

# **INFLUENCE OF POLITICS ON PERFORMANCE OF INTERNATIONAL HOTELS BASED IN NAIROBI, KENYA**

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## **ABSTRACT**

Organizations respond to the external environment to stay afloat in the ever-changing environment that they operate in. 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. 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. 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 study was 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.

**KeyWords:** External environment, Political environment, Electoral legislation, Government policy, Foreign investments.

## **INTRODUCTION**

Political Environment is defined as the factors that create an Inter-linkage 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 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.

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 travelers' 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. Political environment also affects 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.

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 PriceWatterHouseCoopers). 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 economic growth has been strong, rising 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 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 affects 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 (World Bank, 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 travelers. 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 preplanning 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 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).

## **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 investigated and analyzed 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 identifying 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.

## **Theoretical Literature Review**

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 is seen as resulting from organization 's interdependence with its environment.

International Hotel Chains operate in complex political, economic, 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;

### **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 affects 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 specializes in a particular industry then it may gain economies of scale and other network benefits from its specialization.

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 globalization. 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.

### **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.

## **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.

## **Research Methodology**

This section 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. 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 operationalized through a statistical method.

The relationship between the two variables 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.

## **Population of Study and Sampling Technique**

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. 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 stars. 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.

## **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.

## **Results**

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. The study sought to enquire on the number of years the respondents had been employed in the International Hotel Chain. According to table 8.2 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.

## **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.

### **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.

### **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 emphasizes the impact that political environment had on the International Hotel Chain's performance.

### **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.

### **Impact of political environment**

	<b>Mean</b>	<b>Std. Deviation</b>
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	3.9242	1.37000
Ease of land acquisition, bureaucracy, suppliers, service providers, stability and political system	4.21818	1.50944
Crime free political environment in Kenya, corruption in government, security, power availability, government support	4.1515	1.34910
The political environment in the country allows industry support bodies	4.2764	1.39058
The government ease of opening business	4.0382	0.7296

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.

## **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 policies 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 reports 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

## **Recommendations**

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 than 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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