

**THE CONTRIBUTION OF TOURISM TO FARM AND NON-FARM MICRO
AND SMALL ENTERPRISE GROWTH: THE CASE OF THE KENYAN COAST**

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A Thesis Submitted to the Graduate School in Fulfillment for the Requirements of
the Doctor of Philosophy Degree in Agribusiness Management of Egerton University

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DEDICATION

This work is dedicated to my husband Emmanuel Mwadena; my daughter Liana; my parents Ronald and Emily Mshenga; my brother Kabindo; my sisters Beatrice, Margaret, Josephine, Elizabeth and Rachel. Thank you for your love and support.

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ABSTRACT

The study explored the role of tourism on farm and non-farm micro and small enterprise (MSEs) growth in the Kenyan Coast. Its objectives were to: examine the influence of entrepreneur and business characteristics on the growth of farm and non-farm MSEs along the Kenyan Coast, document hotels' consumption of goods and services from farm and non-farm MSEs, determine the hotel attributes that influence the choice of supplier of hotel products, determine tourism's contribution to the growth of farm and non-farm MSEs and identify current and future opportunities available to farm and non-farm MSEs in the tourist hotels. Three regions were selected for the study: Mombasa, Malindi and Diani. Multistage sampling technique was used to select the MSEs to be interviewed while a census survey was adopted for hotels. Data was collected by the use of a semi-structured questionnaire. Data analysis was by use of descriptive statistics, multiple regression, tobit and logit models. The results showed that on average the MSEs recorded growth for the period between 2002 -2006. The determinants of MSE growth for the non-farm MSEs were age of business, business ownership, number of tourist activities, access to tourist information, proportion of sales from tourism, business income, number of employees, marital status and number of tourists visiting the country. For the farm MSEs the determinants of growth were education level, number of tourist activities, changes in business activities due to tourism, proportion of sales from tourism, business income, number of employees, and location. Hotels were found to purchase their products mostly from MSEs with the purchase considerations being price, quantity, quality and consistence in supply. The hotel characteristics that determined the choice of a supplier were age of the hotel, bed capacity, and number of employees. The opportunities that were found available to MSEs in the tourist hotels were food supply, laundry services, garbage collection, building materials, maintenance and repair, handicrafts and souvenirs, child care services, transportation services, room cleaning services. The study recommended that the government should increase the number of tourism activities which will lead to more tourists visiting the country. Tourist information should also be made accessible to MSEs. MSEs should be made aware of opportunities available in the tourism industry. Efforts should be undertaken by such bodies as the Kenya Tourism Board to educate hotel owners and management on the importance of linkages between their organizations and MSEs and the importance of outsourcing products and services from MSEs.

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LIST OF ABBREVIATIONS/ACRONYMS

- WTTC-** World Travel and Tourism Council
- GDP-** Gross Domestic Product
- GoK-** Government of Kenya
- MSEs-** Micro and Small-scale Enterprises
- IDS-** Institute of Development Studies
- ICEG-** International Centre for Economic Growth
- WEDCO-** Western Development Company
- WLS-** Weighted Least Squares
- K-Rep** – Kenya Rural Enterprise Program
- CBS** – Central Bureau of Statistics
- UN** – United Nations

CHAPTER ONE

INTRODUCTION

1.1 Background Information

Tourism is one of the largest and rapidly growing service sectors worldwide. This is indicated by the increase in international tourist arrivals, receipts from tourism activity and industry employment (World Travel and Tourism Council (WTTC), 2005; Hegarty and Przezborska, 2005; Fayed and Fletcher, 2002). Both developed and developing countries have recognized the economic importance of this industry. It forms one of the world's largest components of foreign trade, contributing up to about \$6.2 trillion annually (WTTC, 2005).

The recent increase in tourism growth is due to several factors including: more demand for leisure time, higher incomes, enhanced mobility due to shrinking travel time, more efficient means of transport, growth of transnational companies that provide all inclusive tours, increasing language skills. Other factors are: increased tourism promotion by governments, growth in economies of developed world as well as Asian countries, and economic globalization. In addition, innovations in information and communication technologies have made travel cheaper and more accessible (Swarbrooke and Horner, 2001).

Tourism can be large-scale, as in the case of mass tourism, which is highly organized and made up of international hotel chains, airlines and tour operators, or small-scale tourism that is highly fragmented and localized. Tourism activity is considered as an industry as it consists of small-scale businesses, medium sized companies, and large-scale businesses like multinational hotels and tour operating companies. It also encapsulates multiple sectors such as hospitality, food, craft and transport.

This industry has positive impacts which can be categorized as either economic or non-economic. Among its economic impacts is its significant contribution to balance of payments, income, employment, and tax revenues. In addition, the industry is labour-intensive and generates employment opportunities at semi-skilled, technical and managerial levels. It is relatively decentralized and is capable of diversifying regional

economies if properly managed. Tourism activity is a catalyst for development of other sectors of the economy as it has forward and backward linkages with other sectors such as transport, communication, and construction (Weggono, 2003).

In the recent past, focus in tourism has shifted to pro-poor tourism. One objective of pro-poor tourism is to increase the positive impacts of tourism on poor people, increase participation of the poor in the tourism industry as well as increase the economic benefits of the poor from tourism activities. This can be realized by limiting leakages through the use of micro and small scale enterprise products, increasing tourist expenditures and promoting linkages between tourism and the local economy through activities in which the poor participate such as MSEs (Manyara and Jones, 2005). The emphasis of tourism's use of locally produced products would enhance tourism's output multiplier and foster faster growth of MSEs and agriculture (Cooper et. al, 1998).

1.2 Role of Tourism in Kenya

Tourism is an important economic sector and stimulates economic development in developing countries including Kenya. Currently, many developing countries are focusing on this industry as a means of development. This is because foreign markets for their agricultural products, often a primary source of foreign exchange, are unstable. As such tourism industry has the potential of using these products subject to proper linkages. Such countries also face strict non-tariff trade barriers for their manufactured exports. Furthermore, tourism may require less initial capital investment than manufacturing. These limitations have necessitated most developing countries to view tourism as an opportunity to generate foreign exchange earnings and other benefits.

In Kenya, tourism is regarded as an 'economic boon' and a valuable asset to the national economy (Ondicho, 2000; Government of Kenya (GoK), 2007). This is because it is the second largest contributor to the country's foreign exchange earnings after agriculture. It contributes about 12.5% to the country's GDP after agriculture which generates about 25% (GoK), 2002). In addition, it generated export income of about 48.9 billion Kenya shillings for the country in 2005 (GoK, 2006). Apart from foreign exchange it is a source of employment contributing to 8.7% of Kenya's total employment (WITTC, 2008).

Although tourism has the potential for economic development in Kenya, not all types of tourism positively contribute to sustainable economic development. In the past, the Kenya government mostly encouraged large-scale tourism. Investments in this type and scale of tourism are mostly from foreign sources. There is also less local participation in tourism project design and management (Akama, 1997) and little usage of local labour, services and materials. Large-scale tourism also leads to high foreign exchange leakages, weaker linkages and lower multiplier effects with other sectors of the economy. Therefore, to maximize tourism's potential contribution to economic development, tourism activity should be designed in the context of the country's existing and future economic development goals.

Kenya's current development goals are outlined in the Ninth National Development Plan 2002-2008 (GoK, 2002). The key objective of this plan is to stimulate effective management for sustainable growth and poverty reduction. The plan focuses on increasing the country's GDP through agriculture and rural development, development of tourism, trade and industry, increase in per capita income, poverty reduction, redistribution of wealth, creation of employment, reducing the cost of doing business and improving the investment climate through restructuring of the financial sector, promoting private sector development through encouragement of micro and medium sized businesses and reducing barriers to trade as well as human development.

Several other objectives related to tourism were also identified, including increasing the tourism industry's contribution to the GDP, increasing foreign exchange earning capacity, increasing Kenyan ownership and management of the industry, reducing undesirable social and environmental consequences, and conserving, protecting and improving the natural environment and wildlife. These are noble goals but may be difficult to achieve through the current type and scale of tourism development. Dahles (1997) points out that, large-scale, multinational investments in tourism are not as effective as originally believed in increasing employment opportunities and foreign exchange earnings.

The implementation of the Ninth National Development Plan would be most effective if it attains the tourism development goals through enhancement of linkages between tourism and other sectors such as agriculture and micro and small-scale

enterprises (MSEs). It should also provide employment opportunities to the local people. Furthermore, it should share resources with other sectors of the economy. The sector should also minimize foreign exchange leakage by stimulating local entrepreneurs to start tourist establishments (Joosten and Marwajk, 2003) and encourage local entrepreneurial activity. It is assumed that by stressing smaller scale and local ownership, tourism will increase multiplier and spread effects within host communities since local entrepreneurs not only raise the tolerance limits of host communities towards tourist activities but also enhance community stability by empowering local people and giving them a stake in tourism development (Shaw and Williams (Joosten and Marwajk, 2003).

Over the past two decades, Kenya has emphasized micro and small-scale enterprises in its development agenda. This is important since many Kenyans lack formal employment. Therefore, they depend on informal employment in MSEs including farm and non-farm businesses. In Kenya, MSEs have been considered important because they create job opportunities, promote national productivity, provide materials and components to other industries, promote rural development, reduce rural-urban migration, and supply goods and services to customers at reasonable prices (GoK, 1994). Further, MSEs use simple technologies that are labor intensive, which generate employment and income. They save money that would have been used to import products and encourage savings among the lower income groups. They can be established to supply small segments of the market in remote areas with little developed infrastructure. Small businesses are also important as they reduce income inequalities and train indigenous entrepreneurs for future manufacturing industry employment.

Tourism may also encourage agricultural development. Linking tourism to agriculture is important for sustainable rural development, such as through agri-tourism development. Stimulating the agro-tourism industry in Kenya can be beneficial to local economies and is consistent with rural lifestyles without great cultural disruptions. Also, this will open up new profitable markets for farm products and services as well as provide support for many agricultural enterprises. Similarly, linking tourism demand for food to local agricultural production may stimulate local agricultural development and consequently channel tourism's benefits to farmers, as well as reduce foreign exchange

leakage (Torres and Momsen, 2004). Indeed it has been found that each hotel job indirectly creates another job in agriculture, trade and handicrafts (Bachmann, 1988).

Therefore, tourism can contribute to sustainable development and contribute to poverty reduction in Kenya by enhancing linkages with farm and non-farm small, medium and micro enterprises to ensure these enterprises thrive and are sustainable. This will improve the livelihoods of many people and will contribute to the millennium development goals as well as Kenya's Vision 2030.

1.3 Statement of the Problem

As in many other coastal areas, Kenya's coast is dominated by multinational hotels and tour operators that are capital-intensive. These were largely foreign-owned, with domestic investors owning only a small share. Besides, they were vertically integrated in such areas as marketing, transport, lodging and even provision of foodstuff. This was associated with high foreign exchange leakages and few benefits to the local economy as well as inequitable distribution of benefits accruing from tourism. Currently, it is not known whether this is still the case. Most research has alluded to weakness of backward and forward linkages of large-scale tourism with various sectors of the local economy (Jommo, 1987; Migot-Adholla et al. 1982; Manyara and Jones (2005). However, the nature and extent of the linkages between these economies and the local entrepreneurial activity is not well documented or known.

The contribution of tourism to the growth of other sectors of the local economy is not well documented especially regarding farm and non-farm MSEs. In addition, the hotels' consumption of locally-produced products from MSEs is yet to be established in this region. Moreover, there is little empirical documentation on the current and future opportunities for farm and non-farm MSEs in the tourism sector in Coastal Kenya.

Therefore, there was need for a study to address the above concerns.

1.4 Objectives of the study

The general objective of this study was to document the relationship and impact of tourism on the growth of farm and non-farm MSEs along the Kenyan Coast. The specific objectives of the study were to:

1. Examine the influence of entrepreneur and business characteristics on the growth of farm and non-farm MSEs along the Kenyan Coast.
2. Document hotels' consumption of goods and services from farm and non-farm MSEs.
3. Determine tourism's contribution to the growth of farm and non-farm MSEs
4. Determine the hotel attributes that influence the choice of suppliers of hotel products.
5. Identify current and future opportunities available to farm and non-farm MSEs in the tourist hotels.

1.5 Hypotheses of the Study

The following hypotheses were postulated for testing:

1. Entrepreneur and business characteristics do not significantly influence the growth of farm and non-farm MSEs.
2. Tourism does not significantly influence the growth of farm and non-farm MSEs.
3. Hotel characteristics such as bed capacity, ownership, management and number of employees do not significantly influence the choice of supplier of hotel products.

1.6 Justification of the Study

Like other developing countries, Kenya has in the past given priority to large-scale investments in tourism while small businesses, which normally comprise the majority of tourism businesses, have not been given proper support. However, this is not always the best way to achieve the objective of sustainable tourism development. Tourism can provide the greatest benefit to local people if it enhances the growth of farm and non-farm tourism related MSEs, as these are a source of income to many people in the region.

Most tourism research in Kenya has concentrated on a few economic effects such as the contribution of tourism to the gross domestic product and creation of employment (Summary, 1983; Jommo, 1987, Bachmann, 1988; Sindiga, 1999). The effort to identify the effects of tourism on MSE growth is important because of the high expectations the government and development agencies have placed on MSE growth as an approach to sustainable development in Kenya.

The study aimed at suggesting ways of enhancing current efforts by the government and private sector to attain a more sustainable development of tourism. It was also to assist other stakeholders in the tourism industry to reformulate their strategies to take advantage of opportunities available in the tourism industry.

Additionally, the study was to serve as a current source of information and bridge the knowledge gap, on the understanding of the relationship between tourism and MSE growth. Similarly, the findings of this study aimed to make a contribution to current research on tourism and be of utmost help to academicians by shedding more light on the area of role of tourism on MSE growth.

The Kenya Coast was selected for this study because it accounts for 60% of Kenya's tourism income (GoK, 2007). The region is relatively less developed yet tourism is its predominant industry. It is also estimated that about 570,000 people in the region are employed by MSEs (GoK, 2002). Data for this study were collected for businesses that had been in operation for not less than five years as from 2002 and 2006. This period was selected since it was seen that tourism had stabilized after the 1997 clashes which reduced tourism activity in Kenya.

1.7 Scope and Limitations of the Study

This study only covered coastal Kenya and focused only on farm and non-farm MSEs and large hotels and resorts. The study was cross-sectional and the data on growth of MSE was for the period between 2002 and 2006.

1.8 Operational Definition of Terms

Micro and small enterprises – micro enterprise is a business employing between zero and five people while a small enterprise is one employing between six and twenty workers.

Farm micro and small businesses - small-scale farms that market their products to hotels or agricultural produce vendors that sell to hotels. These are the businesses dealing with fruits, vegetables, poultry products and flowers.

Non-farm MSEs - denoted handicraft and souvenir MSEs, taxi and car hire and restaurants, bed and breakfast establishments.

Large scale tourism businesses - tourist hotels and resorts.

Small scale tourism businesses - small, local operators of tourism businesses such as curio dealers, guest houses, restaurants and bed and breakfast establishments

Tourism - the temporary movement of people to destinations outside their normal places of work and residence, the activities undertaken during their stay in those destinations and the facilities created to cater to their needs. This movement of people can be due to leisure, business or other reasons. Tourists can either be domestic or foreign tourists.

Growth - positive change in income levels of MSEs, assets, number of employees, and business activities.

