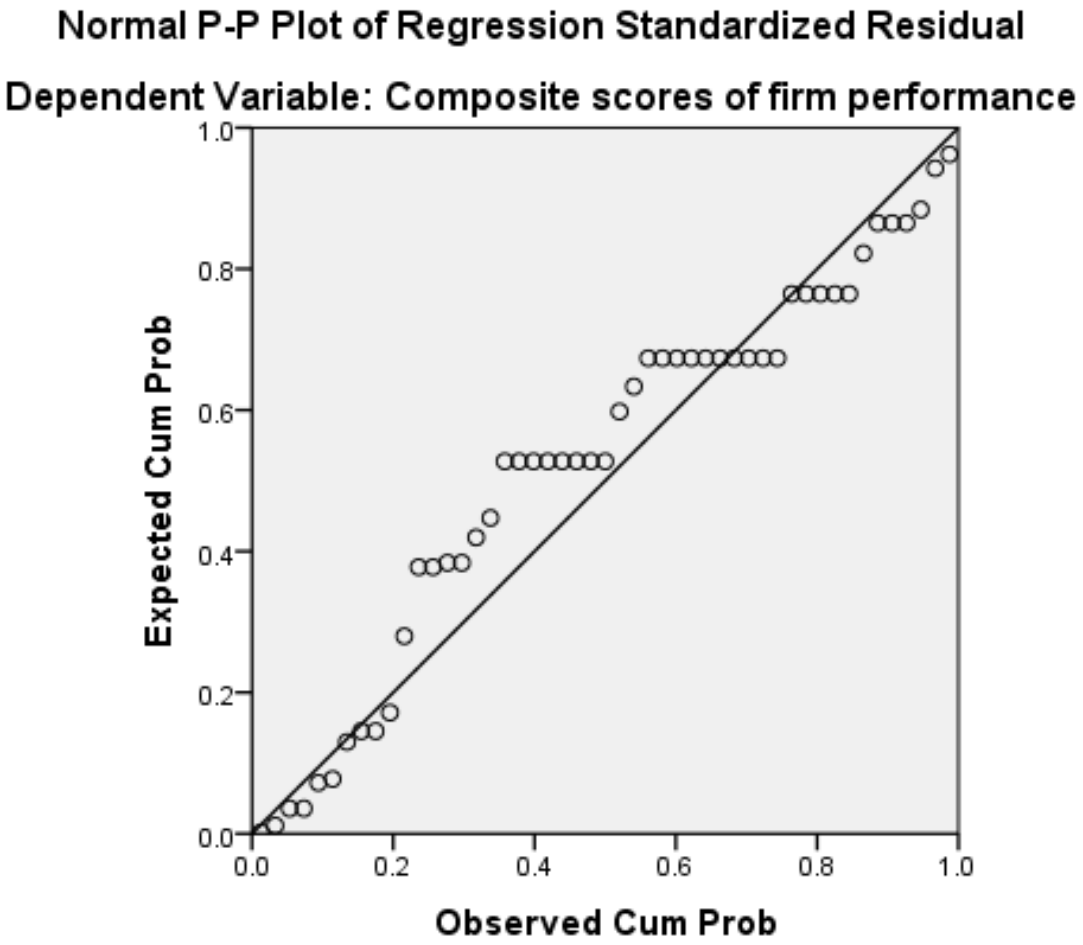


Chart B 3: Normality Test for the Influence of Macro-marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance



Plot B 5: Linearity Test for the Influence of Macro-marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance



Plot B 6: Homoscedasticity Test for the Influence of Macro-marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance

