

**INFLUENCE OF POLITICAL ENVIRONMENT ON PERFORMANCE OF
INTERNATIONAL HOTEL CHAINS OPERATING IN NAIROBI, KENYA**

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DECLARATION

This project is my original work and has not been presented for a degree in any other University or any other award.

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This project has been submitted for examination with my approval as the University Supervisor.

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DEDICATION

This study is dedicated to my lovely Son, Victor Kigera, there is no doubt in my mind that without his unending love, inspiration and encouragement, I would not be where I am today. He has stood by my right hand side always and therefore enabled me complete this project and other projects before this one. Special dedication goes to my sisters Lucy and Lydia, their support, encouragement and faith made all the difference in this study.

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ACRONYMS & ABBREVIATIONS

RBV- Resource Based View

FDI Foreign Direct Investment

GDP Gross Domestic Product

R&D Research and Development

EAC East African Community

WTO World Trade Organization

NSE Nairobi Stock Exchange

ICT Information Communications Technology

PEV Post Election Violence

BPO Business Processing Outsourcing

ABSTRACT

Organizations respond to the external environment to stay afloat in the ever changing environment that they operate in (Beck et al., 2010). One of the environmental factors that most businesses have to deal with is the political environment. Companies have to respond to the environment strategically in order to be sustainable and avoid losses (Johnson et al., 2008; 2005). The election politics and environment in Kenya often affect International Hotel Chains. The factors that have shaped and influenced the country's political environment include consumers, legislation, taxation, infrastructure, power availability, peace and stability; the electoral legislation and administration of justice as well as discipline of law enforcement agencies; the economic impact in terms of taxation, government spending, general demand, interest rates, exchange rates and global economic factors; political and government policy; rapid technological changes that also affect production processes and product innovation in business; among others. The primary objective of this study was to assess the influence of political environment on the Performance of International Hotel Chains in Nairobi, Kenya and develop a framework for the identification of political environmental issues faced by international hotel chains in Nairobi, Kenya. The study collected primary data by use of a questionnaire. Data collected was analyzed through descriptive statistics, multiple linear regressions was undertaken with a view of examining the cumulative effect of the independent variables (Political environment and its impact) on the dependent variable (performance of International Chain Hotels). The results concluded that there is a positive influence of each independent variable on dependent variable with the other independent variables held constant. The aim of this paper is to establish a comprehensive view of what political environment is and to identify the importance of variables for the decision makers of international hotel firms and experts in this area. The first part of this paper is based on a thorough review of the literature concerning political environment and performance, the importance of political environment in relation to hotel performance and tourism industry, and the way of analysing political environment. Also, the relevance and importance of perception to political environment assessment suggests an ideal methodology for the present study. In the concluding part, application for hotels operating in Nairobi, Kenya will be made. This study determines the major political factors and constraints for international hotel chain development and identified variables which can be utilised by government for eliminating and controlling negative political factors. It is suggested that active involvement of host country government would be necessary' in order to create favourable political environment and promote more foreign investments.

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CHAPTER ONE: INTRODUCTION

1.1 Background of the study

Political Environment is defined as the factors that create an Inter-linkages occurring in many ways, for example, political decisions inevitably affect the economic environment. On the other hand, Politicians can influence the pace at which new technologies appear and are adopted. Therefore, political environment's influence in performance of international business consists of a set of political factors and government activities in a foreign market that can either facilitate or hinder a business' ability to conduct business activities in the foreign market. Nairobi the Capital of Kenya, is a regional commercial hub. The economy of Kenya is the largest by GDP in Southeast and Central Africa. The service industry is also a major economic driver. Kenya is a member of the East African Community. Compared to other African countries, Kenya enjoys relatively high political and social stability.

The external environment is dynamic and ever changing. Organizations respond to the external environment and develop strategies that enable them to survive the ever changing environment that they operate in (Beck et al., 2010). One of the environmental factors that most enterprises have to deal with is the political environment. Companies have to respond to the environment strategically in order to be sustainable and avoid losses (Johnson et al., 2008; 2005). There is often a high degree of uncertainty when conducting business in a foreign country, and this risk is often referred to as political risk or sovereign risk. The political processes within a country generate laws and regulatory requirements. Companies doing business within that country must follow the laws and comply with the regulations or face legal penalties. Theoretically, the laws and regulations reflect the social values and governmental objectives of the host country. Unsurprisingly, these will vary widely among countries.

A complex and dynamic modern environment is inevitably difficult to forecast and the inherent uncertainties can make it highly unpredictable and potentially chaotic (Porter, 1980). It is important for organizations to anticipate where the greatest threats and opportunities lie at any time in order to focus their attention and resources and initialize strategies to deal with them.

Environment is the sum of all forces surrounding and influencing the life and development of a firm. International business environment refers to the forces that foreign firms are likely to encounter in foreign markets. An organization is made up of internal and external environments (Rowe et al., 1994). Internal business environment is made up of forces within the organization that the organization has direct control over

e.g. the factors of production and the activities of the organization. The external environment is made up of forces over which the management has no control over i.e. uncontrollable forces. These forces include: Financial, Legal, Socio-cultural, Technological, Natural environment and Political forces.

According to Walter (2014), the implication of political environment to a business is that the risk emanating from it, is a measure of likelihood that political events may complicate its pursuit of earnings through direct impacts (such as taxes or fees) or indirect impacts (such as opportunity cost forgone). As a result, political risk is similar to an expected value such that the likelihood of a political event occurring. The political environment is one of the less predictable elements in an organization's business environment. The fact that democratic governments have to seek re-election every few years has contributed towards a cyclical political environment. The political environment in its widest sense includes the effects of pressure groups who seek to change government policies. Corruption remains a barrier to economic development in many countries. Some companies may survive and prosper by bribing government officials, but the success and growth of such companies is not necessarily based on the value they create for consumers. It is important for organizations to monitor their political environment, because change in this environment can impact on business strategy and operations in a number of ways. The stability of the political system affects the attractiveness of a particular national market in that, Governments pass legislation that directly affects the relationship between the firm and its customers, its suppliers and other firms, Governments see business organizations as an important vehicle for social reform. The government is additionally responsible for protecting the public interest at large, the economic environment is influenced by the actions of government and finally the Government is itself a major consumer of goods and services.

In Kenya, for instance, there is significant impact of the current government policies on businesses operating in Kenya. These implications are found in factors such as taxes and government spending, which in turn affect the country's economy. The current governments have changed many rules and regulations, and this had had an effect on businesses operating in the country. For instance, the global hotel chains are now opening branches in Kenya. The political stability that has been enjoyed in the country after the infamous 2007 elections has spelled good growth for businesses that operate internationally. a lack of political stability in any country has an effect on its operations.