Sustainable tourism - a level of tourism activity that can be maintained over the long term because it results in a net benefit for the social, economic, natural and cultural environments of the area in which it takes place as well as minimal environmental impacts.

CHAPTER TWO

LITERATURE REVIEW

2.1 Global Tourism Development

Tourism is considered a major global economic force and one of the world's largest industries (Milne and Ateljevic, 2001). The increase in tourism activity in the world can be traced back to the Second World War. The number of international tourists around the world increased in the 1950s and 1960s and this trend has continued in the recent decades (Ondicho, 2003). This is because of technological improvements, rising living standards and broader processes of globalization. Milne and Ateljevic (2001) note that the world's tourism GDP is forecast to increase in real terms by 3.0 percent per annum in the decade to 2010.

It has been noted that broad based economic, demographic and technological change as well as evolving structures of corporate governance influence tourism development outcomes. In the tourism industry, transnational corporations are dominant and this does not lead to sustainable development.

2.2 Sustainable Tourism Development

As noted earlier, tourism can have long term benefits if it is sustainable. This is because the sector is unique in its contribution to economic development. It helps in improving living standards of people in host countries. As described by the Commonwealth Tourism Business Forum (2005), this sector takes many forms with demand met by facilities of differing scales and degree of sophistication. It also provides wide-ranging opportunities for foreign investors and local entrepreneurs. It is seen to attract investment, generate foreign exchange earnings, and facilitate the creation of small, medium and micro businesses. The sector also may be a primary means of realizing the goal of economic development of undeveloped regions by linking tourism operations to local suppliers.

Weggro (2004) contends that for tourism to be sustainable, the industry must assist in achievement of locally defined development visions and objectives. Over the years, several approaches have been put forward in discussing sustainable tourism

development. The first of these approaches is that of mass tourism and sustainable tourism being polar opposites and a conceptual barrier in between as depicted in Figure 1 below. There is no linkage between the two (Clarke, 1997). Mass tourism is dominated by multinationals and is organized as opposed to sustainable tourism, which is seen to be dominated by medium, small and local businesses. The negative impacts of tourism are attributed to mass tourism, thus sustainable or alternative tourism advocates for scaling down of mass tourism.

Also, sustainable tourism strategies mostly focus on localized, relatively small-scale development projects rarely going beyond local or regional boundaries. These should however be located within the wider national or global context (Sharpley, 2000). The challenge becomes providing sustainable tourism for the mass market.

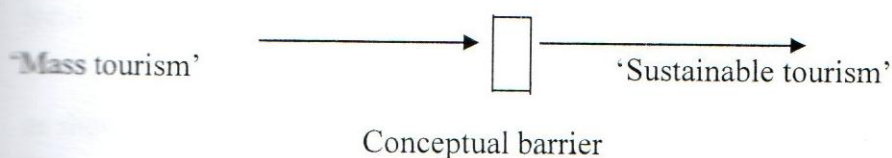


Figure 1: Mass Tourism and Sustainable Tourism as Polar Opposites

(Adapted from Clarke, 1997)

The second approach is that of tourism continuum as shown in Figure 2 below. According to this approach, mass and sustainable tourism are on opposite ends of a continuum. Sustainable tourism utilizes the infrastructure, transport and reservation systems of mass tourism. Mass tourism does not contribute significantly to economic development of localities due to its foreign ownership, large volume and degradation of resources. On the other hand, sustainable tourism is too fragmented and cannot sustain product supply and the revenues are too dispersed.

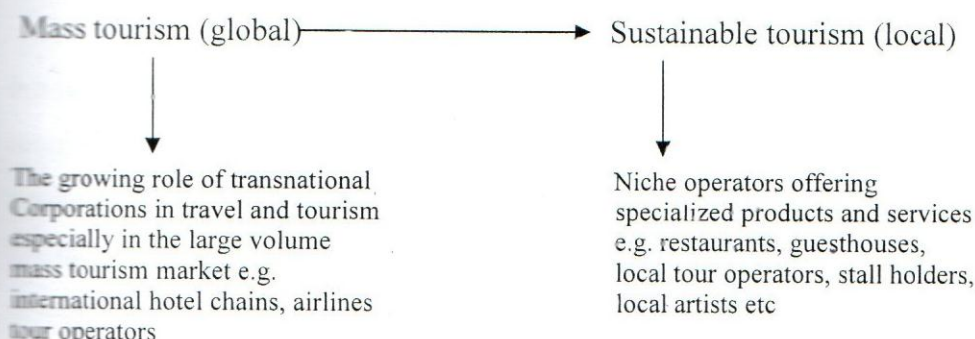


Figure 2: Tourism as a Continuum:

(Adapted from Kleeman, 2001)

With time the tourism continuum approach was rejected as being too simplistic and impractical since international tourism was growing and because sustainable tourism is on small scale, it lacked the capability to deal with this. There was also the problem of local ownership and control and imbalances of power.

The third approach focuses on changing mass tourism to more sustainable forms as shown in Figure 3 below. This view replaced the term 'mass tourism' with 'large-scale tourism' to shed the negative connotations. Sustainable tourism became small-scale tourism.

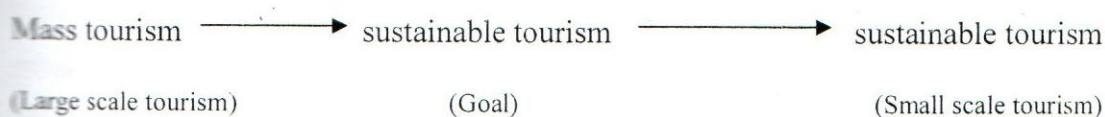


Figure 3: Moving from Mass Tourism to Sustainable Tourism

(Adapted from Clarke, 1997)

Large-scale tourism has the strengths that can be used to advantage such as utilizing marketing and communication skills, influence over suppliers and distributors, which can be used for the introduction of sustainable policies along the supply chain.

The fourth approach is that of convergence of large-scale and small-scale tourism. This approach maintains that sustainable tourism should be seen as a goal that is applicable to all forms of tourism ventures regardless of scale (Hardy and Beeton, 2001, Inskip, 1991). It is important to find ways to increase the revenues of small-scale tourism businesses and this can be achieved through the convergence of the large-scale and small-scale tourism businesses.

Tourism as a development tool should not compete for resources such as land and human resources with other sectors of the economy but share these resources. Successful tourism development calls for both intra and inter-generational equity, that is, fair and equitable opportunities for development for all people both in the present and future (Sharpley, 2000). Equity is difficult to attain since major international tourism flows and corresponding economic benefits remain polarized and regionalized. In developing nations, there is uneven distribution of tourism benefits diminishing the opportunities for equitable development through tourism. In addition, it is mostly influenced by power relationships with the rich and elite mostly benefiting to the detriment of the majority poor people. International tourism also increases inequities since tourist flows are dominated by developed countries with presence of vertically integrated firms in marketing, procurement of customers, transportation and lodging with lack of local community control leading to foreign exchange leakages.

The United Nations has proposed guidelines and principles for sustainable tourism development (UN, 2003). These include residents participating in the implementation of strategies and operation of services, infrastructure and facilities; development of tourism initiatives with the help of the community, the poor, women, and tourism associations; ensuring quality employment to the local people which can be enhanced through education, training and providing finance for local businesses; development of linkages among local businesses in the tourism industry so as to ensure that tourism expenditures stay within the destination area; equitable distribution of tourism benefits; harmonizing the needs of the host community, visitor and the government; partnerships between local attractions, tourism operators and businesses in the areas of marketing, planning, management and funding of tourism ventures; consideration of capacity of tourism sites; protection of tourism resources; ensuring the resources are not abused; provision of training to enhance skills in tourism, hotel management, small business management; and promoting activities for poverty reduction.

2.3 Historical Development of tourism in Kenya

The origin of tourism in Kenya is its rich wildlife, beautiful beaches and cultural diversity. Sindiga (1999) notes that, Kenya gazetted its national parks as early as 1946. Following this the government came up with a policy to protect its wildlife and open up the national parks for tourism.

Beach tourism started spontaneously (Sindiga, 1999). Historically the Kenyan Coast served as an important trade route for traders plying the Indian Ocean between Europe and the Far East countries as far back as two thousand years ago. These traders exchanged goods from Arabia, Persia, India and China for ivory, mangrove wood, spices and slaves (Bachmann, 1987). Sailors from the Far East, and Europe could stop at the Kenya coast. This region became more important in the days of the slave trade. The coastal towns of Mombasa, Malindi and Lamu were founded by the Swahili people and these towns prospered as trade centers in the 14th and 15th centuries. These towns were conquered by the Portuguese and later the Omani Arabs between 16th and 18th centuries. The Portuguese left important tourist landmarks in the form of Fort Jesus in Mombasa and Vasco da Gama's pillar in Malindi.

Later, Kenya was colonized by the British who neglected the coastal towns as most of them settled in the fertile Kenya highlands. It was not until the 20th century that the coastal towns came back into the limelight following the construction of Kilindini harbor, which serves Kenya, Uganda and Rwanda and the construction of the Kenya-Uganda railway. This led to the development of tourism at the coast. During this period, resident Europeans started taking holidays at the coast and first hotels sprang up in the 1930s. After the Second World War, Mombasa and Malindi attracted a population of European retirees. By 1950s and 1960s, many European farmers settled at the coast on retirement (Sindiga, 1999).

Mass tourism began in 1962, when the first all-inclusive package holiday at the Kenyan coast was organized and it included mostly Germans and Italians (Jackson, 1973 in Sindiga, 1999). In 1965, charter flights were introduced and this was a boost to tourism activities (Bachmann, 1988). In the same year, the Kenya government established the Kenya Tourist Development Corporation. Some of the objectives of this body were to provide finance and technical support to potential investors in the tourism industry, to

formulate and carry out projects for promotion of existing tourism enterprises, to closely monitor the activities of hotels and to ensure governments participation in the tourism industry. This corporation has also provided loans to small-scale entrepreneurs in the tourism industry.

By 1970 there was increased tourism activity and existing hotels had to expand to cater to increased demand. Also the Kenyan government decided to expand the physical infrastructure such as roads, electricity and water. The growth in tourism led to demand for services like accommodation, entertainment and distribution.

Today, Kenya is an important tourist destination due to its rich wildlife and beautiful beaches, combination of beach-safari holiday, political stability relative to neighboring countries, air connections, famous national parks such as Tsavo, Maasai Mara, Amboseli as well as better-developed tourism products. Tourism's contribution to the coastal economy was 11% in the late 1970s. This increased to 15% in the late 1980s. However, there was a decline in the 1990s because of an economic recession in the country, increasing insecurity such as like the Likoni and Diani tribal clashes, bad press coverage, increased terrorist activities as well as poor marketing in the world tourism market (Debeer et al., 1997).

2.3.1 Tourism Activities in Kenya

Kenya has a variety of tourism activities including festivals and events. These include the Kenya Safari Rally which is held mid July. It is a fast-paced race through the wilderness of Kenya. Drivers have to negotiate through tough terrain and wildlife. It brings together drivers from different countries. In addition, there is the Ferodo Concours d'Elegance which showcases a wide range of pre-1940 vehicles. Cultural festivals are another tourist attraction. The famous festivals in Kenya include the Mombasa Carnival. The first one was held in October 1998. It was incorporated with the celebration of 50 years of the Mombasa and Coast Tourism Association and over 7000 tourists joined. Entertainment, food, art and culture displays, fashion shows and other outdoor sports form a greater part of the fun filled day. There are also the Mijikenda and Rabai festivals which showcase the culture and traditions of the Mijikenda people that live along the

Kenyan Coast. These festivals also highlight the importance of the Kayas (traditional places of worship of the Mijikenda people).

The Lamu Cultural Festival and the Lamu Dugong Festival are also tourist attractions. The Lamu Dugong festival is held every year and it includes the famous donkey racing. The festival lasts a week and brings together people from all sectors including visiting tourists. The major theme of the festival is to create awareness among the residents and the public about the need to conserve the Dugong found near the islands (mythologically known as the mermaid), which is an endangered species. Other activities during this festival include dhow racing, water sports, traditional dances, food exhibitions fashion and architectural displays.

Other events that attract tourists include the Kenya International Film Festival which showcases the history of film development in Kenya. It includes an exhibition of different cameras and other film paraphernalia. Other activities are like the world marathon championships which were held in Mombasa in 2007. These activities draw tourists and hence increase tourism revenues to local economy.

Apart from festivals and events, Kenya is also noted for its beautiful beaches and game parks. Tourists can have a safari or beach holiday as well as a combination of the two.

2.4 Small Business Development in Kenya

Micro and small-scale businesses have become important in Kenya over the last three decades. Most countries of the Sub-Saharan Africa have been facing an economic crisis since the early 1980's which has led to severe declines in economic growth. This has led to a plunge in the standards of living leading to many of these countries to look for ways of achieving sustainable development.

The growth of the informal sector is also due to a decrease in formal sector employment. This is partly due to the Structural Adjustment Programs imposed on many African countries by the Breton Woods Institutions (including the International Monetary Fund and the World Bank). These programs have led most government institutions to lay off their staff in a bid to right-size the organizations. The unemployed staff have no alternatives but to start small businesses in order to eke out a living. It is against this

background that Kenya shifted its focus to the promotion of small enterprises as a way of achieving sustainable development and reducing the poverty levels of more than 46% of its population that currently falls below the poverty line (People's Daily, 2007).

The phrase "informal sector" was first used by the International Labor Organization (ILO) in their study of "Employment, Incomes and Equality" in 1972. Since then, much effort has been put in the informal sector through the Ministries of Planning, Research and Technical Training; and Labour and Manpower Development. Also, several studies have been conducted in this sector such as "Micro and small enterprises in Kenya" – Result of the National Survey (Daniels, Mead and Musinga, 1995) and the Micro and Small Enterprise (MSE) Baseline Survey of 1999 (CBS, ICEG and K-Rep, 1999). According to this survey, there were about 1.3 million micro and small enterprises in Kenya employing about 2.4 million people. The average income of these enterprises was Kshs. 6000 per month. This sector contributed 18.4% of the GDP (CBS, ICEG, K-Rep, 1999). In the year 2001 this sector employed about 4.6 million people (GoK, 2002).

In Kenya, most MSEs belong to the informal sector and have been considered important because they create job opportunities; promote national productivity; enable the entrepreneur to acquire skills important for national development; provide materials and components to other industries; promote rural development improve rural livelihoods; reduce rural-urban migration; and supply goods and services to customers at reasonable prices (GOK, 1994; Coughlin and Ikiara, 1991). MSEs use simple technologies that are labor intensive. They assist the country in minimizing imports thus saving foreign exchange and also encourage savings among the lower income groups. They are established to supply small segments of the market in remote areas with little developed infrastructure. Small businesses are also important as they reduce income inequalities and train indigenous entrepreneurs for future manufacturing enterprises. They also support agriculture and agricultural-based industries.

In the Kenyan Coast, the contribution of micro and small-scale businesses is significant. By mid 1990's, this sector contributed to 10-15% of the labour force in such businesses as retail trade, fishing, furniture making, handicrafts and boat building. From the benefits outlined above, it is clear that MSEs success is important to the development of this country.