Scatterplot

Dependent Variable: Composite scores of firm performance

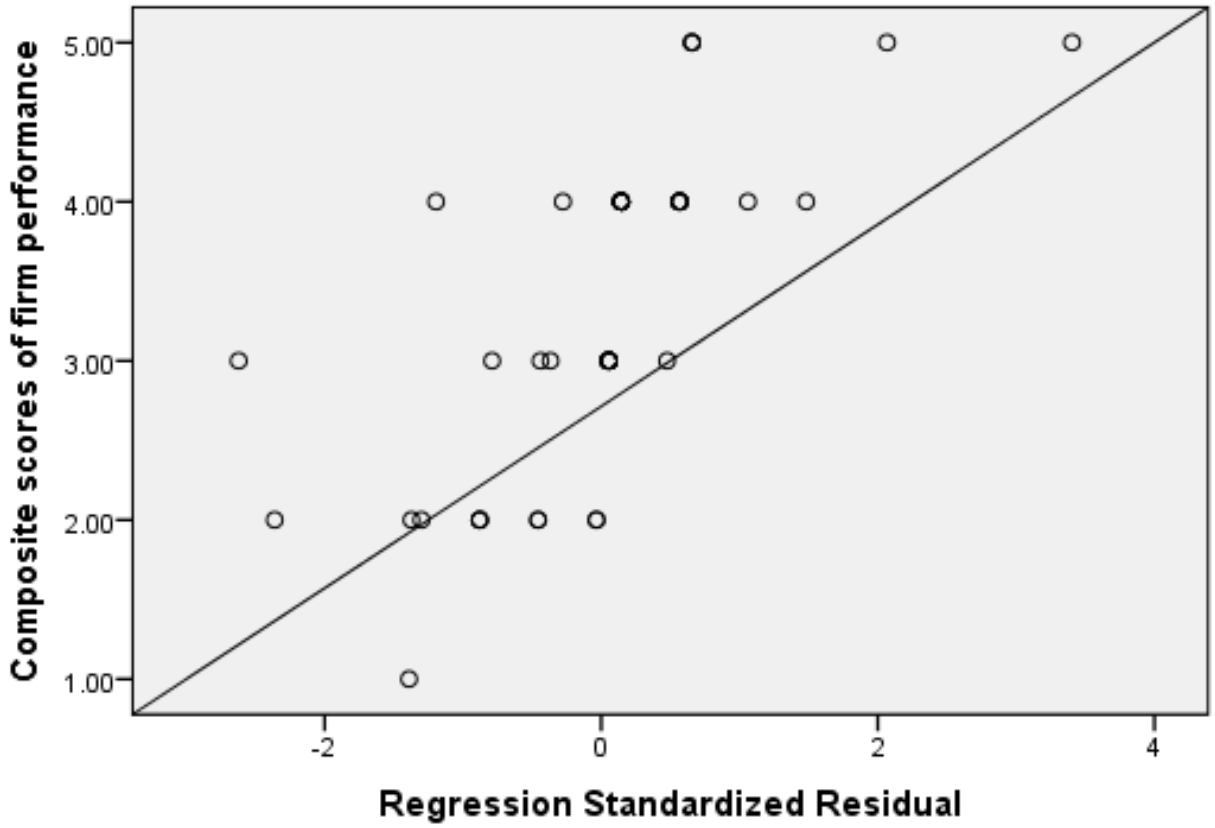
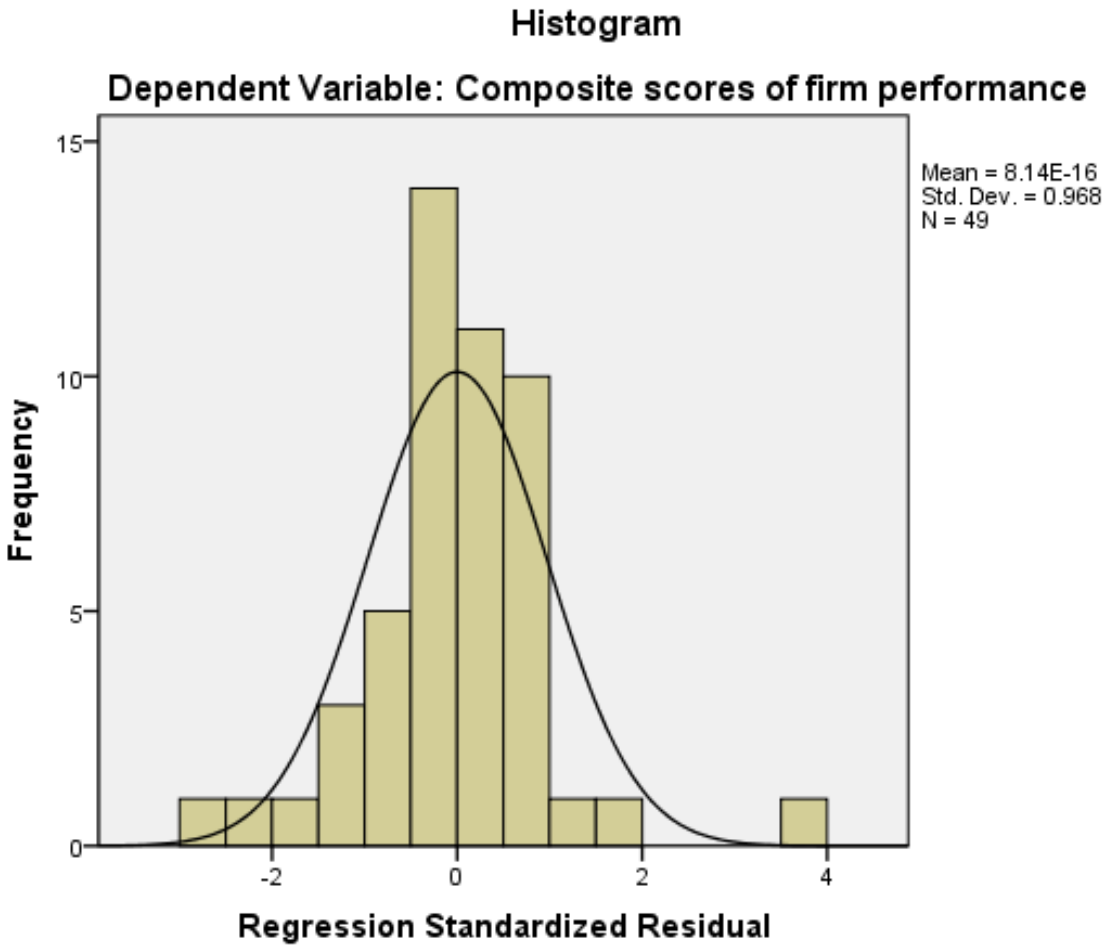