1.1.1: Political Environment

As defined by Robert Dahl, a political environment is a "persistent pattern of human relationship that involves, to a significant extent, control, influence, power, or authority. The political environment refers to the actions taken by the government, which potentially affect the daily business activities of any business or company. According to the Law Dictionary, such actions occur on a local or international scale depending on the governmental institution's authority. The political system of the country also has an influence on political environments. Political stability is a basic requirement to success regardless of the industry. In hotel industry in particular, political factors can influence the number of visitors, both, tourists and business travellers' visits to a country in direct and indirect ways.

The political environment is a key component of the external business environment. The political environment refers to the political situation of a country in which an International Hotel Chain is doing business. It is the government actions which affect the operations of a company or business (Degryse et al., 2009). These actions may be on local, regional, national or international level. Political system, political parties in power, political parties in the opposition, political maturity of the parties, number of political parties, political awareness of people, political stability and the like have great impact on the business environment in a country. The election politics and environment in Kenya

Often affect the MNC business. The factors that have shaped and influenced the country's political environment include consumers, households and communities; the electoral legislation and administration of justice as well as discipline of law enforcement agencies; the economic impact in terms of taxation, government spending, general

demand, interest rates, exchange rates and global economic factors; political and government policy; rapid technological changes that also affect production processes and product innovation in business; among others. Thus if banks and financial institutions are effectively and efficiently managed they can enhance a country's business environment and integrity. Such public institutions play a vital role in eradication of corruption through education and adherence to their professional ethics.

The political ideology in the country also impacts the business environment. Political ideology refers to, 'the body of ideas, theories, aims and means to execute the ideas adapt the theories and fulfil the aims that constitute a sociopolitical program for action'.

A country's ideological leaning may be capitalism, socialism, a mixture or other form. In the last years remarkable changes have been taking place in the ideologies of many countries.

Political environment also affect international markets, which often keep changing from time to time depending on the type of business products as the customers always tend to develop new needs and wants. The dynamic business market competitions, new technologies which change and produce new products with the introduction of new government legislation are some of the factors that influence political environment. Other factors that affect political environment include ethnicity, clanism, nature of political parties, personality of individual prospective politicians and in some cases religion.

Political factors can be also very important in deciding whether to operate a hotel in a foreign country. The fall of the Berlin Wall in 1990, the breakup of the Soviet Union and the creation of the European Union have all contributed to the fall of international boundaries, thus making it much easier for foreign companies to penetrate those markets(Cateora & Graham, 2002). Likewise, certain political decisions can have negative effects on the global economy. For instance, national governments can try to protect domestic industries by imposing higher tax rates on international companies or by subsidizing the domestic industry. In2002, the U.S. government decided to subsidize the domestic steel industry by creating a multibillion dollar loan. This made it practically impossible for the E.U. steel industry to compete in the U.S. market, which has created a lot of controversy within the World Trade Organization.

The majority of global hotel corporations view regional political events as the single most important factor in deciding whether to expand to a particular country (Hong et al., 1999). The Kenyan political environment is characterized by frequent changes in government policies and programmes thereby negatively affecting business long-term planning. This is attributable to party politics with threats of conflict growing levels of ethnic tension among others thereby hindering business patronage and scaring away foreign investors from the country during election years. International hotels can gain significant benefits from managing the political environment and its associated risks and ignore the environment at their own peril. Effective management of political environment can enable the hotels to tap new revenue streams through access to markets and joint ventures that, without careful management, might seem too risky. Clear identification, measurement and management of risk can facilitate organizational buy-in for growth strategies that target emerging markets and “frontier” markets, while improving the performance of existing businesses.

These are necessary to make the political terrain stable and out of violence for business growth and development. Political environment also includes the political culture i.e. "widely held views, beliefs and attitudes concerning what governments should try to do and how they should operate and the relationship between the citizen and the government."Political culture includes population participation and involvement in the electoral process and the level of government acceptance by the population. This is of particular importance in countries where democratic processes

are emerging. A political factor is an activity having to do with government policy and its administration that has the potential to change or influence a business. New legislation is one example of a political factor because it can impact the company's operations by either requiring or prohibiting it to act in a particular way. Some common political factors that influence the performance of international business landscape are the type of economic system a country builds which of course is a political choice. Foreign countries often will have different economic systems from domestic market and adjustments often need to be made to take these differences into account.

1.1.2: The Concept of International Hotel Chains

Kenya is expected to give 16 new five star hotels in the next five years raising the country's hotel rooms by 2,900 (Hospitality Outlook 2016 -2020 by PriceWaterHouseCoopers). The completion of the new facilities will increase hotel capacity by 14 per cent. Kenya's economic growth trend is strong and the planned hotel investment reflects confidence in the country's growth trajectory, rising middle-class, rapid urbanization, devolution and position as a regional hub for multi-national businesses (PwC Report 2016). Occupancy rates in Nairobi and Mombasa remain high and international companies such as Marriott, Sheraton, Ramda, Hilton Garden Inn, Movepick Hotel and Four Points are planning new hotels in Kenya in the next five years. In 2015, stay nights fell 2.8 per cent, but a 9.1 per cent increase in the average room rate resulted in a 6.1 per cent gain in room revenue. Players say the increase in the average room rate represents a turnaround from recent years. Kenya's occupancy rate rose 5.6 per cent in 2015. Its largest gain since 2010. There are numerous challenges that an international hotel chain faces when operating in a foreign country. The company's response to those challenges will determine the hotel's overall success rate. This will in turn directly affect the corporation's profit levels. The critical issue of this study is to define to what extent

the political environment of a country affect the performance of international hotel chains. In order to truly grasp the concept, it is essential for one to value the importance of political environment in regards to performance in the hospitality industry. By understanding the political factor as, each hotel chain develops its own brand name. Proper analysis of political factors will contribute to the development of an efficient performance strategy. The focus of the study is primarily on the hotels operating in Nairobi, Kenya. The study will pick a sample of hotel brands that belong to that have other brands worldwide.

International hotels have been constantly coming up with innovative products so as to constantly meet the demands of the customers. Customer satisfaction and retention are critical for international hotels.

Kenya's economic prospects has remained strong with low inflation and stable interest rates, and the shilling also remains fairly stable against major trading currencies, enabling the Central Bank of Kenya (CBK) to lower interest rates and induce increased commercial bank lending to the private sector (WorldBank, 2013).Kenya's foreign exchange reserves stood at US\$5.8 billion and the Nairobi Stock Exchange (NSE) index rose to 14% since the beginning of the year, as domestic and foreign investors flocked into the market for better yields (World Bank, 2013). In order for a country to accumulate foreign reserves authorities have to acquire foreign currency in foreign exchange market (Gonçalves, 2008, p. 5) while (Barnichon, 2008, p. 2) states that due to the fact that low to middle income countries have weak diversified economies.