To help MSEs succeed, several programmes have been started. This is with the help of several donor agencies. One such agency is the British Assistance to Small Enterprises Program (BASE) which was established in 1991. Its main goal was poverty reduction through the assistance of MSEs. BASE has come up with several strategies. The first strategy is creating an enabling environment. This is through the improvement of the regulatory environment for MSEs by having reforms in trade licensing. Secondly is microfinance. The program finances microfinance institutions dealing with MSEs in Kenya such as Kenya Women Finance Trust (KWFT), K-Rep, and Faulu Kenya Limited. Another strategy is the support for the missing middle-scale businesses through the Missing Middle Finance, which encourages institutions to launch innovative programs and expand existing pilot schemes. Business Development Services (BDS) is another strategy used by BASE. This is achieved through the stepping up of support to identify effective private sector mechanisms providing business development for the full spectrum of partner enterprises. This is achieved through introduction of more productive technologies, marketing and advisory services. BASE also uses impact assessment strategy. This is accomplished through research, monitoring and evaluation.

2.5 Tourism's Linkages with Micro and Small Enterprises and Agriculture

Much of tourism literature points to the fact that growth in tourism industry has a potential for stimulating economic development (Shaw and Williams, 1997). Despite this, little attention has been paid to the role of entrepreneurial activity especially how small tourism enterprises operate in different economies. This neglect is more apparent given that this segment of the service sector has been identified as a key growth point in many economies. They (ibid) point out that it is imperative that research on tourism and economic development should examine more closely the relationship between the nature of entrepreneurship, the structural characteristics of the tourism industry and its overall impact on economic change.

This view is supported by Lea (1988) who suggested that tourism develops backward linkages in the economy. This leads to the creation of external economies such as the improvement of local transport and electricity, which in the long run benefit

everyone. However, he says that the extent to which these improvements can actually promote business activity has not been evaluated.

Mathieson and Wall (1992) contend that the extent to which the tourism sector can establish linkages with local entrepreneurs depends upon such factors as the types of suppliers and producers with which the industry's demand are linked, the capacity of local suppliers to meet these demands, the historical development of tourism in the destination areas; and the type of tourism development. In support of this, Lundgren (1973) suggested that the speed of hotel growth is also significant in generating local entrepreneurial activity. He looked at the contribution of hotel development to the growth of agricultural activity in the Caribbean. His study showed that rapid growth of hotels leads to increased demand in agricultural products. In a similar study, Telfer and Wall (1996) looked at the linkages between tourism and food production in Indonesia and found out that there were several relationships between tourism and food production such as competition for resources like land, labour and capital. They also found out that there was a symbiotic relationship between the two sectors in that agriculture provided local food products for the restaurants and the restaurants provided money, which was used to enhance agricultural production. Telfer and Wall (1996, 2000), argued that there is potential to increase backward linkages between tourism and local food production.

This view of linkages between tourism and agriculture is supported by Torres (2003) and Torres and Momsen (2004), who looked at the linkages between tourism and agriculture in Mexico. Torres (2003) contended that having linkages between tourism demand for food and local agricultural production is critical in maximizing host country's benefits. Accordingly, she argued that linkages between tourism and agriculture were influenced by several factors. The first factor was demand, made up of hotel industry size and promotion of regional foods. Secondly, there were production related factors such as physical conditions; nature of local farming systems; quality, quantity, reliability, seasonality and elevated price of local production; level of technological capabilities and the existence of food processing facilities. Another factor was marketing support factors including availability and quality of regional transportation, storage, distribution system and telecommunications facilities. Her findings suggested that the linkages between these

two sectors were weak. Her analysis was qualitative in nature and mostly used case studies.

Ferguson (2007) suggested that people traditionally working in agriculture in Copan Ruinas were being encouraged to turn agricultural production towards tourism through the integration of rural producers into the production and consumption chains of tourism. Additionally, she suggested that indigenous people could participate in tourism production through tourism-related economic activities such as handicrafts and other micro enterprises.

In Dominica, agriculture is closely related to tourism with most tourist destinations located in farming areas. As a result, improvement of roads to make these destinations accessible to tourists also increases possibilities for on farm sales. The country has also diversified from banana production only to vegetable and flower production geared towards hotels and restaurants (The Courier, 1993). Other literature pointing to the positive impacts of tourism to agricultural development include that of Goodwin (1998) who points out that tourism helps to diversify local farming; Ashley et.al (2000) who states that tourism earnings can be invested to improve local agriculture; and Seville (2001) who contends that it can lead to development of vegetable and fruit enterprises to supply tourism, that is, to supply hotels and restaurants.

A study by Bond and Ladnaan (1982) cited in Shaw and Williams (1997), done in Mexico showed strong linkages existing between tourism with the construction industry. Also the demand for handicrafts could create linkages to small factories and cottage industries. Hall (as edited by Harrison, 1997) looked at tourism development in Cuba asserting that indigenous industries were receiving a boost from tourism development. Such industries included those dealing in building materials, furniture, linen, mattresses and food production. He also found out that there was marked increase in sales of such products as toiletries, perfume and handicrafts.

The relationship between tourism and small businesses was also examined by Page et al. (1999). They looked at the role of tourism and business development in Northland, New Zealand in relation to finance, marketing, human resource issues and the importance of tourism in the annual turnover of these businesses. In their study, they argued that this relationship remains '*terra incognita*' (unknown land) due to the fact that

the existing research was published in diverse sources and failed to explicitly contribute to methodological development in the area. Their analysis mostly used descriptive statistics.

Swaziland saw the importance of localising the productive activities of tourism in a bid to strengthen its economy way back in 1979, to improve the welfare of the local people (Lea, 1981). This was only possible through the development of tourism MSEs. In the case of Swaziland, tourism had been of great benefit to taxi-drivers, sculptors, carvers, wholesalers and retailers (Harrison, 1997).

Rogerson (2002) studied the constraints and opportunities faced by tourism MSEs in South Africa. He argues that it was only through small enterprises that rural people can participate in tourism. In these enterprises, the opportunities for MSEs or labour by the poor are maximised. He argued that the government had the responsibility to involve local communities in tourism through the development of economic linkages such as supply of agricultural produce to lodges and outsourcing of laundry.

Kirsten and Rogerson (2002) supported this view of development of linkages between tourism and small enterprises. Such involvement would lead to sustainable tourism. They identified the challenges faced by tourism MSEs in South Africa as: limited involvement of local black entrepreneurs due to their limited resources and difficulties to secure credit from conventional financial institutions; limited and inadequate training and education as most of the entrepreneurs only have primary level of education which made the black community uncompetitive in the 'knowledge based' tourism industry; limited access to new or established tourism markets for black entrepreneurs and thus difficulties in marketing their products. In addition, the South African government did not have any entrepreneurial support programs and those in existence were poorly advertised and took long to implement. However the study did not show how tourism contributes to MSEs growth and the analysis was mostly qualitative.

In Kenya, many researchers have conducted studies on the development of tourism (Sindiga, 1999; Akama, 1997; Ondicho, 2000) and economic contribution of tourism such as the contribution of tourism to the gross domestic product and creation of employment (Summary, 1983; Jommo, 1987; Bachmann, 1988). Joosten and Marwijk

(2003) mostly looked at small tourism entrepreneurs and their contribution to sustainable development in Kenya. Their study was also qualitative in nature.

In their study, Debeer et al. (1997) found out that 90% of the locally employed population in Malindi worked in the tourism industry in such areas as hotels and restaurants; transport industry where they move food, people, water and construction materials, local tour operators, boat operators, beach boys, curio sellers and shell collectors. As much as this may be the case, the multiplier effects do not provide the high socio-economic benefits expected by the local residents and therefore the tourism sector may not contribute much to rural development and prosperity.

However, only a small number of studies have looked at the development of linkages between large and small tourism businesses (McCormick and Atieno 1998; Alila and McCormick, 1997). Alila and McCormick, (1997) studied on inter-firm linkages in the tourism sector revealing that as long as there was a large firm on one side of the linkage, then there was a positive impact on performance of small firms. Furthermore, the study found that domestic firms which collaborated with foreign firms in the same line of business, benefited through significant increases in employment, sales and assets. It was found that a third of the large tourism businesses outsource some portion of their business. These studies however did not look at the impact of tourism on the growth of MSEs and did not consider farm MSEs.

2.6 Theories of Micro and Small Enterprise Growth and Development

In recent years, growth in micro and small businesses has received considerable attention from researchers and policy makers showing the importance of these businesses to various economies of the world. Several theories have over the years been put forward on the development of small enterprises. Pedersen (1998) reviewed four complementary theories which include the theory on labour supply and the urban informal sector, output demand and the urban informal or small enterprise sector, commercialisation of the rural areas, and industrialization and small enterprise development.

The theory on labour supply and the urban informal sector assumes that small enterprises develop as a response to growth in unemployment in the formal sector. Therefore many people are rendered jobless and have no other choice but to join the MSE.

sector. He argues that small enterprises will develop in periods when the formal sector contracts or grows too slowly to absorb the labour force and vice-versa.

Besides the theory on labour, another theory that has been put forward is on output demand and the urban informal or small enterprise sector. This theory argues that small enterprises will develop if there is demand or market for their products and services. Thus this sector tends to develop cyclically and concurrently with the economy as a whole. These enterprises will compete with the large enterprises and their development may be inhibited by formal sector monopolies. The proponents of structural adjustment support this theory. According to this theory, small enterprises can be strengthened through clustering, mutual networking, and creation of linkages with large enterprises.

The third theory is on urbanization of the rural areas, urban migration and the development of rural non-agricultural activities. Due to failure in agricultural activities most people in the rural areas are moving to towns. In most developing countries, there is increased urbanization that has led to increased demand for cash. This encourages people to undertake cash-earning non-agricultural activities. Increased cash among people creates a growing market for non-agricultural goods and services (Pedersen, 1998).

Industrialization and small enterprise development is the fourth theory. It is assumed that with the advent of industrialisation, small enterprises would die a natural death. However, this is not so since the small enterprises have found their own niche not served by large businesses.

Apart from the theories on MSEs development, other theories have been put forward to explain micro and small enterprise growth. Felsenstein *et al.* (2000) discuss these models. These models mostly focus on the determinants of MSEs growth.

The first of these models is the Lucas Model. This model was developed by Robert Lucas in 1978. According to this model, the major determinant of MSEs formation, growth and mortality is management ability. Managers differ in their abilities. This model however has several limitations. Firstly, it assumes that firms of all sizes face the same probability of growth and that some firms grow faster than others by luck. Secondly, it is abstract, static and has many assumptions. It also does not show how firms

evolve and it ignores risk and uncertainty. The model also does not define the optimal firm size.

The Kihlstrom and Laffont Model was developed in 1979. It mostly considers the role of risk in business growth. This model suggests that entrepreneurs are risk takers and that business formation, growth and mortality is determined by varying preferences for risk rather than management ability.

The third model is the Javanovic Model that was developed in 1982. This model incorporates both management ability and risk as determinants of MSEs growth. A major limitation with this model is the assumption that the entrepreneur will simply learn more about his managerial ability without enhancement of the same through education, training and experience.

A general limitation of the growth models is that they do not consider variables that are important to the development of MSEs like location of the business, gender of the entrepreneur and the sub-sector. From these limitations Felsenstein et al. (2000), argue that in explaining enterprise development it is not enough to look at individual characteristics but consideration should also be given to characteristics of the business and the business environment.

2.7 Determinants of MSE Growth

Many researchers have looked at the factors that influence micro and small business growth. Gender has been found to be a determinant of small business performance (Rosa et. al 1995; Riding and Swift, 1990; Cooper et al., 1994). Riding and Swift (1990) showed evidence that banks do impose more stringent requirements on women business entrepreneurs. Even successful women are not well positioned to exploit business opportunities as well as their male counterparts due to structural disadvantages within and outside the business arena. Apart from this, women may be disadvantaged in that they have to put more effort in family responsibilities and this means less effort is spent on business activities. This may be associated with slower growth. In line with this, Brush (1992), suggests that women may be more family-oriented and therefore not keen to pursuing economic goals of business growth. This is supported by Papadaki and Chami (2002) who contend that women may have fewer opportunities to develop

experiences, may have fewer networks to get assistance and may have greater difficulty in assembling resources. Women in Africa still mostly participate in rural agriculture (Grieco, 1997).

However, other studies (Barbieri and Mshenga, 2008) revealed a significant positive impact on gender and agritourism business performance. Rosa et al. (1995) suggested that the relationship between gender and small business performance was complex, but that gender was a significant determinant of business size even after they controlled for other factors. Watson (2002) found out that after controlling for industry, age of business, and the number of days a business operated, there was no significant difference between male- and female-controlled businesses with respect to total income to total assets (TITTA), the return on assets (ROA), or the return on equity (ROE). However if the control variables were removed, there was evidence to suggest that female-controlled businesses outperform male-controlled businesses. Papadaki and Chami (2002) found out that there was no evidence to show that gender affected growth of MSEs since the coefficient for gender though positive, was not statistically significant.

Another factor affecting business growth is access to credit. According to Papadaki and Chami (2002) debt is the predominant source of financing among smaller firms. Sharma and Upneja (2005) found out that most (95%) small-scale hotels and restaurants in Tanzania preferred raising working capital from internal funds and that less than 2% used bank loans because banks perceived these to be risky businesses since the owners lacked expertise. Therefore, informal sources of credit were popular to MSEs as they depend on collective liability and reciprocity actions which replace the need for collateral.

Credit is important to business growth as personal savings may not be adequate to cover all start up and business operational costs, thus the business is forced to operate on a smaller-scale. Credit in business is seen as a policy tool for improving business performance. Indeed it can be hypothesized that entrepreneurs who acquire loans have the ability to get costly inputs and hence realizing higher returns for their businesses.

As concerns age of the entrepreneur and MSE growth Barbieri and Mshenga (2008) found a significant negative relationship between agritourism business performance and age of the farmer. Their results showed that young farmers earned more

than older farmers. However, the findings by Weiss (1999) indicated that the impact of farmer's age had a positive relationship with farm survival for young farmers and negative for those who were above fifty years of age. Other literature such as Boswell (1973) and Davidsson (1991) also show that the owner's age tends to be negatively related to growth.

Other small business economic literature explains firm growth and survival in terms of entrepreneurs' ability to acquire skills and innovate (Audretsch, 1991, 1995; Baldwin, 1995). Thus training is very important for MSE growth. Business training helps entrepreneurs to make important business decisions, know how to attract and serve customers and use credit wisely as well as keep business records. As found out by Rogerson (2004) the entrepreneurs acquired other skills by learning from family members, or teaching themselves. This supports Brüderl and Preisendorfer (2000) who found out that the founder's management experience significantly influenced businesses' size. Apart from this, firm growth is also related to firm size and age of the firm (Evans, 1987, Papadaki and Chami, 2002).

Cultural orientation of the entrepreneur is another determinant of business growth. Basu and Goswami (1999) found out that cultural factors make a significant impact on long term growth. Other factors were entrepreneurs' education level, size of start up capital had an inverse relationship to growth, nature of business (wholesaling, retailing or manufacturing), employee training.

Glancey (1998) pointed out the relationship between size, age and location; and growth and profitability in small firms. He contended that there is a positive relationship between size and profitability. He however suggested that small firms may remain small if the owners are mostly motivated by non-pecuniary returns and they will display lower levels of profitability. He also noted that there is a positive relationship between size and growth up to a certain level and the firm can diversify if it wants to continue growing.