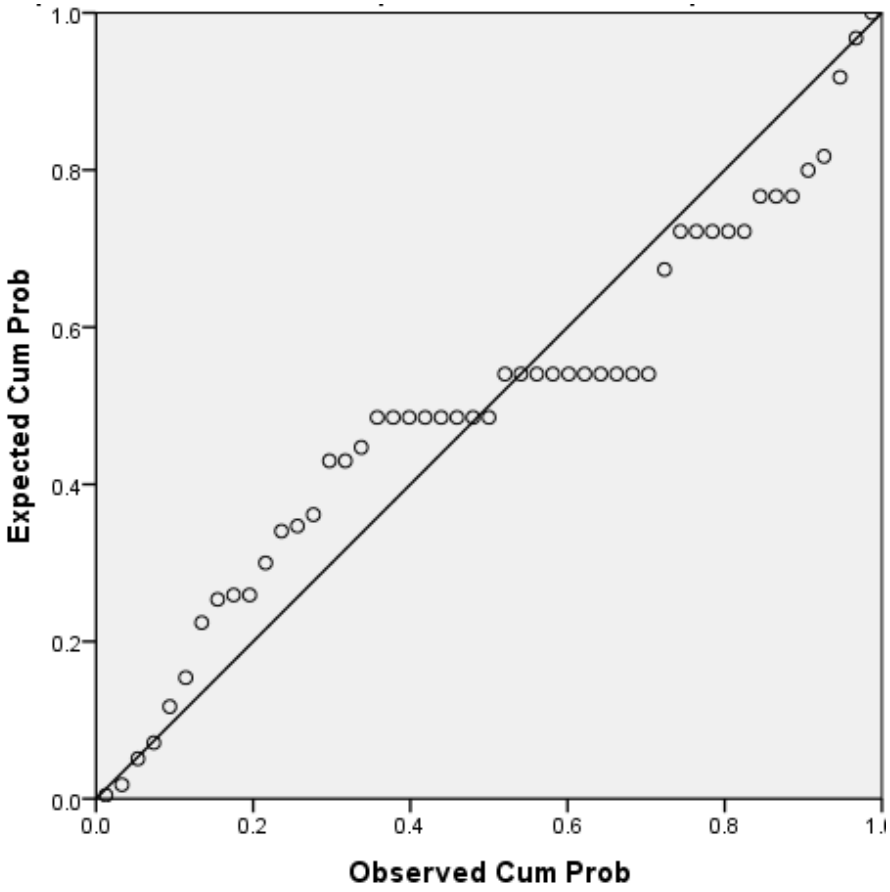
Chart B 4: Normality Test for the Influence of Macro-Marketing Environment on the Relationship between Perceived Value of Investment Promotion Incentives and Firm Performance



Plot B 7: Linearity Test for the Joint Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance

Normal P-P Plot of Regression Standardized Residual

Dependent Variable: Composite scores of firm performance



Plot B 8: Homoscedasticity Test for the Joint Influence of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment on Firm Performance