A report by W Hospitality Group says international hotels are expected to grow the country's bed space by 1,510 in 2017. The Kenyan hotel scene is primed for expansion as global brands and local investors look to capture the growing number of

business travellers. According to the report, Kenya recorded the largest growth in planned hotels on the continent at 100 per cent followed by Uganda at 90 per cent.

Nairobi was ranked ninth, by the number of rooms with 1,220 units, but lagged behind Addis Ababa in the top 10 cities. Of this figure, states the survey, 70 per cent of the rooms are already under construction with the remaining 30 per cent in the pre-planning phase. This means that six of the eight hotels have already broken ground including Radisson Blu, Garden Inn by Hilton, Park Inn by Radisson as well as Accor.

“Pullman’s signed deals in Nairobi, Kinshasa and Addis Ababa are also all on site and are scheduled to open fully by 2017,” reads the report.

Kenya is a country in the East of Africa with a population of 43 million according to the 2012 World Data Sheet by the Population Reference Bureau(Population Reference Bureau, 2012).It is a very beautiful country known for its wide range of National parks and game reserve. The country is also known for its warm and humid climate along the Indian Ocean coastline and the warm and humid climate around Lake Victoria. Kenya was a British colony that gained its independence in 1963, its capital city is Nairobi. Majority of Kenyans are well-educated with a 70% of the population being under the age of 35 years, and an estimated 50% of people living below the poverty line(US Embassy Nairobi, 2014)

1.2:Research Problem

Various studies have been conducted on the relation between business performance and the various environmental factors in a country. These studies have mostly been done with a view to multinational companies from various contexts and perspectives by international researchers, but there are few studies particularly on area of International Hotel chains. Thus this study will seek to find out the connection between political environment and

performance of international hotels in Kenya. Specifically, how does the political environment affect their performance, how do they reorganize and adapt to it and institutionalize it, and how do they develop an organizational learning cycle. It ultimately aims to provide references for improving performance of the hotels in regard to the political environment they find themselves operating in.

Therefore, ideas have not been formed as to what is the current research trend of international hotel chains in Kenya as a major tourism support link and economic hub of the larger East Africa region or if there are any gaps between them that could be fulfilled by further study.

This research will investigate and analyze the political environment in Kenya and its effect on multinational hotel chains operating here.. The global environment, within which international businesses compete, is increasingly more competitive. In a bid to sustain and gain market share, companies are devising strategies aimed at counteracting competitors, spurring growth and ensuring that the companies remain market driven. It is therefore of great importance that the hotels engage in various strategies to ensure that the targeted results are achieved. Various studies have been carried out in relation between international businesses' performances and the political environment. This study aims at establishing and indentifying the possible factors and possible solutions to them. This research will thus endeavor to find out the impact as well the influence of political environment on performance of international businesses based in Kenya with specific interest on the Hospitality Industry in Kenya.

It is worth noting that the investor mindset or the perception of the investor towards a country's investment climate influences the choice of the investment destination (Cole, 2007). However, though numerous studies have been carried out focusing on investment

destination competitiveness (such as: Schoeman *et al.*, 2000; Asiedu, 2002; UNCTAD, 2005b and 2008), many of these studies have tended to concentrate on the foreign direct investment (FDI) with no focus on domestic investors. Secondly these studies have been carried out across several countries usually employing comparative analysis, devoid of an in-depth country-specific analysis; and thirdly, many of these studies have concentrated on the general economy with few considering the flow of investment within the tourism industry in particular (for instance, UNCTAD, 2005b, 2006, and 2008). In the light of the aforementioned limitations, this study sought to explore on the determinants of tourism investment destination choice and critically examine the perspectives of the hotel investors on Kenya's competitiveness as an investment destination. This was considered instrumental in informing Kenya's tourism investment promotion initiatives as the government strives to position tourism as a leading economic sector. In this sense, it would be of great interest to determine the most recent trends in international hotel operating in Kenya and seek potential gaps that may lead to further research ideas. Most of the literature the present author identified was articles that assessed the performance of the hotels on specific perspectives (e.g., knowledge management, consumer behavior, finance and others). There is a lack of empirical research specific to Kenya that analyses the effect that political risk has had on exchange rates over the long term. This research therefore aims at filling this knowledge gap by answering the research question of what effect political risk has on exchange rates in Kenya. Investigated the notion of political environment and global hotel brand in Kenya per se.

1.3: Objectives of the Study

- i. The study sought to establish the influence of political environment on performance of international hotel chains in Kenya
- ii. The study analysed the political environment and its influence on performance of international hotel chains in Kenya.
- iii. The study identified the factors associated with political environment and performance of international hotel chains in Kenya.

1.4. Value of the study

The study shall be useful to various academic researchers on similar research studies. It will also provide information to be used by the various international businesses in Kenya to formulate positive fiscal policies and appropriate strategies which will be relevant to influencing the performance of the international hotels and their penetration in Kenya. The findings will also be useful to the government and other regulatory institutions involved in the country's foreign policy formulation to come up with guidelines on how to propel growth and international business uptake in the country and the East Africa region. The study provides information to potential and current scholars on the influence of political environment on performance of international businesses in Kenya. This would expand their knowledge on impact of political environment and also identify areas of further study.

The study hopes to evaluate the strategies that can be employed by International Hotel Chains in Kenya in response to changes in the political environment helping the

hotels protect their investment. This study seeks to help the International Hotel chains to be better prepared for changes in the political environment.

The study is also of great significance to the government in attracting foreign investors and planning for elections. This study will also be beneficial to the government and policy makers to craft necessary policies that will protect foreign investors and investments in the country.

The study would provide a useful basis upon which further studies on this topic can be built on.

This study also hopes to assist students of international business and globalization in appreciating how changes in the political environment impact International Hotel Chains in emerging markets, in particular Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

It is hard to give a single universal definition for an international hotel chain for the simple reason that it is even harder to first explain what exactly is entailed in the word international hotel chains(Danziger, 2005). Nevertheless, this cannot stop researchers from trying to understand it and many have talked about their study results about ideal international hotel chains in published articles. This chapter presents a review of literature from other researchers who have carried out their research in the same and closely related fields of study. The literature will explore theoretical, empirical and critical reviews.