The relationship between age and profitability or growth may be positive if the older firms benefit from economies of scale and learning as well as reputational effects which enable businesses to earn higher margins. In addition, age of the business is important since older businesses benefit from early mover advantages including the effect of the learning curve, reputation and buyer uncertainty, buyer switching costs and

network effects. A firm becomes better at undertaking an activity due to experience as well as its reputation leading to a significant early mover advantage as consumers who have a positive experience with the firm's product will be reluctant to switch to competing brands. Bensako et al. (2004) posit that buyer uncertainty coupled with reputational effects can make a firm's brand name a powerful isolating mechanism. It is said that switching costs arise when buyers develop brand specific knowledge that is not fully transferable to substitute brands. A business can design its products and services to increase switching costs through the use of sales promotional techniques such as offering coupons, frequent customer discounts or special offerings to the completion of a series of transactions with customers. Switching costs are a powerful advantage to an early mover. Some resources are inherently nontradeable such as knowledge acquired by an organization through cumulative experience.

As for location and profitability, urban firms may perform better due to being closer to the market though they may be constrained due to inadequate room for expansion. There is a positive relationship between profitability and growth if the business relies on retained earnings as the primary source for expansion.

Another early mover advantage is network effects (Bensako et al. 2004) since customers place a higher value on a product if other consumers also use it. Network contacts give access to customers and suppliers. Finding enough customers obviously determines the success of a new business. A diverse network might be very helpful for this, because friends and acquaintances as the first customers might spread information on the new firm via their own networks. In addition, network contacts may open the possibility to broaden the financial base of a new firm. Informal credits received from relatives or acquaintances are especially helpful in the start-up phase. Given the financial restrictions many new firms are confronted with, the credit raising function of social relations seems to be important.

Johannesson (2002), pointed out the importance of networking as a form of social capital. Hansen (1995) found out that entrepreneurial networks are positively associated with firm growth supporting the finding by Dollinger (1985) and Brüderl and Preisendorfer (1998) that successful entrepreneurial networks were positively associated with organizational growth. Chami and Papadaki (2002) went further and divided the

networks into two: formal and informal networks. Their findings revealed that informal networking with business associates, suppliers and customers had a positive impact on growth while formal networking with lawyers, accountants and financial institutions had no impact on venture growth.

McCormick (1991) gives the determinants of success of small scale manufacturing businesses. The first determinant is formality. This consists of business site, size, relationship to municipal council authority, technology, skill level of workers, management and relationship to other enterprises. The site of the business will include the nature of workspace, access to public transportation and business owner's confidence that the business will stay at the current site. Size of the business is also another determinant. This is looked at in terms of the number of employees, size of capital, and relationship to civil authority. Success also depends on technology, which consists of production methods, education and skill level of employees in terms of formal and technical education as well as ability to use two or more languages. Management practices like bookkeeping, pricing and knowledge of marketing strategies are also important for the success of MSEs. The second determinant is flexibility. MSEs can succeed due to their ability to reduce risk and use diversification.

2.7.1 Measuring Performance of Small Tourism Businesses

Small tourism ventures have special features that differentiate them from measures in other sectors (Haber and Reichel, 2005). Phillips (1996) adopted a multi dimensional approach to measure performance of hotel units. The dimensions he used are effectiveness which was looked at in terms of occupancy rates, average room rate and growth in sales per room; efficiency was looked at in terms of return on investment (ROI), and profit margins. The third dimension is adaptability including number of successful new services or products introduced and percentage of sales accounting for new products or services.

Heber and Reichel (2005) looked at both objective and subjective performance measures of tourism small businesses in Israel. They divided these into long term and short term measures. The long term objective measures were growth in revenues and

growth in number of employees while the short term measures were revenues, number of employees and revenues per employee. The long term subjective measures were development and growth, tourism and business strength and success in generating profit in times of geopolitical crises. The short term subjective measures were occupancy and customer satisfaction, and profitability compared to competitors. The long term objective measures were found not to be correlated with the other three sets of measures while the other three sets of measures were found to be correlated to each other to a lesser degree but highly correlated within each set.

In their study of entrepreneurship in the small hotel sector, Glancey and Pettigrew (1997) observed that expansion in this sector requires a lot of capital which is limited and thus an alternative for these businesses is to diversify into other sectors. Their findings revealed that the sources of finance used by the entrepreneurs were own funds, bank lending and a combination of both. In addition they looked at motivations for founding the business which they identified as push factors (redundancy, job insecurity, need for supplemental income) and pull factors (desire to be own boss, retirement, to make profit and spotting an opportunity).

Sharma and Upneja (2005) identified the factors influencing financial performance of small hotels in Tanzania. They concluded that these factors are diverse including micro environmental factors like employee training, investment in equipment, availability of financing and macro level factors such as product service standardization system and institutional environment. They identified the factors affecting profitability and competitiveness as low volume and low prices of rentable rooms, high costs of goods sold, limited investment in technology and equipment, lack of product and service quality, lack of finances, lack of formal training and education opportunities for employees and obstacles in the institutional environment for obtaining operating licenses and approvals.

2.8 Theoretical Framework

Evans (1987) estimated the impact of owner and firm characteristics on firm growth. He defined firm growth as a function of the age and size of the business. Over

the years, many studies on small firm growth have used this model with a few modifications.

Glancey (1998) modeled firm growth as a function of size, age, location, inter-industry differences, and profitability of the business. Glancey (1998) did not consider the effect of managerial ability on growth.

In their study on business growth, Liang and Jek (2000) modeled that growth was a function of entrepreneur competence, managerial competence, family cohesion, family adaptability, degree of professionalism and extent of formal planning. They measured growth as the mean of five measures of sales growth, perceived change in market share, growth in number of employees, relative long run profitability and relative sales growth. Their results indicated that entrepreneurial competence, family cohesion, professionalism and formal planning are significant and positively related to business growth. The weakness of their approach was that their explanatory variables were mostly to do with managerial variables hence their model did not capture business characteristics. Additionally, some of the variables are difficult to measure. In general, Glancey (1998) and Liang and Jek (2000) did not consider the factors that determine MSE growth in totality.

In another study, Basu and Goswami (1999) extended these models by including socio-cultural, socio-economic and managerial variables in their multiple regression model. In so doing, their model was better than the above two models as they bring together two strands of literature on entrepreneurial growth and analyze the effect of economic as well as socio-cultural factors in a more functional form. Their results suggested that moving away from a style of management based on immigrant culture had a positive impact on growth. This requires greater delegation of responsibilities to non-family employees. At the same time, strengthening links with the country of origin had a positive impact on growth. While the commitment to work hard at start-up was essential, human capital factors like the entrepreneur's educational attainment and employee training were found to be more crucial than financial resources in contributing to growth. However, their model was limited since it only considered growth in sales.

Papadaki and Chami (2002) added dummy variables to Evans model to capture additional factors such as owner and business characteristics. Their study found out that

willingness to grow, delegation of responsibility and sharing of ownership with other business partners significantly influenced growth.

This study used a modified version of the Evans model of firm growth. This model was chosen for this study as it estimates the impact of firm age and firm size on firm growth and is best suited for this study. Additional factors were added to capture the effect of other business and owner characteristics as well as the contribution of tourism to the growth of the MSEs as given in the equation below.

$$G_A = f(\Omega_e, \Omega_b, \Omega_t) \quad (1)$$

Where: G_A - Growth in assets

Ω_e - entrepreneur characteristics

Ω_b – business characteristics

Ω_t - tourism factors

The factors that denoted tourism were type of customer served by the business, changes in MSEs activities due to tourism, sales brought in from tourism, number of tourism activities held in the country, number of tourists visiting the country, changes in MSE activities due to tourism, MSE access to tourist information.

2.9 Conceptual Framework for Tourism and MSEs Growth

Figure 4 below suggests that micro and small-scale enterprise growth is influenced by owner characteristics, business characteristics, institutional support and tourism factors. All these affect tourism sales which lead to growth in terms of MSE assets.

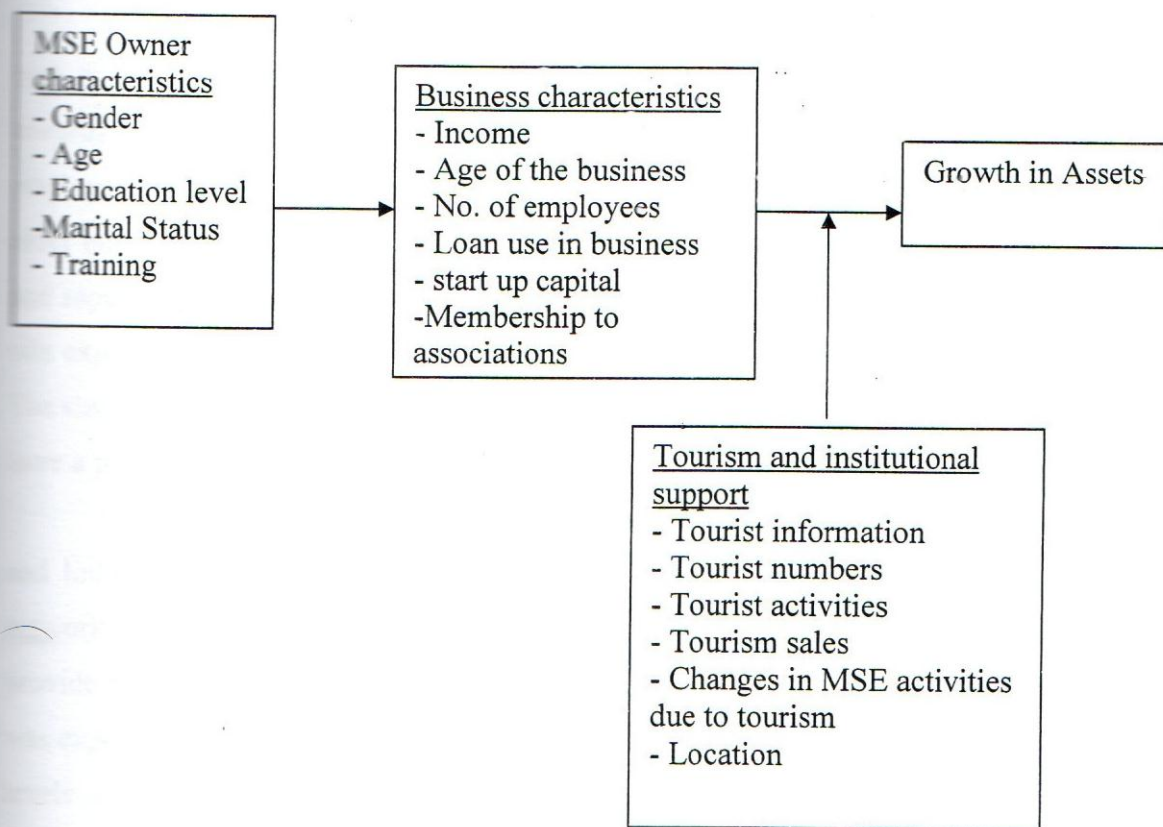


Figure 4: Relationship between Owner, Business and Tourism Characteristics on MSE Growth

(Source: Own)

Owner-characteristics are in terms of gender, age, education level, management training, and marital status. Gender was expected to have a positive effect on the growth of MSEs since literature shows that MSEs owned by men record better growth than female owned businesses (Rosa et. al 1995, Riding and Swift, 1990, Cooper et al., 1994). Age of the owner was also expected to have a positive effect on growth with MSEs owned by older entrepreneurs realizing better growth as they would have accumulated wealth (Besnik et al. 2008). Education level of entrepreneur and business training were expected to have a positive effect as these influence the management of the firm (Besnik et al. 2008, Audretsch, 1991, 1995; Baldwin, 1995). The direction of causation for marital status was expected to be positive since the married entrepreneurs would pool their resources.

In addition to the above, growth is also influenced by business characteristics such as age of the business, capital invested, nature of business in terms of orientation towards supplying to the tourism sector, business income, assets, and number of employees. Age of the business was expected to have a positive effect on growth since older businesses are expected to have established networks and benefit from experience and reputational effects (Evans, 1987, Papadaki and Chami, 2002). The start up capital was expected to have positive effect as firms with more capital can start on a larger scale. The size of the firm in terms of number of employees and business assets was expected to have a positive effect on growth (McCormick, 1991); Evans, 1987; Glancey 1998).

Similarly, institutional support in terms of capital accessibility, location, networks and linkages with other organisations also have an effect on MSE growth. As for network support, the direction of causation was expected to be positive since networks provide resources for the business (Bensanko et al., 2004; Hansen, 1995). Rural location was expected to have a negative effect as different locations have different infrastructural levels and firms in urban areas were expected to have faster growth due to better infrastructure (Glancey, 1998; Liedholm, 2002).

All the factors denoting tourism were expected to have a positive effect on the growth of the MSEs.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Study Area

The study was conducted in the Coast Province of Kenya as shown in Figure 5 below. The coast has several beaches that form a major tourist attraction. This area was chosen for the study because it contributes 60% of Kenya's tourism earnings (GoK, 2006). The region also has about 570 000 people employed in the informal sector (GoK, 2002). Three destinations were selected for the study: Mombasa, Malindi and Diani. A brief description of each of the chosen research region is given below.

Mombasa Island is Kenya's oldest and second largest city. It is approximately 16km². A road and railway link the island to the mainland. It has a sea port Kilindini Harbour which is one of the largest in Africa. It has many manufacturing and service industries. At the outskirts of the town are many large beach hotels in Nyali, Bamburi and Shanzu beaches in addition to Nyali Golf and Country Club as well as a range of excellent restaurants and shopping facilities. The town has many souvenir shops selling curios and wood carvings jewelry outlets and emporiums, restaurants and tour operators especially in the old town. In terms of tourist experiences it is well known for its luxury lunch and dinner cruises around Mombasa Harbour, for example the Tamarind Dhow. There is also Fort Jesus, a Portuguese fort built in 1593. Today it is a museum that retains most of its original character as a classic European fortress of its age. The Mombasa Town Conservation Society is doing its level best to preserve the ancient Swahili architecture. There is also the Bombolulu Craft Training Centre and Akamba Handicraft Centre for handicrafts, the Bamburi Nature trails and Wild Life Sanctuary as well as the Ngomongo Village made up of mock rural homesteads, representing some of Kenya's famous tribes. Many conferences and meetings are held in Mombasa hotels. Thus the town caters for tourists who come for leisure and also for conferences or business meetings.

Diani mostly has world class resort hotels from Shelly Beach to the famous Diani Beach which mostly attracts tourists from Europe. There are also small shops, souvenir stalls, cafes, bars, restaurants. Diani is also a large residential area with numerous houses

and cottages. Farm tourism related MSEs are also found in the outskirts of the town. Tourist attractions in this region include a bird sanctuary, the Diani forest, handicraft supermarket and white sand beaches.