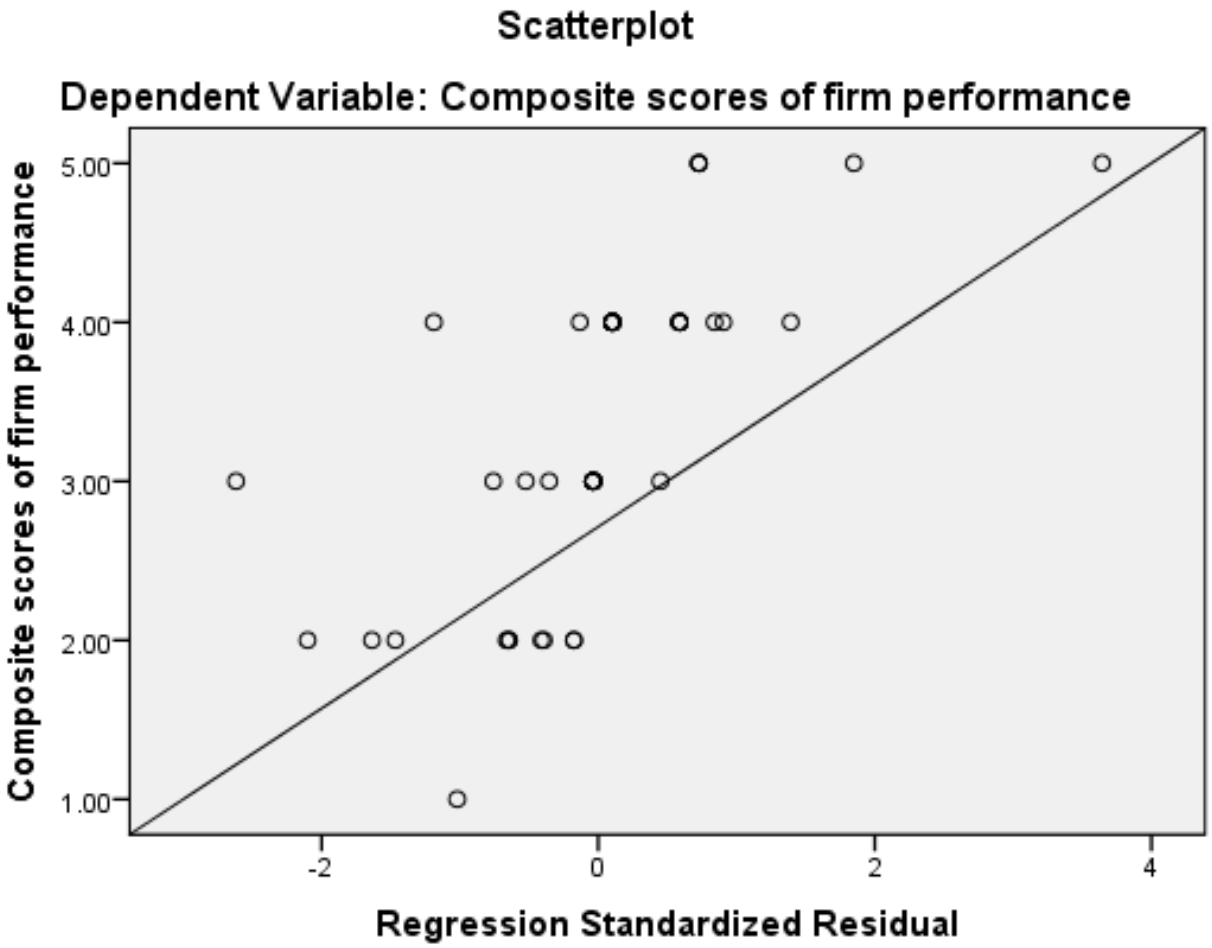


Table A 1: Collinearity Diagnostics for the Interaction between Composite Scores of Perceived Value of Investment Promotion Incentives and Organizational Characteristics

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	Composite scores of perceived value of investment promotion incentives	Composite scores of organizational characteristics
1	1	2.913	1.000	.00	.01	.01
	2	.062	6.875	.01	.38	.73

Table A 2: Collinearity Diagnostics for the Interaction between Composite Scores of Perceived Value of Investment Promotion Incentives and Macro-marketing Environment

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions		
				(Constant)	Composite scores of perceived value of investment promotion incentives	Composite scores of macro-marketing environment
1	1	2.939	1.000	.00	.01	.01
	2	.037	8.919	.03	.85	.45
	3	.024	10.988	.97	.14	.54

a. Dependent Variable: Composite scores of firm performance

Table A 3: Collinearity Diagnostics for the Interaction among Composite Scores of Perceived Value of Investment Promotion Incentives, Organizational Characteristics and Macro-marketing Environment

Model	Dimension	Eigenvalue	Condition Index	Variance Proportions			
				(Constant)	Composite scores of perceived value of investment promotion incentives	Composite scores of organizational characteristics	Composite scores of macro-marketing environment
	1	3.892	1.000	.00	.00	.00	.00
	2	.064	7.780	.02	.37	.30	.02
	3	.026	12.336	.96	.48	.06	.03
	4	.018	14.841	.01	.16	.64	.95

a. Dependent Variable: Composite scores of firm performance