Hotels are one small piece of the broad picture of hospitality industry, which arguably derived from the need to receive and cater to people temporarily away from their home who in another word are called travellers (Dittmer, 2001). With the start of industrial revolution, which brought tremendous technological advance to the world, including invention of long distance transportation vehicles like ship, hotels began to be built across Europe and the U.S. on account of dramatic increase of travellers and migrants. The word “hotel”, first was used in the United States in the late 18th century, was defined as taverns and inns that serve upper class clients (Sherman, 2007). Tremont hotel in Boston was opened in 1829, and has long been believed to be the first modern upscale hotel in U.S.

Since independence, Kenya has relied on its tourism industry to generate foreign exchange earnings. Kenya provides a good example of an African country which has embraced tourism as an important tool for socio-economic development. In the short-term, Third World Countries in general, and Kenya in particular, viewed the development of tourism as a quick and reliable source of much sought after foreign

exchange receipts, job creation and economic growth. However, a critical evaluation of the evolution and development of tourism in Kenya indicates that the country's tourism industry faces socio-economic problems and structural deficiencies which reduce the industry's efficacy as a tool for local, regional and national sustainable development (Akama, 1999). Scholars argue that tourism has larger multiplier effects than any other sector since every unit of tourist spending would generally go through several rounds of income creation and expenditure before its effect is exhausted. This would be, expenditure on hotel accommodation, food and beverages, shopping, entertainment and transport, provides an income to hotel staff, taxi operators, shopkeepers and suppliers of goods and services. They in turn spend part of this income on their daily requirements of goods and services. Hence money accruing from tourism circulates through numerous segments of the economy through the multiplier process. The development of appropriate complementary products will increase the attractiveness of the destination and increase tourist spending in the local economy. In existing destinations, hoteliers and tour operators, local government and local communities all need to be empowered to take control of their destination within the context of the domestic and international tourism market. Local benefits, including poverty elimination, will be maximized where tourism develops strong linkages into the local economy. The distribution of employment, including gender distribution, and access for local entrepreneurs from the formal and informal sectors to the tourism market are essential to poverty elimination. Infrastructural development can also be planned so as to benefit local communities through the provision of roads, telephones, piped and treated water supplies, waste disposal and recycling and sewage treatment controlling position allowing it to repatriate most of the foreign exchange. Relatively large amounts of foreign exchange are lost to the developed world because

of the structural dependency created through widespread foreign ownership, control and management of tourism enterprises in the Third World (Lea, 1993). Sindiga (1999) notes that tourism is labour-intensive. People serve in various sub-sectors of the industry including tour guiding, nature and cultural interpretation, game viewing, travel and transport services, promotion, sport, and in the area of food, beverage and alcohol service, and accommodation. Other tourism-related employment is in entertainment as well as the arts and hand-craft curios. Indirectly, tourism creates employment in agriculture for the food requirements of the visitors. Also, infrastructure development such as road construction]and hotel construction may provide many short-term jobs. Tourism also supports other areas such as money and banking. It may also be mentioned that tourism attracts a number of activities in the informal sector.

Kenya's hotel infrastructure is dispersed over the entire country although the concentration varies widely.

Many of Kenya's main tourist hotels are found in the major cities and resort areas including Nairobi, Mombasa, Malindi, Nakuru and Kisumu. Other tourist hotels are located on the south coast region, which includes Diani and Tiwi beaches, around the Mt Kenya region, and in the central part of the Great Rift Valley. Lodges and tented camps are found mainly in the South West (covering the Amboseli region), the Maasai Mara, and in the Western region (Kakamega).

2.2.Theoretical Foundation

All organizations operate in an environment. The external environment of an International Hotel Chain is made up of other organizations and people with whom the hotel trades and interacts with. The external environment includes suppliers, clients and competitors. All organizational functioning are seen as resulting from organization's interdependence with its environment.

International Hotel Chains operate in complex political, economical, sociological, technological, ecological and legal environment across the world. Changes in the external environment of International Hotel Chains have adverse effects on them given that they operate in different external environments around the globe.

Political, Ecological, Social, Technological & Legal (PESTEL) analysis is often carried

out by managers to enable them develop more informed and long term strategies and plans (Johnson & Scholes, 2008 The operating environment comprises of factors that influence a firm's immediate competitive position, customer profile, suppliers, creditors

and the labour market. Factors that more directly influence a firm's prospects originate in

The study will be based on the following theories;

2.2.1 New trade theory (NTT)

This theory suggests that a critical factor in determining international patterns of trade are the very substantial economies of scale and network effects that can occur in key industries. These economies of scale, and network effects, can be so significant that they outweigh the more traditional theory of comparative advantage. In some industries, two countries may have no discernible differences in opportunity cost at a particular point in time. But, if one country specialises in a particular industry then it may gain economies of scale and other network benefits from its specialisation.

Another element of new trade theory is that firms who have the advantage of being an early entrant can become a dominant firm in the market. This is because the first firms gain substantial economies of scale meaning that new firms can't compete against the incumbent firms. This means that in these global industries with very large economies of scale, there is likely to be limited competition, with the market dominated by early firms who entered, leading to a form of monopolistic competition.

This means that the most lucrative industries are often dominated in capital intensive countries, who were the first to develop these industries. Therefore, being the first firm to reach industrial maturity gives a very strong competitive advantage. (some may say unfair advantage)

New trade theory also becomes a factor in explaining the growth of globalisation.

It means that poorer, developing economies may struggle to ever develop certain industries because they lag too far behind the economies of scale enjoyed in the developed world. This is not due to any intrinsic comparative advantage, but more the economies of scale the developed firms already have.

Paul Krugman was a leading academic in developing New Trade Theory. He was awarded a Nobel Prize (2008) in economics for his contributions in modelling these ideas. “for his analysis of trade patterns and location of economic activity”.

2.2.2. The Theory of Comparative Advantage

The benefit or advantage of an economy to be able to produce a commodity at a lesser opportunity cost than other entities is referred to as comparative advantage in international trade theory. The principle of comparative advantage is fundamental to determination of the pattern of trade among nations. David Ricardo was the economist who coined this term. Opportunity cost, stated briefly, is the benefit foregone for undertaking an activity. So, if a country has a lesser value for its resources in the alternative use, it can most efficiently employ resources in this activity. This is what comparative advantage means.

2.2.3. Leontief Paradox Theory

This theory considered that a country will tend to export those commodities which use its abundant factors of production intensively and import those which use its scarce factor intensively. This theory is also known as the Heckscher-Ohlin theory and it further states that each country exports the commodity which intensively uses its abundant factor. The HO theory was generally accepted on the basis of casual empiricism. Moreover, there wasn't any technique to test the HO theory until the input-output analysis was invented. The first serious attempt to test the theory was made by Professor Wassily W. Leontief in 1953.