Malindi town dates back to about 860 A.D and is mostly a tourist destination area for Italians and Germans. Tourism in Malindi began as early as 1920's and 30's, when the first hotels were built. Its main attraction is deep sea fishing with world championships being held here each year. It is also a popular surfing resort in addition to kite surfing, diving, goggling, deep-sea fishing and many other water sports. It has large hotels such as Hemingways Resort, Watamu Beach Club, and Turtle Beach Club. The small tourism businesses found in this region are tour operators, car rentals, restaurants, boutiques

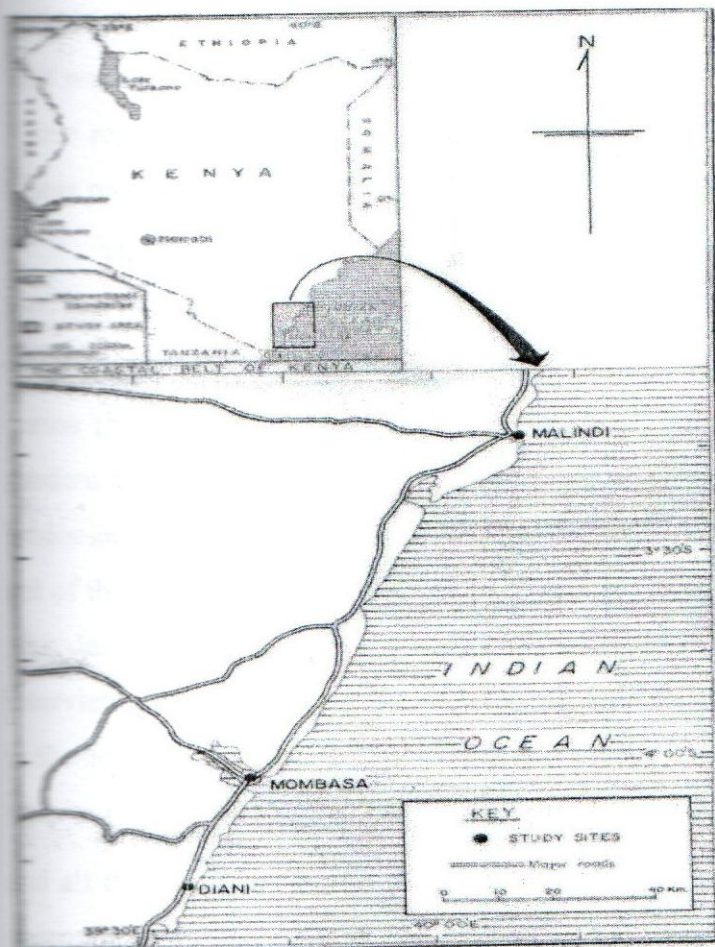


Figure 5: Study Area and other Sites in Coastal Kenya.

3.2 Research Design

This study used a survey research design. The survey method was used as it is quick, inexpensive, efficient, accurate and flexible. In addition there was no specific secondary data relating to tourism related MSEs.

3.3 Sampling Procedure

The populations of interest for this study were all the micro and small scale enterprises and hotels. The sampling frame of the study was all the hotels and small businesses involved in curio and handicrafts; car hire and taxi, restaurants and bed and breakfast establishments; farm MSEs which included those selling eggs, chicken, vegetables, fruits. The MSEs should have been in operation for not less than five years as at 2006. The reporting unit was the owner of the business or manager while the sampling unit was the MSE. The study used a multi-stage sampling procedure to sample the MSEs. Three regions were first identified for the study based on the level of tourism activity. These regions were Mombasa, Malindi and Diani.

The second stage was stratified random sampling within the destinations. The different types of MSEs formed the strata, that is, farm MSEs (those supplying fruits and vegetables; and poultry products, fish), restaurants and bed and breakfast, souvenir and curios (handicraft) businesses, and taxi and car hire MSEs. The third stage involved random sampling for restaurants and bed and breakfast, souvenir and curios (handicraft) businesses, and taxi and car hire MSEs. For the farm MSEs, hotels were asked to give a list of their suppliers of these products. The lists were combined and systematic sampling was done to select the farm MSEs to be interviewed. The number of MSEs to be interviewed in each stratum was determined proportionate to the level of tourism activity in the destinations.

For large tourism businesses, a list was obtained from the Kenya Tourism Board and all the hotels in the list that agreed to be interviewed were selected. These formed approximately three quarters of all the hotels and resorts in Mombasa, Diani and Malindi. The hotels that were not interviewed had closed for renovations at the time of the study.

3.4 Sample Size

The sample size for the MSEs was determined using the following equation.

$$n = \frac{Z^2 pq}{d^2} \quad (2)$$

Where n = sample size

$Z = \pm 1.96$ for confidence level of 95% which is the proposed cut off for the study.

p = proportion or percentage of farm and non-farm MSEs in the three regions, Diani, Malindi and Mombasa. Since it was impossible to obtain a better estimate of the population of MSEs, p was set equal to 0.5 as suggested by Daniel and Terrel (1975) and Groebner and Shannon (2005).

q = is a weighted variable and is $1 - p$ and d = significance level and is set at 0.05. From the above equation the sample size is: $n = \{(1.96)^2(0.5)(0.5)\} / (0.05)^2 = 385$.

The above procedure gave a sample of sufficient size for the desired reliability and interval width (Daniel and Terrel, 1975). This sample size was for the curio and handicraft businesses; the restaurants and bed and breakfast; and car-hire and taxi. However, some respondents did not respond to some of the questions in the questionnaire and those with complete questionnaires were 365. For the farm MSEs, the sample was determined by requesting the hotels to give a list of their suppliers of chicken, eggs, fruits and vegetables. This was compiled and the total farm MSEs interviewed were 84. Therefore, the total number of MSEs interviewed was 449.

Specifically, the number of each type of MSEs interviewed in each region depended on the level of tourism activity in that specific region as denoted by the total bed capacity of the hotels in the region. Thus, since Mombasa has the most tourism activity, 45% of the MSEs, that is 204 MSEs were interviewed, Diani follows with 30% of the MSEs making up 135, and Malindi 25% making up 110 MSEs. From the above, the number of MSEs of each type was as shown in Table 1 below.

Table 1: Sample Size of MSEs

Type of MSE	Mombasa	Diani	Malindi	Total
Farm MSEs	41	22	21	84
Curios/souvenirs	86	54	40	180
Restaurants	42	20	20	82
Car hire and taxi	35	39	29	103
Total	204	135	110	449

As for the large tourism businesses, all hotels that agreed to the interview were considered giving a total of 49 in the three regions. In Mombasa 18 hotels were interviewed, Diani 17 hotels and Malindi 14 hotels.

3.5 Data Collection Procedure and Types of Data

Concerning data collection, first a semi-structured questionnaire was developed for use in the survey. Then a pre-test was undertaken to test survey instruments, sampling procedures and analytical techniques. The pre-test involved 50 MSEs and seven hotels.

After the pre-test, final data was collected from the chosen respondents using semi-structured questionnaire followed by a follow-up in-depth interviews with the MSE owners and hotel managers where necessary as used by Bachmann (1988), Joosten and Marwijk (2004), and Torres and Momsen (2004).

The type of data used for this study was mostly primary data. This data was cross-sectional. These data were both quantitative and qualitative. For the MSEs, the quantitative data encompassed age of MSEs, age of owner of MSE, amount of loan utilized, number of employees, education level of the owner, value of MSE assets, total revenue, and income from tourism activities. Qualitative information included sources of capital, type of customers, perception of the effect of tourism on activities of the MSE, diversification activities related to tourism, opportunities available for MSEs in the hotels, marketing information, linkages with other organizations, and networking.

As for the hotels, the quantitative information included age of the hotel, number of employees, bed capacity, and proportion of products bought from MSEs. Qualitative

information was in terms of ownership, management characteristics, linkages with MSEs, opportunities the hotels have for MSEs, sources of products and services.

3.6 Variables and their Measurement

The variables that were used in this study were growth in assets, growth in income, MSE revenue, amount of start up capital, age of MSE, MSE ownership, number of businesses owned, gender, age of MSE owner, education level, location, year of establishment, training, marital status, number of employees, loan use in business, tourism sales, networking, tourism activities, changes in business activities due to tourism, access to tourism information, number of tourists. The measurement of the variables is given in table 2 below:

Table 2: Variables and their Measurement

Variable Name	Description	Measurement
Growth in assets	Change in value of assets in shillings between 2002 and 2006 divided by five years	Shillings per time period
Growth in revenue	Change in revenue between 2002 and 2006 divided by five years	Shillings per time period
Revenue	Total sales from MSE activities	Kenya shillings
Age of business	No. of years the MSE had been in operation	Years
Ownership	Ownership status of the MSE	Sole proprietorship =1 Otherwise = 0
Number of businesses owned	Number of businesses MSE owner has	number
Gender	If owner is male or female	Male =1, Female = 0
Age of owner	Age of owner of MSE	Years
Marital status	Marital status of MSE owner	Married =1, other = 0
Assets	Value all business assets	Kenya shillings
Location	Region where the business is located	Mombasa =2, Malindi =3, Diani =1
Start up capital	Amount of money used to start the MSE	Kenya shillings
Loan use	Whether MSE used loan or not	Yes =1, No = 0
Customer	Type of customers served	Tourist related =0, Locals =1
Employees	Number of employees the MSE had	Number
Education	Education level of the owner	No. of years of formal schooling
Training	Whether MSE owner has business training	Yes =1, No = 0
Tourism sales	Sales from tourism	% of total sales made to tourist-related customers
Tourism activities	Effect of tourism activities on MSE sales	Yes =1, No = 0
Tourist numbers	If tourists numbers visiting the country had an effect on MSEs activities	Yes =1, No = 0
Change in MSE activities	Whether MSE activities changed due to tourism	Yes =1, No = 0
Access to tourist information	Whether the MSE had access to tourist information	Yes =1, No = 0
Type of MSE	MSE business activity	Non-farm = 1, Farm = 0
Source of supply	Supplier of hotel products	Mostly MSEs =1, other =0

3.7 Data Analysis and Presentation

3.7.1 Data Presentation

Descriptive statistics were used to present the data before running the quantitative models. The data were presented in tables as well as graphs for easy reference.

3.7.2 Analytical Techniques

Different analytical techniques were used in this study as discussed in the sections below.

3.7.2.1 Multiple Regression Model for Determinants of MSE Growth

Both quantitative and qualitative analytical techniques were used to analyze the data because the data collected for this study were both qualitative and quantitative in nature. Qualitative data included perceptions of MSE owners on the effect of tourism on their business activities, supply chain of food items purchased by hotels and opportunities for MSES in the hotels.

An ordinary least squares (OLS) multiple regression model was used to determine the significance of the factors contributing to the growth of farm and non-farm MSEs. The above mentioned model was a variation of the Evan's growth model and was estimated in the following equation:

$$G_A = \beta_1 + \beta_2 AB + \beta_3 R + \beta_4 E + \beta_5 ED + \beta_6 L + \beta_7 AGO + \beta_8 B + \beta_9 O + \beta_{10} T + \beta_{11} M + \beta_{12} G + \beta_{13} LO + \beta_{14} TA + \beta_{15} TN + \beta_{16} TI + \beta_{17} BA + \beta_{18} TS + \beta_{19} C + \varepsilon \quad (3)$$

Where:

G_A - Growth in Assets

AB - Age of MSE

R – Value of MSE revenue

E – Number of employees

ED – Education level of business owner

L - Loan use in business

AGO – Age of business owner

B – Number of Businesses owned

O – Ownership of MSE

T - Training

M – Marital status of the owner

G – Gender of the owner

LO- Location of business

TA – Number of tourism activities in the country

TN- Number of tourists visiting the country

TI – Whether business has access to information on tourists

BA – Whether business activities change due to tourism

TS- Percentage of sales from tourism activities.

C- Type of customer

B's – Regression coefficients

ε – Error term

The firm's growth rate was calculated as the difference between the 2006 and 2002 value of all business assets divided by five years which indicated the average growth level. This measure was found to be a better indicator for growth than income or employees since many of the businesses did not have any significant increase in the number of employees. Similarly, income was not considered due to the fact that most of the business owners may divert business income to other purposes. The statistical analysis included checks for heteroskedasticity and multi-collinearity but they were insignificant.

3.7.2.2 Logit Model for Determinants of Choice of Supplier for Hotel Products

In evaluating the factors influencing the choice of supplier for hotel products, this study employed a logit model. This model was chosen as it has higher density mass at its bounds, and allows logical distribution of the sample data around the means. The generalized logit model is expressed as:

$$\Pr(y_i = j) = \frac{\exp(\beta_j X_i)}{s(j = 0 - j) \exp(\beta_j X_i)}, j = 0, 1, 2, \dots, J \quad (4)$$

The 'X' variables are characteristics of the observed hotel and are the same across outcomes. In linear form the model becomes:

$$D(0, 1) = \beta_0 + \beta_{ij}X_{ij} + \varepsilon \quad (5)$$

Where D is the indicator for source of supply whereby D =1, if source of supply is small business and 0 otherwise.

The logit model results in maximum likelihood estimates. The independence of equations was then tested using the maximum likelihood ratio test. This statistic is calculated as:

$$LR = -2(\log L_0 - \log L_1) \quad (6)$$

Where:

Log (L_0) is the log-likelihood value under the null hypothesis of homogeneity and log (L_1) is the log-likelihood value assuming the null is false. This test is asymptotically distributed as a chi-square random variable with degrees of freedom that are equal to the number of restrictions involved. The results were presented using marginal effects for ease of interpretation.

3.7.2.3 Tobit Model for Determinants of Participation in the Tourism Sector

MSEs' ability to participate in the tourism sector was determined by use of tobit model. The dependent variable was the percentage of MSE sales brought in from tourism. This model is generally expressed as:

$$\begin{aligned} y_i &= y_i^* \text{ if } y_i^* > 0 \text{ or} \\ y_i &= 0 \text{ if } y_i^* < 0 \end{aligned} \quad (7)$$

Where y_i^* is a latent variable:

$$y_i^* = \beta x_i + \mu_i, \mu_i \sim N(0, \sigma^2) \quad (8)$$

If the relationship parameter β is estimated by regressing the observed y_i on x_i , the resulting ordinary least squares estimator is inconsistent. The likelihood estimator for this model is consistent. The tobit model is a special case of a censored regression model, because the latent variable y_i^* cannot always be observed while the independent variable x_i is observable.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Entrepreneur Profile and Characteristics

This section describes the entrepreneur characteristics in terms of gender, age of the entrepreneur, marital status, educational background, and training. These are given in terms of averages and frequencies.

4.1.1 Gender

Of the 449 micro and small scale business owners surveyed, 81.7% were male while 18.3% were female as indicated in Table 3 below. This indicates that majority of these businesses are owned by men. The results also point out to differences in gender by type of MSE with the taxi and car hire MSEs being owned by men (96 %). The MSEs with a majority of female ownership was farm MSEs (32 %). Men's dominance in the taxi and car hire MSEs is due to the fact that the transport sector (tour operators and taxis) is predominantly seen as a man's job as it is a fairly risky business since it involves ferrying customers from the airport to hotels or from hotels to the airport at night. Women have not yet ventured into this business. The differences in gender of the business owners can also be explained by the fact that these businesses are undertaken outside the home. In the African culture, the woman should stay at home and take care of the household chores. Due to this reason, women are unable to participate in the off-farm labour market effectively (Joosten and Marwijk, 2003). This has resulted in their under-representation in the tourism industry. Papadaki and Chami (2002) in their survey found that men own two thirds of the micro and small businesses surveyed. Felsenstein et al. (2002) found that about 75.6% of small businesses in rural Kenya are owned by men.

Looking at gender and location Mombasa had significantly more female entrepreneurs than Diani and Malindi. This may be explained by the metropolitan nature of Mombasa. Many women in metropolitan areas are undertaking business activities as opposed to rural areas where they still mostly conform to tradition and stay at home to take care of the family or engage in agricultural activities. Besides this, metropolitan areas have more business opportunities for women. Additionally, the cultural differences in metropolitan areas make it possible for women to undertake business activities.

4.1.2 Marital Status

On the marital status of the owners of the business, 80.6% of the respondents were married, 14.5% were single, 2.2% divorced and 2.7% widowed. From the above results, most of the MSE owners are married.