Leontief reached a paradoxical conclusion that the US—the most capital abundant country in the world by any criterion—exported labor-intensive commodities and imported capital-intensive commodities. This result has come to be known as the Leontief Paradox. Leontief took the profession by surprise and stimulated an enormous amount of empirical and theoretical research on the subject.

2.3. Nature of Political Environment

Since independence in 1963, Kenya has maintained remarkable political stability despite changes in its political system and crises in neighbouring countries. Particularly since the re-emergence of multiparty democracy in the 1990s. Kenyans have enjoyed an increased degree of freedom. A cross-party parliamentary reform initiative in the fall of 1997 revised some oppressive laws inherited from the colonial era that had been used to limit freedom of speech and assembly. This improved public freedoms and contributed to generally credible national elections in December 1997.

In December 2002, Kenya held democratic and open elections and elected Mwai Kibaki as their new president. The elections, which were judged free and fair by local and international observers, marked an important turning point in Kenya's democratic evolution. President Kibaki campaigned on a policy of generating economic growth, improving education, combating corruption, and implementing a new constitution, the draft of which was produced by Professor Ghai under the Moi regime.

Until late 2007, Kenya was considered one of the most stable countries in Africa. It has functioned as East Africa's financial and communications hub, the headquarters of many international non-governmental organizations, and a magnet for tourism. Analysts looked favourably upon its healthy and broad-based economic expansion under President Mwai Kibaki, which stood in marked contrast to the growth of countries such as Angola and Equatorial Guinea that depend on the export of a single commodity—oil. However, disputed elections in late December 2007 spurred outbreaks of violence across the country that killed more than six-hundred people.

That prompted some fears that Kenya would split on tribal lines and descend into prolonged unrest. Experts say such a scenario is unlikely, but also suggest that prior depictions of Kenya's stability were premature. Kenya is a young democracy.

The nature of Kenya's political environment sometimes makes the country stay in suspense, political fallouts and popular anxiety with a tradition of political frenzy mood, climaxes during elections, especially since the inception of multiparty politics in 1991(Jerome, 2009, p. 12)

During election periods tension is always high due to the fact that there is use of ethnicity in political debate and in social relations, both as inward-looking censure and a means of renegotiating social relations (Jerome, 2009, p. 23.

Due to the fact that majority of the youths are jobless and idle they tend to be used during such times by politicians who pay them to cause violence.

2.4. Political Environment and performance of International Hotel Chains

Due to globalization, FDI's and Technology transfer the picture of Africa as a continent of poverty has greatly changed. There are many opportunities of doing business in Kenya considering it is the most developed country in East Africa with an open economy hence a good candidate for foreign investment (Walden Publishing Ltd, 2001).

Kenya is a member of several trade agreements and it is signatory of a number of agreements aimed at enhancing trade amongst member states. Kenya has been a member of the World Trade Organization(WTO) since 1995, East African Community(EAC), Common Markets of Eastern and Southern Africa(COMESA), ACP/Cotonou Partnership Agreement this is an agreement where exports from Kenya entering European Union are entitled to duty reductions and freedom from all quota

restrictions (Export, n.d)ACP/ Cotonou trade preferences include duty-free entry of all industrial products as well as a wide range of agricultural products including beef, fish, dairy products, cereals, fresh and processed fruits and vegetables. Kenya's industrial sector is diverse and open to foreign investment with opportunities exist for processing agricultural produce, including frozen food, cigarettes and brewing. Tourism is also a robust sector, given the country's outstanding natural beauty (Walden Publishing Ltd, 2001). The country's economy has steadily recovered since the global financial crisis of 2008, however to achieve its goals of becoming a globally competitive middle income country by 2030, Kenya needs substantial foreign direct investment (FDI) in order to achieve double digit economic growth (export.gov, 2013).

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents a detailed assessment of the various methods employed during this study. The research methodology includes a careful description of the approach and design used to conduct the research, methods for data collection and data analysis. It will explain the research design, the target population, the sampling method, data collection instruments and the method of analysis.

3.2 Research Design

The information collected from various sources e.g published works reviewed in Literature review was used to create a data file that was used to help answer some of the research questions. The two variables were operationalised through a statistical method. The relationship between the two variable i.e. politics and performance of International Hotel Chains were compared.

A sample size was determined using proportion and standard deviation methods to accurately determine the right sample size needed to make data collection statistically significant. The standard deviation was useful for determining dispersion of data points. The study sought to examine the effect of Political Environment on performance of International Hotel Chains in Nairobi, Kenya. In order to establish the influence of the external environment on the performance of international hotel chains, a cross-sectional design was preferred in this study to obtain comparative data from a cross section of the hotels listed in this study, with particular focus on those operating in Nairobi, Kenya and have other branches in cities in other countries. This research design also portrayed the characteristic of a population (Chandran,2004). In this type of research design, either the entire population or a subset thereof is selected, and from these individuals, data is collected to help answer research questions of interest. In this particular study, a subset population will be selected.

3.3 Population of the study

Population of study refers to the entire group of individuals or objects from which the study seeks to generalize its findings (Cooper and Schindler, 2008). Based on this definition, the population from which the conclusion for the study was made included several international hotel chains specifically those hotels that operate both locally and internationally.

3.4.Sampling and Sample Size

Stratified sampling was used for this study and the sampling was done using the Stratified random where the total population of 100 hotel was divided into subgroups according to their rating i.e. 5 star, 4 star and finally 3 star. From each of the subgroup of *stratum*, 5 hotels i.e 5 hotels from 5-Star rating, 5 hotels from 4-Star rating and 5 hotels from 3-Star rating were selected. *Therefore* for this study 15 hotels were selected from a total population of 100 hotels. The respondents were the Operational Managers, executive officers and supervisors of the sampled hotels.

3.5; Data Collection

The study employed primary data collection. Primary data was collected through a self-made questionnaire a copy of which is attached in the Appendix I hereto. The questionnaire adopted both structured and unstructured questions. The responses in the questionnaires helped in gaining an in-depth understanding of the impact of political environment on performance of International Hotel Chains. Quantitative data was collected using a number of questionnaires with carefully constructed questions, ranking and scoring options as well as using closed-ended questions and multiple-choice questions. This typically explored specific and clearly defined questions that examined the relationship between political environment and hotel performance, or occurrences, where the second event is a consequence of the first event. The study sought to maintain a level of control of the different variables that may influence the relationship between

events and recruit respondents randomly. The study used both secondary data and primary data collected using questionnaires to carry out the study. The questionnaires consisted of structured and unstructured questions and were administered through drop and pick method to respondents.

The questionnaires were specifically administered to the operations manager of various international hotel chains as well general managers where applicable. Similarly, secondary data sources was employed whereby use of previous document or materials to support the data received from questionnaires that included newspapers, Hospitality industry reports and company magazines available in the libraries and online information through websites were visited.

3.6. Data Analysis

Statistics helped turn quantitative data into useful statistics to summarize the data, describing patterns, relationship and connections. Statistics can be descriptive or inferential. Descriptive statistics helped to summarize data whereas inferential statistics was used to identify statistically significant differences between groups of data. The researcher upon receiving questionnaires from respondents processed and analyzed the data in accordance with the research plan. Data processing implies editing, coding, classification and tabulation of collected data (Kothari, 2004). Data analysis involves reducing accumulated data to manageable size, developing summaries, looking for patterns and applying statistical analysis techniques.

Thereafter, the data was analyzed using descriptive statistics and in particular, using the mean as a measure of central tendency.

The data was then tabulated and the most appropriate charts, tables and graphs chosen to present the findings. Tables were used to enable reading of specific values and to facilitate ease of data representation

CHAPTER FOUR

DATA ANALYSIS , RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the data findings and analysis. Twenty questionnaires were distributed to the respondents, however, fifteen responded thereby creating an effective response rate of 80%. According to Mugenda and Mugenda (2003), a response rate of 50% is adequate for statistical reporting. Therefore, the study's response rate of 80% is good for this study.

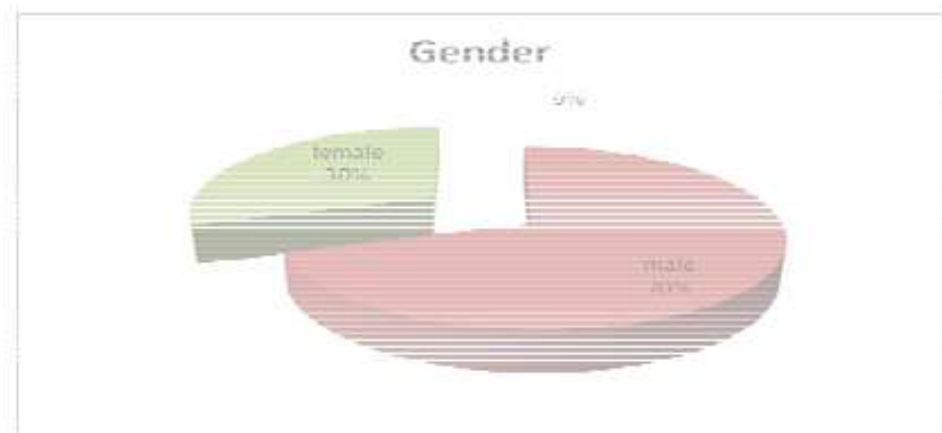
4.2 Data Analysis

Descriptive statistics were used to analyze the data whereby relative frequencies in some questions were used and others were analyzed using mean scores and standard deviation.

4.2.1 Demographic Information

The study sought to establish the information on the respondents used by the study with regards to the job designation, level of education and duration of service in the International Hotel Chain.

Figure 4.1: Gender of the respondents



Source: Research, 2016

From figure 4.1, it is noted that of the respondents interviewed, the majority (70%) of the respondents were male with a considerable 30 % females.

Table 4.1: Years of operation in the country

Years	Frequency	Percent
0-5 years	7	35
6 - 10 years	10	50
Over 15 years	3	15
Total	20	100

Source: Research, 2016

Table 4.1 indicates that the majority of the International Hotel Chain (50%) had been in the country for a period of 6 - 10 years, 35% had been in the country for a period of 0 -5 years, while 15% been in the county for a period of over 15 years.

Table 4.2 Respondents years of service

Number of years	Frequency	Percent
0-5 years	2	10
6-10 years	3	15
11-15 years	6	30
15-20 years	4	20
over 20 years	5	25
Total	20	100

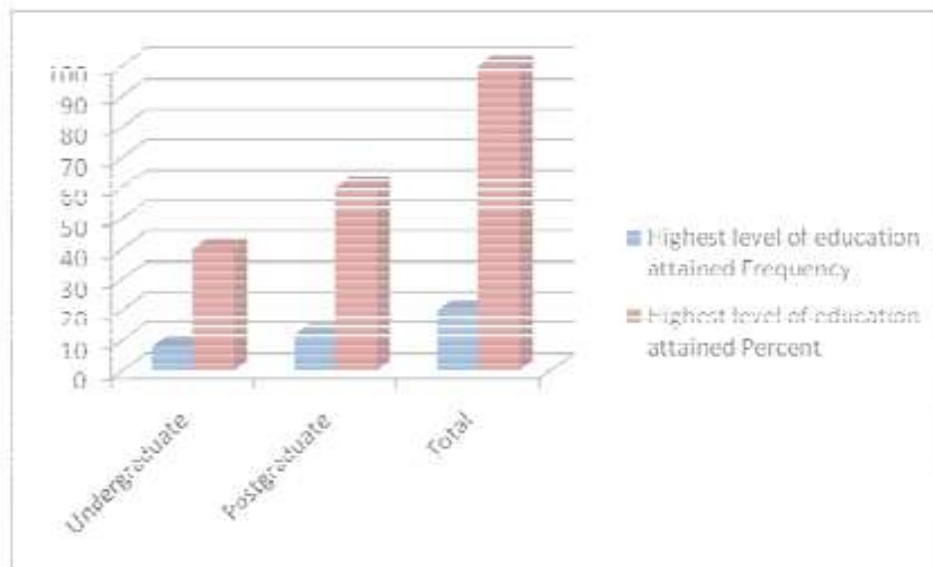
Source: Research, 2016

The study sought to enquire on the number of years the respondents had been employed in the International Hotel Chain. According to table 4.2 above 30% of the respondents stated that they had served for a period of between 11-15 years, 25% for a period of over 20 years, 20% for a period of 15-20 years, and 15% for a period of 6-10 years while 10% had served for a period of 5 years and below.. Number of years the respondents had been employed is important in this study which aimed at examining the impact of political environment on performance of International Hotel chain.

Level of respondent's education

Figure 4.3 below indicates the level of the respondent's level education. The findings indicate that the majority of the respondents (55%) interviewed had attained the Post graduate education, while the rest of the respondents had attained undergraduate training. One notable fact is that all the respondents interviewed had attained the level of a first degree which is a plus for the study.

Figure 4.2: Level of respondent's education



Source: Research, 2016

4.3 Political Environment

The political environment is a key component of the external business environment. The political environment refers to the political situation of a country in which an International Hotel Chain is doing business in.