Table 3: Gender and Marital Status of the Entrepreneur

		Type of MSE				
		Art and Souvenir	Restaurant, bed and breakfast	Car hire and taxi	Farm MSEs	Mean %
Gender	Female	22.2%	13.4%	3.9%	32.1%	18.3%
	Male	77.8%	86.6%	96.1%	67.9%	81.7%
Marital status	Married	74.4%	85.4%	87.4%	81.0%	80.6%
	Single	18.9%	8.5%	11.7%	14.3%	14.5%
	Divorced	3.9%	2.4%	1.0%	0.0%	2.2%
	Widowed	2.8%	3.7%	0.0%	4.8%	2.7%

Source: Survey Data

4.1.3 Entrepreneur’s Education Level

In this study, education was considered in terms of the years of schooling from primary to the highest level of formal education. The average education level of the entrepreneurs was found to be 10.6 years as indicated in Table 4 below.

In terms of education classes, the results indicated that over 50% of the respondents had a secondary school education. This showed that many of the business owners had a secondary school education level though some of them were illiterate and a few had a college level education. The findings were consistent with findings by Felsenstein et al. (2002). From these results, it was noted that there was variability in human capital among these entrepreneurs. High education was important for the business owners to be able to participate in the knowledge-based tourism industry. Education is important as it enables the entrepreneur make better business decisions.

There was also a significant difference in education levels among the entrepreneurs depending on the type of business. Owners of restaurant and bed and breakfast establishments were found to be more highly educated as 35.7% had a college education and above with a mean education level of 12.3 years. Art souvenir business owners had the least education level of 9.68 years.

4.1.4 Age of the MSE Owner

Among the sampled MSEs, the mean age of the MSE owners was found to be 39 years with the youngest being 19 years old and the oldest 86 years. The results are given in Table 4 below. About 65% of the respondents were found to be younger than 40 years as indicated in Figure 6 below. This indicates that mostly these businesses are owned by middle-aged people with less participation of the very young and the very old.

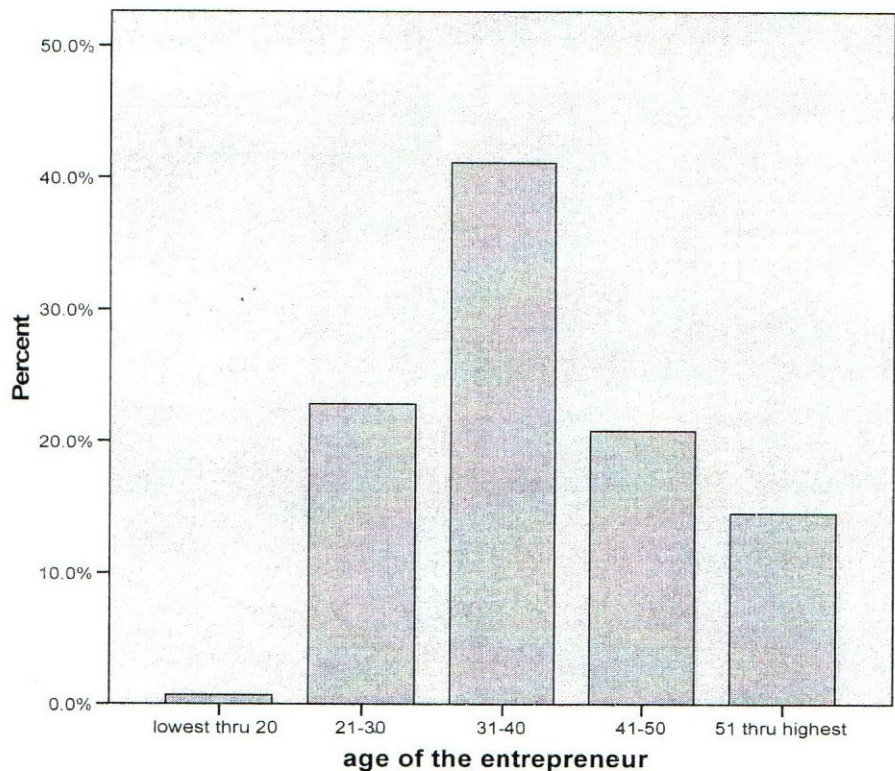


Figure 6: Age of the Entrepreneur in Categories

The results point out to the fact that these businesses are owned by people who are still within the working age bracket and thus can put in effort to improve the performance of their businesses. This supports the finding by Felsenstein et al. (2002),

who found out that 61% of the respondents were younger than 40 years. These findings are contrary to those of Papadaki and Chami (2002) who found out that most of the micro and small business owners were between the age of forty and sixty years of age with only 17% being less than forty years.

The results also indicated that there was a significant difference in the age of the owner and the type of MSE such as curios, taxi business, restaurant and bed and breakfast or farm business. The entrepreneurs who owned restaurant and bed and breakfast establishments were fairly older since this type of business required more investment. An analysis of the age of the entrepreneurs is important since there is a general belief that MSEs attract relatively young people who may not have entered into formal employment but who would transition to the formal sector once a chance arises.

Table 4: Education Level and Age of Entrepreneur

Characteristic	Type of Business	Mean	F
Education Level	Art and souvenirs	9.68	14.39***
	Restaurant, bed and breakfast	12.30	
	Car hire and taxi business	11.10	
	Farm MSEs	10.29	
	Total	10.60	
Age of the owner	Art and souvenirs	37.66	17.08***
	Restaurant, bed and breakfast	46.00	
	Car hire and taxi business	36.36	
	Farm MSEs	40.00	
	Total	39.32	

Source: Survey Data

4.1.5 Business Training

Of the 449 respondents, 61% had no business training, 13% had apprenticeship training, 6% vocational training, and 20% had done business courses in college as indicated in Table 5 below. The results indicated that majority of the MSE owners did not have any business training. This was a limitation in that they did not know how to keep financial records and did not even have management skills which are important to run a business. Formal training is acknowledged as important in the application of necessary skills for operating a tourism small and micro enterprise. However, this limitation was overcome by the entrepreneurs acquiring other skills by learning from family members, or teaching themselves meaning that the significance of formal training diminishes. Similarly, high education level may be a substitute for training especially for entrepreneurs who have college education in business management.

The results also point out to differences in training level of MSE owners with those in restaurant and bed and breakfast businesses having better training in terms of college courses. Art and souvenir business owners mostly (23.3 %) had apprenticeship training.

4.1.6 Motivation for Starting the Business

An analysis of the reasons for starting up the business revealed that 33.4% of the MSEs owners started the business to get a source of income, 4.2% because of encouragement from friends, 16.7% to be self employed, 1.56% as a retirement venture, 4.23% to provide income to family members, 35.86% both as a source of income and self employment and 3.56% for all of the reasons as shown in Table 5 below. MSEs are seen as a source of income for most people with no formal employment.

Table 5: Business Training and Motivation to Start Business

		Type of business				Mean %
		Art and souvenir	Restaurant, bed and breakfast	Car hire and taxi business	Farm MSEs	
Business training	No training	62.2%	46.3%	63.1%	71.4%	61.2%
	Apprenticeship	23.3%	11.0%	0.0%	9.5%	13.1%
	Vocational training	6.1%	6.1%	3.9%	8.3%	6.0%
	College courses	8.3%	36.6%	33.0%	10.7%	19.6%
Motivation to start business	Source of income	24.4%	41.5%	38.8%	38.1%	33.4%
	Encouragement from friends	6.1%	4.9%	1.9%	2.4%	4.2%
	Retirement venture	0.6%	4.9%	1.9%	.0%	1.6%
	Self employed	17.2%	14.6%	18.4%	16.7%	16.9%
	Provide income to other family members	2.2%	4.9%	7.8%	3.6%	4.2%
	Source of income and self employment	46.7%	24.4%	28.2%	33.3%	35.9%
	All of the above	2.8%	4.9%	2.9%	6.0%	3.8%

Source: Survey Data

4.2 Business Characteristics

Business characteristics such as age of the business, location, ownership, employment, start up capital and membership to associations are discussed in this section.

4.2.1 Location of Business

From the results, 30.1% of the MSEs were found in Diani, 45.4% in Mombasa and 24.5% in Malindi. Different locations have different infrastructure levels. These levels impact on the level of business activity and also the cost of doing business.

4.2.2 Age of Business

The age of the business was measured by the number of years since the business was started. The study considered businesses that had been in operation for not less than five years as at 2006. Age of the business is an important factor in determining the growth of the business. The average operating age of these businesses was found to be 11 years as shown in Table 6. There was also a significant difference in age of the business and type of business with the handicraft and souvenir businesses having been in operation for many years followed by the restaurant and bed and breakfast MSEs.

4.2.3 Number of Employees

The size of the organization in terms of the number of employees is important in determining business growth. Most of the MSEs (84%) had five or fewer employees. Only 8% of the businesses employed between 6-10 employees while about 8% also had more than 10 employees. The average number of employees was found to be 3.7 employees as shown in Table 6 below. The results showed that most of the MSEs interviewed were in the micro business category. In all 92% of the enterprises were of the micro type. This supports the finding of Felsenstein et al. (2002) who found out that 97% of the businesses in their sample were micro-enterprises.

However, there was a clear contrast and divide between the handicraft, taxi, and farm businesses on the one hand and the restaurants and bed and breakfast on the other. Most of these businesses did not employ especially the handicraft and taxi businesses because of their nature as one person can manage the job. However, the restaurants and bed and breakfast establishments had more employees as shown in Table 6 below.

4.2.4 Startup Capital

From the data, the mean startup capital was kshs 343 292 with the minimum being kshs 25 and maximum being kshs.8 million. These results showed that the startup capital of these businesses varied. Those in the taxi and restaurant businesses had more startup capital due to the nature of their businesses as opposed to those in the curio and farm businesses. In fact some respondents in the curio business said that they had been given a few curios by friends which they sold and later got their startup capital.

Table 6: Results for Age of Business, Employees and Start up Capital

Characteristic	Type of MSE	N	Mean	Minimum	Maximum
Age of Business	Art and souvenirs	180	12.09	5.00	40.00
	Restaurant, bed and breakfast	82	10.17	5.00	35.00
	Car hire and taxi business	103	8.96	5.00	40.00
	Farm MSEs	84	10.90	5.00	37.00
	Total	449	10.80	5.00	40.00
No. of employees	Art and souvenirs	180	1.57	0.00	20.00
	Restaurant, bed and breakfast	82	13.63	0.00	20.00
	Car hire and taxi business	103	1.17	0.00	4.00
	Farm MSEs	84	1.68	0.00	9.00
	Total	449	3.70	0.00	20.00
Start up capital	Art and souvenirs	180	60077.45	25.0	1500000.0
	Restaurant, bed and breakfast	82	1043250.00	10000.0	8000000.0
	Car hire and taxi business	103	508643.20	120000.0	4000000.0
	Farm MSEs	84	64136.23	500.0	3000000.0
	Total	449	343292.06	25.0	8000000.0

Source: Survey Data

4.2.5 Ownership/ Legal Form

The ownership structure of these businesses was skewed towards sole proprietorship which represented 85% of the businesses as indicated in Table 7. Of the remaining, 14% were partnerships while only about 1% were limited companies. This

supports the finding by Page et al. (1999) who found out that the dominant mode of operation for MSEs was individual ownership (45%) and joint ownership (35%).

Table 7: Membership in Associations, Business Ownership, Loan Use and Source of Capital

		Type of MSE				Mean %
		Art and souvenir	Restaurant , B& B	Car hire and taxi	Farm MSEs	
Membership in associations	Yes	77.6%	61.0%	58.3%	44.0%	61.0%
	No	29.4%	39.0%	41.7%	56.0%	39.0%
Ownership	Sole proprietorship	77.8%	73.2%	100%	91.7%	84.6%
	Partnership	22.2%	19.5%	0.0%	7.1%	13.8%
	Company	0.0%	7.3%	0.0%	1.2%	1.6%
Loan use	Yes	16.1%	35.4%	25.2%	25.0%	23.4%
	No	83.9%	64.6%	74.8%	75.0%	76.6%
Access to information	Yes	83.3%	42.7%	80.6%	45.2%	68.2%
	No	16.7%	57.3%	19.4%	54.8%	31.8%
Source of Capital	Savings	76.7%	68.3%	68.9%	88.1%	75.5%
	Loan from friends and relatives	13.9%	12.2%	9.7%	6.0%	11.1%
	Loan from financial institutions	3.3%	4.9%	12.6%	6.0%	6.2%
	No money needed (inherited business)	3.9%	9.8%	0.0%	0.0%	3.3%
	Savings, loan from friends and financial institution	2.2%	3.7%	1.0%	0.0%	1.8%
	Savings and loan from financial institutions	0.0%	1.2%	7.8%	0.0%	2.0%

Source: Survey Data

4.2.6 Loan Use in the business

As for whether the businesses utilized loan capital, 23% did use loans while 77% did not. Loan capital enables businesses purchase more raw materials or other resources for the business if utilized properly and not diverted to other personal uses. Of the businesses that utilized credit, some utilized informal sources of credit from friends,

family and neighbours. This informal source of credit is attractive to micro and small scale business owners as it does not accrue any interest and does not require the borrower to provide collateral. This is because most MSE owners lack collateral which they can use to obtain a loan.

4.2.7 Source of Start up Capital

The results showed that the sources of start up capital were typically from family and friends (11.1%) or from personal savings (75.5%). This is supported by the findings of Rogerson (2004), Thomas, (2004), Sharma and Upneja (2005) and Hampton (2003). However, in their study, Glancey and Pettigrew (1997) found three main sources of finance which were own funds (34%), bank lending (20%) and a combination of these (46%).

4.2.8 Membership to Associations

Of the 449 MSEs interviewed, 61% indicated that they belonged to associations and 39% did not. However, for those that belonged to associations, they only belonged to their specific business association. This helped them to interact with their fellow small business owners and exchange ideas with their colleagues as well as improve their businesses through sharing of knowledge and tackling common problems. Belonging to associations is a form of social capital as pointed out Johannesson (2002).

4.3 Data Description of the Large Tourist Hotels at the Kenyan Coast

This section reviews the characteristics of tourist hotels in terms of location, ownership, management, bed capacity, employees and customers.

4.3.1 Characteristics of the Large Tourist Hotels at the Kenyan Coast

The findings showed that 34.7% of the surveyed large hotels were located in Diani, 36.7% in Mombasa and 28.6% in Malindi. As regards the ownership of the hotels, 42.9% of the hotels were owned by Kenyans, 26.6% of the hotels were foreign owned while the ownership of the remaining 30.6 of the hotels was shared as shown in Table 8 below. This shows majority of the hotels are domestically owned. This finding is contrary

to earlier literature and is an indication that there is a shift from foreign ownership to domestic ownership in the hotel industry as opposed to earlier years where Crompton (in Jommo, 1987) observed that tourism in Kenya was instituted as a 'European hedenocracy' and that the Europeans mostly had the right to invest in the tourism industry. It should however be noted that some of the owners of the hotels are Kenyans of European descent. The shift in ownership may be due to past efforts by the government to indigenize tourism enterprises as seen in the country's tourism objectives in 1965; one being 'to increase Kenyan ownership and management of the industry' (GoK, 1965b). However the study found out that there is a significant difference (pearson chi-square value of 11.613, 0.02 significance) in the ownership of the hotels in the three locations with Malindi hotels being more foreign owned.