4.3.1 Political Environment in Kenya

The respondents were asked to describe the political environment in Kenya. The respondents indicated that the political environment in Kenya was stable although a moderately high number described the political environment for the last two general elections (2008 and 2013) as being very uncertain and risky.

4.3.2 Bed Occupancy Rate

The respondents were required to state the bed occupancy rate in relation to the political season i.e. during election period. According to the respondents, majority (70%) indicated that the room occupancy during election time was below 50%. 25% stated that the bed occupancy was over 50%, while only 5% stated that the bed occupancy rate was 100%. The cycle of the occupancy emphasises the impact that political environment had on the International Hotel Chain's performance.

4.3.3 Political influence on Hotel Growth

The study asked the respondents whether they had experienced growth in consideration of political implications. The respondents indicated that the political environment had a role to influence business.

Table 4.3: Impact of political environment

	Mean	Std. Deviation
Presence of quality political in Kenya	4.2485	1.37207
The Tele-communication facilities of Kenya and how it safeguards their investments.	4.0882	1.37964
Kenya's taxation, quality labour and access to capital innovation, environmental regulations	4.2818	1.50944
Ease of land acquisition, bureaucracy, suppliers, service providers, stability and political system	4.1515	1.34910
Crime free political environment in Kenya, corruption in government, security, power availability, government support	4.2764	1.39058
The political environment in the country allows industry support bodies	4.0382	0.7296
The government ease of opening business		

Source: Research, 2016

The study aimed at establishing respondent's extent of effect of above factors of political environment in Kenya to their International Hotel Chains. According to the table above, majority of the respondents to a great extent were affected by that the International Hotel Chain by a mean score of 4.2818, that the political environment in the country allows International Hotel Chain market their products and services freely as illustrated by a mean score of 4.2764 and that the political structure and nature in Kenya is conducive for carrying out business as clearly illustrated by a mean score of 4.2485. The respondents also strongly agreed that the political environment in Kenya allows firms to open offices, manufacturing plants or service centres anywhere in the country as clearly indicated by a mean score of 4.1515.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents a summary, conclusions and recommendations of the study. This study focused on impact of political environment on performance of International Hotel Chains operating in Nairobi, Kenya.

5.2 Summary

From the findings, the respondents indicated that the political environment in Kenya was stable although a moderately high number described the political environment for the last two general elections (2008 and 2013) as being very uncertain and risky. From the findings, majority (70%) indicated political environment positively influenced the performance of their business, 25% stated that the political environment negatively influenced their operation while only 5% stated that the political environment did not have an impact at all on their business. From the findings, the respondents indicated that during election period, bed occupancy rate drastically reduced.

From the findings, majority of the respondents strongly agreed that the International Hotel Chain's relations with the host country is cordial and good, that the political environment in the country allows the hotels to market their products and services freely and that the political structure and nature in Kenya is conducive for carrying out business. The respondents also strongly agreed that the political environment in Kenya allows ease of opening to businesses, or service centres anywhere in the country,

The government allows easy access to raw materials required for the hotel chains to operate. From the findings, the respondents also were in agreement with the statements that the political environment and political ideologies were protective and conducive to a good business environment.

5.3 Conclusion

This study focused on impact of political environment on the performance of International Hotel Chain in Kenya. In line with the findings the following conclusions are drawn; that the political environment in the country allows hotel chains market their products and services freely; that the political structure and nature in Kenya is conducive for carrying out business; that International Hotel Chains' relations with the host country is cordial and good; the government polices and legislation protects businesses and safeguards their investments and that the government allows easy access to raw materials required for businesses to operate.

Political factors are not only determinants which wholly decide performance of International Hotel Chains. Many studies report that political, as well as economic stability are necessary conditions to impact performance of International Hotel Chains.. However, many studies have found the correlation between political factors and business performance. Especially, accurate political risk evaluation is more important concern for unstable developing countries. Some factors which influence a country's political risk cannot be adjusted at all. However, some of factors which decide a country's political risk can be changed in order to lower political risk.

If a country does not confront its political problems, it is obvious that the country will be excluded in the list of future investment plan of multinational hotel chains

5.4 Implication of the Results

From the findings several recommendations in regards to impact of political environment to performance of International Hotel Chain are there of identified:

For International Hotel Chains to succeed in its response to political environment, it should involve its managers in the analysis of the political environment and come up with ways of adapting to that environment for the success of their business.

5.4.1

This research is especially timely in the aftermath of the current trade deals the country is making with foreign countries. Hotel chain managers need to become more open to political environment challenges. This may result in a focus on making decisions that are appropriate for business profits, rather than improving the staying with the current practices. The hotel managers will make themselves knowledgeable; and may result in excluding experience.

5.4.2

Another important implication of the study derives from our finding on the uniqueness of the knowledge and information regarding our current political situation. The findings point to a specific set of factors unique to our country, its capabilities, information sources, decision styles and strategies, and attitudes towards knowledge and evidence that may set apart the political environment of this country from many other in the region.. Although analysing the data with a view to identifying and codifying these skills and behaviours goes beyond the remit of the current project, it is important for hotel chains to further establish appropriate government/political institutions to explore collaboration can be improved in the near future.

5.4.3

Another implication stems from our reframing of the issue of how to nurture new business models. The findings suggest in fact that a series of practices foster or hamper the continually improving business environment and needs to be learned and refined as one's perceived context and tasks change over time. Accordingly, the research suggests that there is need to abandon the simplistic instrumental view that asks 'what business environment is good?' or 'what technology should we use?' Instead, the issue of how to specifically address the political environment which in fact sums up all the other environment need to be addressed.

5.5 Limitations of the Study

Further work is necessary to examine the influence of political environment on hotel chains from the particular perspectives of other stakeholders like employees and others, rather than the managers and CEOs alone, as done in this study. Further research can thus shed light on the dynamics of knowledge circulation, sharing and exchange among this particular group of individuals, asking what sort of support they feel is needed, both individually and as a group.

In this research access to information sought was hindered. The respondents approached were reluctant in giving information fearing that the information sought would be used by competitors in the industry. Some respondents feared victimization and therefore were not willing to participate in the study. To counter that limitation, the researcher carried an introduction letter from the University and assured them that the data collected was for academic purposes only and that their responses will be solely for academic work.

The Researcher experienced quite some challenges in accessing most of the hotel chains because of the current security concerns in the country. Terrorism has forced businesses to really vet clients and other persons entering the hotel.

5.6 Recommendation for Further Studies

The study proposes that a similar study be undertaken focusing on response strategies adopted by International Hotel Chains and the level of success experienced by such businesses in dealing with changes in other factors of external environment.