Of the 14 hotels sampled in Malindi, only one hotel is domestically owned. This supports Akama (1997) and Joosten and Marwijk (2003) findings that a high percentage of tourist facilities in Malindi are Italian owned. In fact, it is mostly Italians who patronize these establishments as the owners mostly focus on the Italian market and hence domestic tourists are very few. Thus during low season most of these hotels close down for renovations.

Table 8: Characteristics of Large Tourist Hotels

					Mean %
		Diani	Mombasa	Malindi	
Ownership of Hotel (%)	Domestic	47.1	66.7	7.1	42.9
	Foreign	23.5	16.7	42.9	26.5
	Shared	29.4	16.7	50.0	30.6
Management (%)	Domestic	64.7	72.2	35.7	59.2
	Foreign	11.8	0.0	14.3	8.2
	Shared	23.5	27.8	50.0	32.7
Continent of origin of foreign Managers (%)	Europe	25.0	0.0	100.0	46.7
	Asia	25.0	40.0	0.0	20.0
	Europe and Asia	50.0	60.0	0.0	33.3

Source: Survey Data

An analysis of the country of origin of the top managers of the hotel revealed that 59% were Kenyans, 8% were foreigners while 33% had both domestic and foreign managers. Of the managers who were foreign, 48% were from European countries, 20% from Asian countries and some hotels had both from Europe and Asia. These findings show a contradiction with earlier literature such as Dieke (1991). This study showed that there is involvement of Kenyans in the management of tourism and related operations. This was due to the government policy of indigenization in the late 1960s. In 1969, the government started formal training for the tourism industry thus reducing the number of expatriates. The government established the Kenya Utalii College in 1975 to train personnel for the various positions in the tourism industry. The shift from expatriate to domestic management of the hotels is of importance as this minimizes foreign exchange leakages in terms of expatriate pay.

Table 9 below gives the results for age of the hotel, bed capacity, and number of employees.

Table 9: Bed Capacity, Age and Number of Employees of Hotels

N = 49		Mean	Std. Deviation	Minimum	Maximum
Bed capacity of hotel	Diani	246.12	180.12	42.00	596.00
	Mombasa	286.28	191.87	60.00	710.00
	Malindi	132.50	91.67	40.00	310.00
	Total	228.41	173.72	40.00	710.00
Years in business	Diani	15.34	9.15	1.00	33.00
	Mombasa	23.93	13.58	1.00	55.00
	Malindi	14.96	14.96	1.00	50.00
	Total	18.39	13.12	1.00	55.00
Total employees	Diani	151.12	104.96	30.00	402.00
	Mombasa	131.44	110.12	30.00	400.00
	Malindi	85.36	39.52	30.00	183.00
	Total	125.10	95.42	30.00	402.00

Source: Survey Data

The average age of the large tourist hotels was found to be 18 years with the newest being one year old and the oldest established in 1955 during the colonial times and this hotel served as the resting place of the European settlers when they visited the Coast from the Kenyan highlands. The average number of employees in these hotels was found to be 125. The average bed capacity is 230 beds with the largest hotel having 710

beds. The study found out that there was a statistically significant difference between bed capacity and location of the business.

4.3.2 Customers Served by Hotels

An analysis of customers served by the hotels revealed that 34% were domestic as given in Table 10 below.

Table 10: Percentage of Domestic Customers Served by the Hotels

Location	Mean	Std. Deviation	Minimum	Maximum
Diani	28	0.22	10	100.0
Mombasa	46	0.38	0.0	100.0
Malindi	26	0.26	0.0	80
Total	34	0.30	0.0	100.0

Source: Survey Data

The hotels reported that there was an increase in domestic tourism. This is especially true during the school holidays (August, April, December) when families take a break from everyday chores and take a holiday to the coast. The government and the hotels have undertaken different strategies to encourage domestic tourism. In the past the government has undertaken a policy of promoting domestic tourism to boost hotel occupancy and smooth out seasonal variations in hotel bookings. This was a welcome move to assist the hotels so as to avoid closure during the low season. Most of the hotels reduce hotel rates during low season to enable citizens to participate in domestic tourism. Another strategy is having discounted fares by Kenya Airways. There is also a move to restructure Kenya’s tourism so that it can accommodate more domestic tourists and move away from the outward orientation of the tourism system. Other strategies used to promote domestic tourism were lower entrance fees for local people into national parks, encouraging employers to provide incentive holidays for their good workers, encouraging school visits and relaxing entrance rules at the beach hotels.

In as much as domestic tourism is encouraged, some tourist destinations like Malindi, mostly rely on foreign tourists especially Italians as found out by De Beer et.al.

(1997) and Akama (1997). This has a negative effect in that during low season most of the hotels are closed down due to lack of customers.

Concerning foreign customers, many nationalities come to Kenya thus indicating its importance as a tourist destination. International visitor arrivals were 1.5 million in the year 2005 (GoK, 2006). Foreign customers were found to come from different continents as indicated in Table 11 below.

Table 11: Country of Origin of Foreign Customers

Country	Percentage
European countries	68.2
Asian Countries	11.4
North America	11.4
Other African countries	6.8
Australia and New Zealand	2.3

Source: Survey Data

The bulk of foreign customers (68%) came from European countries such as Germany, Italy, Britain, France, and Switzerland; while America and Asian countries each accounted for 11% of the customers, African countries account for 7% and Australia and New Zealand account for only 2%. These results indicate that Europe is a very important continent for the Kenyan tourism sector. Because of aggressive marketing of Kenya to other continents apart from Europe, it was also clear that other countries in Asia and Africa were becoming increasingly important to Kenya’s tourism industry.

4.4 Large Hotel Support to MSEs

This section discusses the proportion of MSE products purchased by hotels as well as the supply chain of hotel products.

4.4.1 Proportion of Hotel Purchases Made from MSEs

Hotels purchase products from both MSEs and large businesses. The products purchased from MSEs include foodstuff like meat, eggs, chicken, fish, fruits, vegetables,

milk; flowers, and cereals. The percentage bought however differed as shown in Table 12 below.

Table 12: Percentage of Hotel Purchases Made from MSEs

Product	Percentage	Std. deviation
Fruits	94	0.21385
Vegetables	90	0.28394
Chicken	62	0.42996
Eggs	84	0.34394
Meat	65	0.43510
Milk	57	0.47871
Cereals	33	0.47179
Dairy products	59	0.47339
Fish	91	0.26445
Baked Products	53	0.50064
Furniture	48	0.47345
Security	0	0.00
Kitchen items	32	0.43578
Flowers	68	0.46429
Alcohol	29	0.43268
Maintenance products	47	0.44211

Source: Survey Data

The results showed that most of the listed products especially food products (fruits 94%, vegetables 90%, chicken 62%, eggs 84%, meat 65%, milk 57%, dairy products 59% and fish 91%) with the exception of security were bought from MSEs as opposed to large-scale businesses.

Food products purchased by large hotels in coastal Kenya were either bought directly from producers or indirectly from intermediaries. Growers, producers, fishermen and sometimes processors were the beginning of the hotel food supply chain. A discussion of the food supply chain for the hotels is given below.

Fruits were mostly supplied by individuals to the hotels. The individuals bought the fruits from the market and sold to the hotels. Sometimes, the suppliers bought the fruits from farmers directly for example mangoes, oranges and pineapples especially when they were in season. Some farmers of fruits and vegetables took their produce directly to markets like Kongowea from which the hotels and restaurants did their purchasing. Other farmers sold to hotels and restaurants directly. Some fruits that were not produced in the country like apples were sometimes imported from South Africa. Of the hotels that did not buy from MSEs, they sent their staff to the market. The supply chain of fruits is given in figure 7 below.

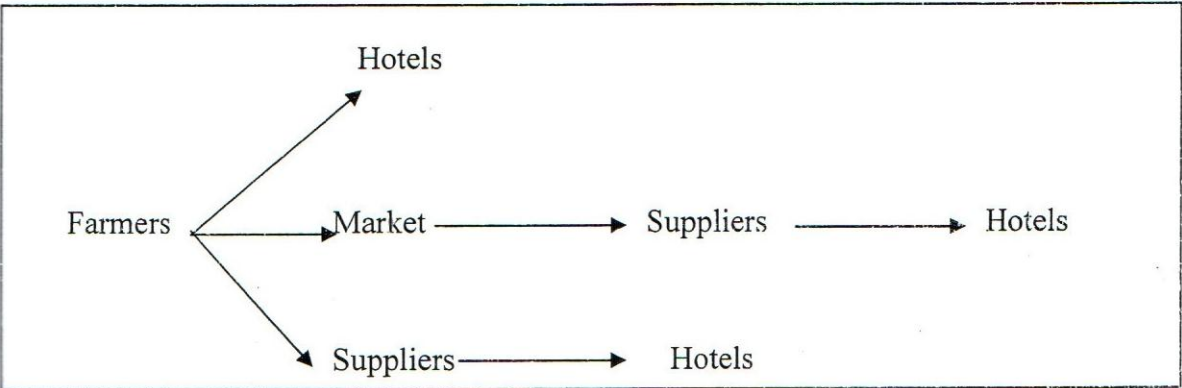


Figure 7: Supply Chain of Fruits to Hotels

For the farmers, the most profitable channel was the one in which they sold directly to the hotels as this minimized transaction costs. However since most farmers could not sell directly, the most common channel was the one in which farmers sold fruits to the market where suppliers purchased the fruit and later sold to hotels.

Chicken and eggs follow the chain depicted in Figure 8 below to reach to hotels. Some poultry farmers sold chicken and eggs directly to the large hotels or restaurants. This was the most common supply chain and it enabled the farmers to reap maximum benefits as they sold directly to hotels. However, sometimes middlemen purchased the chicken and eggs from farmers and sold to the hotels and restaurants. Another chain that was observed for these two products was that farmers sold chicken to butcheries and hotels and restaurants sent their workers to purchase the chicken from these butcheries.

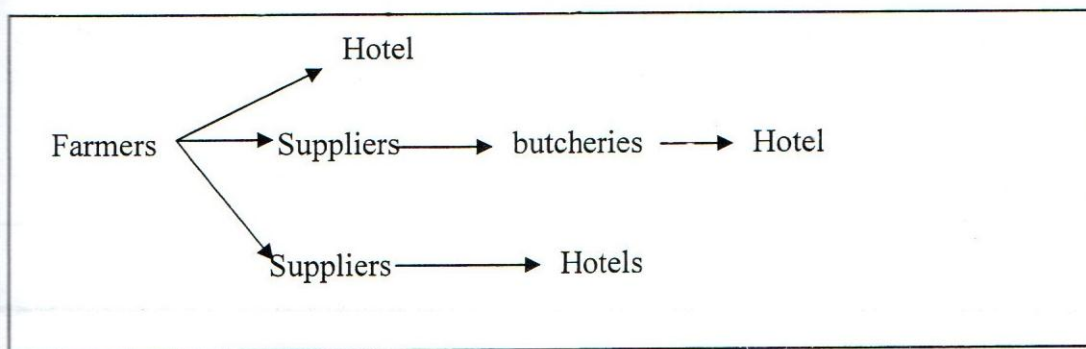


Figure 8: Supply Chain of Chicken and Eggs to Hotels

Fish had three sources of supply as shown in figure 9 below. The hotels could get fish directly from fishermen. Sometimes, there were suppliers who sold the fish to hotels. Since most fishermen could not sell fish directly to hotels, the most common supply chain for fish was through suppliers to hotels.

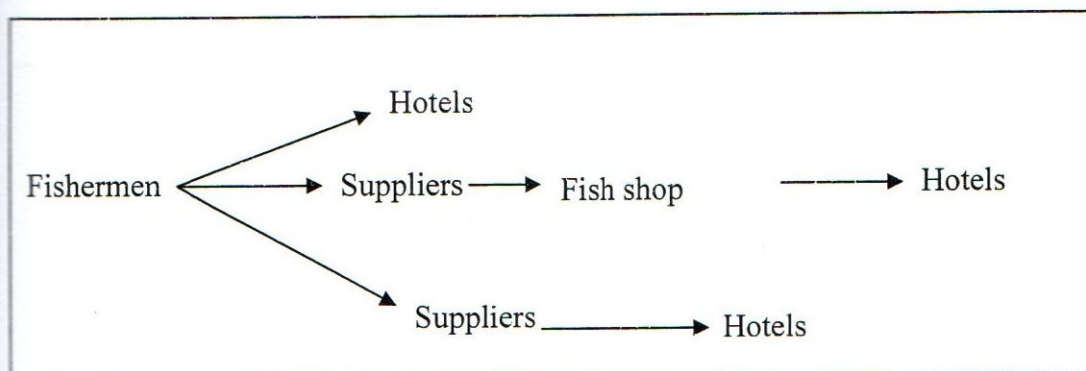


Figure 9: Supply chain of Fish to Hotels

Milk had to be processed before it could be sold to either suppliers or hotels and restaurants. Thus dairy farmers sold milk to processing companies such as Kenya Cooperative Creameries, Spinknit, and Brookside. These processing companies sometimes supplied milk to hotels and restaurants. However, some suppliers purchased from the processing companies and then sold to hotels and restaurants. This was the most common supply chain for milk. Large companies like Kilifi Gold keep dairy animals, process the milk and sometimes sell directly to hotels. The supply chain of milk is as shown in Figure 10 below.

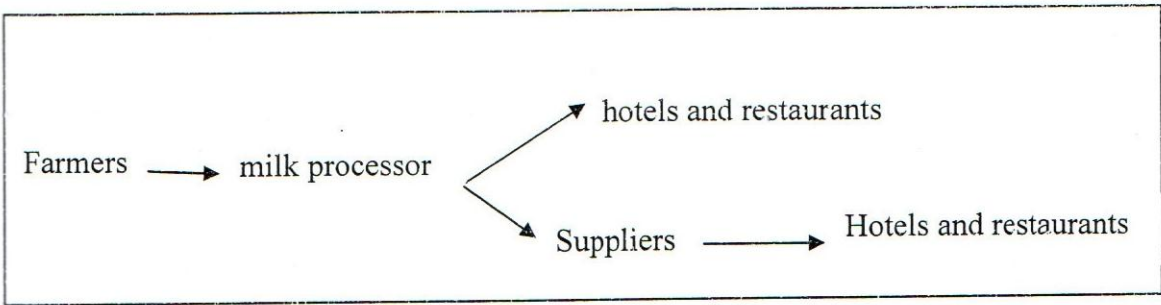


Figure 10: Supply chain of Milk to Hotels

The supply chain of meat to hotels is depicted in Figure 11 below. Farmers who raised cattle for meat sold the same to suppliers who sold to butcheries. Hotels bought meat from these butcheries or the butcheries got tenders to supply to these hotels. This was the most common supply chain for meat. Sometimes, some businessmen bought meat from the butcheries and got contracts to supply to hotels and restaurants. Some of the large butcheries in Mombasa are Sun City butchery and Kizingo Butchery.