The study established that political environment influenced the overall performance of the hotel chains. The study recommends that hotel chains should seek to improve on its interest and participation in political issues of the country so that to ensure the various political policies are beneficial to the business. Proper terms should be agreed upon to ensure sustainable quality service delivery.

Further, hotel chains should continuously evaluate the levels of service being delivered by the government so as to ensure that the services are being delivered according to the agreements between the hotel chains and the government.

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APPENDICES

Appendix I: Questionnaire

Instructions: Please complete the following questionnaire appropriately.

Confidentiality: The responses you provide will be strictly confidential. No reference will be made to any individual(s) in the report of the study.

Please tick or answer appropriately for each of the Questions provided.

PART A: BACKGROUND INFORMATION

1) Gender of the respondent

Male Female

2) What position do you hold in the organization?

Executive officer Supervisor General Manager

3) Please indicate your level of education

Secondary Graduate Post Graduate

4) How long have you worked in the hotel business?

0-5 Years	<input type="checkbox"/>
6-10 Years	<input type="checkbox"/>
11-15 Years	<input type="checkbox"/>
Over 15 years	<input type="checkbox"/>

5) Tick what is appropriate for your hotel ownership.

Franchise

Family Business

Chain Group of Hotels

Others

6) Please indicate how many years the hotel has operated in Kenya.

0-5 Years	<input type="checkbox"/>
6-10 Years	<input type="checkbox"/>
11-15 Years	<input type="checkbox"/>
Over 15 years	<input type="checkbox"/>

7) What is the size of the international hotel chain in terms of the customer base?

Small [] Medium [] Large []

7. PART B: POLITICAL ENVIRONMENT

On a scale of 1 to 5, Please indicate to what extent your hotel chain is affected by the following aspects of political environment. Use a 5 point scale:-

1. Not at all
2. Little
3. Moderate extent
4. Great extent
5. Very Great Extent

Aspect	Not at all	Little	Moderate extent	Great Extent	Very Great Extent
Presence of Quality Infrastructure					
Tele-communication Facilities					
Taxation					
Quality labour					
Access to capital					
Innovation					
Environmental Regulations					
Regulatory Framework					
Ease of Land Acquisition					
Quality of Bureaucracy					
Availability of advanced Technology					
Presence of Suppliers					
Service providers required to run the hotel smoothly					
Stability and effectiveness of the political system					
Crime-free environment and Security					
Corruption in the government system					
Power Availability					
Government support in marketing outside the country					

Presence of Industry body (Supportive, effective in convincing government to make supportive policies)					
Technical assistance, government support and ease of getting certifications					
Availability of universities and training institutions					
Ease of opening a business					

(8) On a scale of 1 to 5 please indicate the extent of your satisfaction with the political environment in Kenya.

- 1 – Not at all Satisfied
- 2 – Little satisfied
- 3 –Moderately satisfied
- 4 – Greatly satisfied
- 5 – Very greatly satisfied

(10) PART C: INFLUENCE OF POLITICAL ENVIRONMENT ON PERFORMANCE OF INTERNATIONAL HOTEL CHAINS IN KENYA

Please indicate the extent to which the following political factors affect the performance of your International Hotel Chain . Use a 5 point scale.

- 1 - Not at all
- 2 – Little
- 3 – Moderate extent
- 4 – Great extent
- 5 – Very great extent

FACTOR	Not All	at Little	Moderate Extent	Great Extent	Very Great Extent
Industry environment					
Road network					
Political stability					
Technology					
Relationship with host government					
Private public partnerships					

Legislation					
Government Policies					
Regulations					
Taxation					
Security					

(11) Going by your total guest rooms, what are the correct occupancy rates during political electioneering period in Kenya.

- a) Below 50 %
- b) Over 50%
- c) 100%

(12) If you factor the past and current political environment, would you say that there has been significant growth in size and capital of your hotel chains in Kenya? (Please tick as appropriate)

(a) Yes No

(b) Please explain your answer in 12(a) above.

(13) Please give comments on the topic, “Impact of Political Environment on the Performance of International Hotel Chains in Nairobi”

Appendix II: List of International Hotel Chains in Nairobi, Kenya

S/NO.	NAME OF HOTEL
1	The Fairview
2	Serena Hotels
3	Royal Orchid Azure Nairobi
4	Villa Rosa Kempniski
5	La Maison Royale
6	Premier Nairobi
7	Radisson Blu
8	Comfort Gardens
9	The Tribe
10	Palacina Residence & Suites
11	Nairobi Serena
12	Sankara Nairobi
13	Sentrim 680
14	Prideinn, Rhapta Road
15	Ole Sereni
16	Sentrim 680
17	Windsor Golf Hotel
18	Bigwood Suites
19	Margarita House
20	Nanchang Hotel
21	Prideinn Westlands
22	Karen Inn
23	The Marriot
24	Meridian Court
25	Hadassah Hotel
26	Panari
27	Eka Hotel
28	Sarova Stanley
29	House of Waine
30	Safari Park & Casino
31	West House
32	The Concord Hotel
33	Intercontinental Hotel
34	Eron
35	The Strand
36	Safari Club
37	Bush House

38	The Clarion
39	The Headquarters
40	Park Inn
41	Grand Sapphire
42	Golf View Hotel
43	Acacia Garderns
44	Hotel Intercontinel
45	Hilton Hotel Nairobi
46	DusitD2 Hotel
47	Hemingsway Nairobi
48	Red Court Hotel
49	The Stanley Hotel
50	Best Western Premier
51	Southern Sun
52	The Heron
53	Red Ruby
54	Safari Park
55	Hill Park
56	Riverview Westlands
57	The Emerald
58	Zehneria
59	Kima
60	Bush House and Camp
61	The Boma
62	The Monarch
63	Boni House
64	Galu Gateway
65	Wide
66	Space International
67	Fourth Parklands
68	Samich
69	Mara Bush
70	Sagret
71	Thayu Roundvales
72	Konar House
73	Nairobi Runda
74	Emerald Homestay
75	Chemi Chemi
76	West Breeze

77	Spanish Villa 3
78	Bracken Hurst & Conferences
79	Villa International
80	Spiral Heights Tower Guest
81	Ings
82	Osinkiri
83	The Luke
84	Dolfran Guest House
85	Hope Gardens Guest House
86	Barkley
87	Delta
88	Sirona
89	Lotos Inn & Suites
90	Purdy arms
91	Khweza
92	Kahama
93	Clarence
94	Oakwood
95	Biblica
96	Meltonia
97	Decasa
98	Sunrise
99	Acacia Gardens
100	Qaribu Inn

Source: Research, 2016