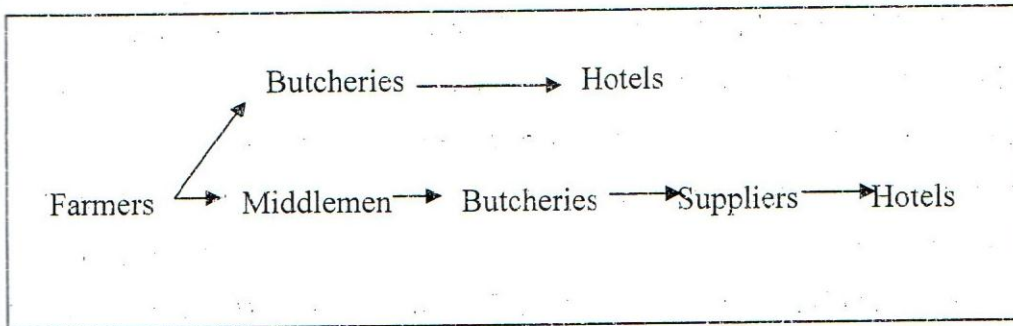


Figure 11: Supply chain of Meat to Hotels

In her study, Jommo (1987) found out that agricultural activities such as poultry and dairy keeping were mostly on the north coast of Kenya. However, currently, even south coast residents are engaged in these activities to take advantage of the opportunities provided by the many hotels and resorts in that region.

Contrary to the above findings, studies elsewhere (Momsen, 1986, Belisle, 1984) have shown that meat was one food product that had high levels of imports. Torres found out that Cancun hotels bought 84% of vegetables and 85% of fruits from specialized wholesalers while poultry was supplied by a single vertically integrated company.

Security was mostly provided internally and supplementary security was outsourced from large scale businesses like Group Four Security. The reason for this was that most of the hotels felt that MSEs did not have the capacity to cater to this need. As for the hotels that relied on internal security, their major reason was that these were the hotel employees thus it was easy to trust them with hotel property and also discipline them in case of a mistake.

As for transport, most of the hotels had their vehicles to transport visitors and some were transported by large tour companies such as United Tour Company, Pollmans, and Kuldip to and from the hotels. Private taxis that parked inside or outside some hotels did sometimes get to transport visitors. However, these taxis had to cultivate good relationship with the hotel workers so that they could be considered for this job.

Flowers were not a very commonly purchased product in the hotels but when need arose, they were mostly purchased from MSEs as indicated by the figure of 68%. These flowers were mostly purchased during certain occasions such as when the hotel hosted conferences, weddings, and anniversaries. As for other days, the hotels used flowers from their own gardens or sometimes used artificial flowers.

The low proportion of alcoholic beverages purchased in these hotels was because most of these were supplied by large distributors and some of the alcoholic drinks were imported. Kenya's alcoholic drinks are mostly produced by East African Breweries (mostly beer) and Kenya Wines and Spirits (KWAL) for the wines. However, the more exotic wines and alcohol like Vodka were imported.

Hotels fulfilled 48% of their furniture needs from MSEs. The bulk of the furniture was bought from large scale furniture manufacturers like Hatimi Joinery Works Limited. However, traditional and hand made furniture was mostly produced by MSEs.

Concerning maintenance products and services, 47% were supplied by MSEs. Maintenance services included repainting, repairing doors and floors, maintenance of electrical supply, minor plumbing works etc. Some hotels undertook their own maintenance. However sometimes they bought maintenance products from large businesses.

Cereals or commodity goods (rice, flour, sugar, oil, and beans) were another product that was found to be bought in small quantities from MSEs by large hotels. The

proportion of cereals purchased from MSEs was on average 33%. Most of the cereals were supplied by large businesses or purchased from supermarkets such as Nakumatt.

An analysis of variance of the proportion of consumption imported with location, ownership and management, did not give any statistically significant difference. Additionally results revealed that there were few differences in the proportion of products bought by hotels from MSEs by hotel characteristics such as size, ownership, management and location as found out by Torres (2003). The products that revealed a significant difference in the proportion bought from MSEs by location were chicken, meat, baked goods, and fish. Pertaining to ownership, the proportion of products that revealed significant differences were meat, milk and flowers. An analysis of variance between the proportions bought from MSEs and management revealed significant differences for products like chicken, meat, and flowers. This finding is consistent with the findings by Torres (2003).

4.4.2 Analysis of Hotels' Consumption of Imported Goods and Services

As to whether the hotels imported most of their products or bought local products the results showed that only 4% of the total hotel consumption was imported. This was a very low proportion of all the hotel purchases. This finding is contrary to the findings of Rodenburg (1980) where large-scale star hotels in developing countries were portrayed to have high levels of imports. However findings of this study support Torres and Momsen's (2004) whose findings revealed that hotels in Mexico imported relatively low volumes of products like vegetables 0.4 %, fruits 0.7%, sea food 2.8% and poultry 5%. Torres (2003) found out that high-end hotels tended to import more food than lower end hotels and that the supply of poultry was dominated by a single vertically integrated company.

In the Kenyan context, Sinclair (1991) found out that hotel food imports were at 10%. Other findings by Visser and Njuguna (1992) revealed that hotels in Malindi had a policy of importing all their goods from overseas including such small items as table salt and bottled water. Thus it can be seen that literature is not consistent in the proportion of hotel consumption that is imported. Between Sinclair (1991) and now, it can be said that large scale hotels are changing their purchasing policies from those of importation of

almost everything to that of using local products where possible. This is good for the local economy as it gives entrepreneurs an opportunity to supply to these hotels. In terms of stimulating agriculture, this change in hotel consumption is good for farmers to produce more for the hotel industry which provides an alternative market for their produce. Consequently, this provides a potential mechanism to achieve pro-poor tourism objective as well minimizing leakage of tourism earnings through imports.

In fact all the hotels indicated that they only imported the products that could not be found locally. Some hotels like White Sands Hotel reported importing some products like towels due to high quality and competitive prices. Other reasons for importation were given as no local production 50%, poor local quality 20%, poor supply system 10% and tourists' tastes and preferences 20%. This supports Torres and Momsen's (2004) findings where chefs justified food importation (fish, fruit, vegetables, prime beef, other meat, and other sea food) due to inconvenient supply system, high local prices, tourists' tastes and preferences and irregular local supply.

4.5 Contribution of Tourism to Micro and Small Scale Business Growth

This section discusses the types of customers served by MSEs. It further looks at the determinants of MSE participation in the tourism sector as well promotional and competitive strategies used by MSEs.

4.5.1 Analysis of MSEs Customer Base

Businesses have to know their customers well if they are to satisfy their needs. Customer identification enables the business to know the kinds of customers it is serving and thus tailor its products to their needs. The sampled MSEs served different kinds of customers, that is, locals, tourists, restaurants and hotels as indicated in Table 13 below. For the art and souvenir and handicraft businesses, 4.4% of these businesses said they served local customers only, 22.7% of the sampled businesses served individual tourists only, and 72.8% of the MSEs served both local and individual tourists. As for the restaurants and bed and breakfast businesses, 36.6% of them served only locals, 3.7% served individual tourists while 59.8% served both locals and foreign tourists. For the car hire and taxi businesses, 8.7% served only locals, 1% served only tourists and 90.3%

served both local and individual tourists. For the farm MSEs, 23.8% served only locals, 42.8% served locals and restaurants, 6% served locals and large hotels, 2.4% served restaurants and large hotels, 1% served restaurants only and 23.8% served all types of customers apart from tourists.

Table 13: Type of Customers Served by MSEs

Type of business	MSE customers						
	Locals	Tourists	Locals, and tourists	Locals, restaurants, hotels	Locals and restaurants	Locals and resorts	Restaurants and hotels
Handicraft and curios	4.4%	22.8%	72.8%	0.0%	0.0%	0.0%	0.0%
Restaurant, bed and breakfast	36.6%	3.7%	59.8%	0.0%	0.0%	0.0%	0.0%
Car hire and taxi business	8.7%	1.0%	90.3%	0.0%	0.0%	0.0%	0.0%
Farm MSEs	23.8%	0.0%	0.0%	23.8%	42.9%	6.0%	3.6%
Total	14.9%	10.0%	60.8%	4.5%	8.0%	1.1%	0.6%

Source: Survey Data

The respondents were asked to give the advantages and disadvantages of serving local customers or tourists. The advantage given for serving local customers was that they were always available as they did not suffer from seasonality like the tourists. However, local customers had the disadvantage of bargaining too much and hence paying lower prices for products.

Serving tourists was considered to be advantageous in that tourists, especially foreign tourists paid higher prices for products. In addition, they bargained less and bought more products than locals. However, the major disadvantage of serving this customer group is that tourists were seasonal thus during low season, businesses lacked customers for their products.

4.5.2 Sources of Customer Information

In today’s information based society, development of good information can give a business a competitive edge against its competitors. Good information can enable a

business to forecast the demand of its products as well as enable it to produce and sell products that will satisfy customer needs.

For businesses to be effective in delivering their goods and services, it is important for them to have information on their customers. Therefore, it was important for the respondents in the survey to have information on the number of tourists visiting the country. This gave them an indication of the quantity of products to stock.

The study revealed that 68% of the respondents said that they frequently sought for and were sensitive to customer information while 32% did not. The sources of information were government sources especially the Ministry of Tourism (30% of respondents), newspapers (60%), television (50%), Coast Hotel Association (20%), hotel employees (70%) and taxi drivers (70%).

4.5.3 MSEs Sales to Different Customers

The MSEs serve two major kinds of customers. There are the local customers and the tourists. The tourist customers either buy products directly or indirectly from the MSEs. Table 14 below shows the proportion of products sold to each customer group.

Table 14: Percentage of MSEs Sales Made to Locals and Tourism

		Mean	Minimum	Maximum
Amount sold to local customers	Art and souvenirs	0.23	0.00	1.00
	Restaurant, bed and breakfast	0.76	0.00	1.00
	Car hire and taxi business	0.51	0.00	1.00
	Farm MSEs	0.63	0.00	1.00
	Total	0.48	0.00	1.00
Amount sold directly and indirectly to tourism	Art and souvenirs	0.77	0.00	1.00
	Restaurant, bed and breakfast	0.24	0.00	1.00
	Car hire and taxi business	0.49	0.00	1.00
	Farm MSEs	0.37	0.00	1.00
	Total	0.52	0.00	1.00

Source: Survey Data

From the above table, the mean proportion of products sold to local customers was 48% while that sold to tourists is 52%. Thus from the above results, MSEs sell more products to tourists than to local customers. Results for specific types of businesses show a significant difference in the proportion sold to different customers with the art and souvenir recording more tourism sales (77%) while restaurant and bed and breakfast recorded more local sales. This is because the art and souvenir MSEs mostly rely on tourists. Data from specific locations shows the mean sold to locals in Diani is 47%, while the amount sold to tourists is 53%. In Mombasa, the mean is 50% for locals and 50% for tourists. Malindi had a mean of 43% for locals and 57% for tourists.

The results indicate that businesses in Malindi tend to sell more products to tourists than both Diani and Mombasa. This is because most of the customers in Malindi are tourists and hotels in Malindi mostly cater for foreign tourists. Businesses in Mombasa sell fewer products to tourists since it is a metropolitan area and thus there is a mixed population of tourists and locals who work in government and private companies.

From the survey, it was found out that local customers also purchase more products during the high tourist season as they get more money from tourism employment activities. For example, restaurants have more local customers during the high season as the workers have money to eat out. Farm businesses also sell more fruits, vegetables, eggs and chicken to restaurants and hotels during the high tourist season. The taxi businesses also get more passengers. This shows the importance of the tourism industry to the sampled businesses.

4.5.3.1 Determinants of MSE Participation in the Tourism Sector

Table 15 below presents the results of the analysis of factors that determine MSE sales to tourists. Both OLS and Tobit models were used with the dependent variable being the proportion of products MSEs sold in tourism. The OLS model's F-value of 17.35 was found to be significant at 1% level of significance with the model's R^2 being 0.304. Tobit results were similar to those of the OLS model as shown in Table 15 and the results are discussed below.

Table 15: Determinants of MSE Participation in Tourism

OLS regression results $R^2 = 0.304$ $F = 17.35^{***}$			Tobit Results Pseudo $R^2 = 0.310$ Loglikelihood = 187.028 LR $\chi^2 = 118.61$ Prob. $\chi^2 = 0.000^{**}$ MSE = 0.035	
	Beta	z	marginal effects	z
(Constant)		9.595		
Age of business	0.086	2.067 ^{**}	0.086	2.060 ^{**}
No. of employees	0.224	4.956 ^{***}	0.219	4.730 ^{***}
Location- Mombasa	-0.029	-0.612	-0.029	-0.622
Location- Malindi	0.064	1.326	0.039	1.160
Amount of start up capital	0.072	1.620 [*]	0.081	1.950 ^{**}
Loan use	-0.017	-0.422	-0.022	-0.522
Membership to associations	0.128	3.062 ^{***}	0.140	3.163 ^{***}
Form of business	-0.009	-0.219	-0.015	-0.269
No. of businesses owned	-0.066	-1.574 [*]	-0.068	-1.760 [*]
Access to tourist information	0.221	5.202 ^{***}	0.231	5.110 ^{***}
Type of business	0.298	6.814 ^{***}	0.288	6.804 ^{***}

*** Significant at 0.01, ** significant at 0.05, * significant at 0.1

Source: Survey Data

The results indicated that age of the business had a positive and significant effect on the proportion of tourism sales. The age of business is an indicator of the experience the business has in undertaking its activities. The longer the business has been in operation, the better it becomes at undertaking its activities due to the learning curve effect. For example the business may have established contacts in addition to having a

better knowledge of customer requirements as well as sources of resources. The business is also able to sell a high proportion due to reputational effects in that a good reputation enables it to get repeat customers and others that have been recommended by friends.

The number of employees had a significant positive effect on the proportion of tourism sales. Thus the businesses that had 0-5 employees sold a smaller proportion to tourists than those with more employees. The number of employees is an indicator of the size of the business. Bigger businesses have better resource endowments thereby having an ability to serve tourists better than smaller businesses unless the business is undertaking the focus differentiation strategy. More employees will lead to specialization thereby leading to better services. The study revealed that businesses that had employees who could speak foreign languages attracted more foreign customers.

The amount of startup capital had a significant positive effect on the proportion of tourism sales at 0.01 significance level. The more the amount of startup capital, the bigger the business and the more resources it will have. Thus MSE owners who had less start up capital were likely to start on a smaller scale due to limitation in resources. This decreased the proportion of products sold to tourists in that the MSE did not have product variety and its premises may not be attractive enough for such kind of clientele. This finding supports that of Eisnherdt and Schoonhoven, (1990), who found that the amount of startup capital influenced the size of the business.

Membership in business associations was one of the four most important factors in the regression with respect to the magnitude of the coefficients. Its coefficient was found to be significant and positive at the 0.01 significance level. The study found out that the MSEs whose owners were members in different associations had a higher proportion of products sold to tourists than those that did not. Business associations were important for MSE performance as they helped members exchange ideas with their colleagues as well as improve their businesses through sharing of knowledge and tackle common problems. In addition to the above, associations were able to mobilize resources as well as establish contacts who were an important source of information regarding customers and suppliers. These results are consistent with literature (Hansen 1995; Dollinger 1985; Brüderl and Preisendorfer 1998; Papadaki and Chami 2002).

The number of businesses an entrepreneur owned was also found to have a negative and significant effect on the proportion of tourism sales. This was due to the fact that an entrepreneur who had other businesses had to distribute resources to these businesses. Such an entrepreneur was not able to concentrate all his effort in one business and hence the inability to meet customer requirements.

Access to information on tourist numbers and tourist related activities in terms of where and when they were held had a positive and significant effect on the proportion of tourism sales. MSEs that did not have access to information sold a smaller proportion than those who did. Those who had access to information knew where tourist activities would be held. This enabled the MSE to transport their products to those events. Information is an intangible resource and assisted the entrepreneur to forecast the stock levels that were needed. Customer information enabled a business to know the needs of the customers and satisfy them better than competitors. The more the information a business had access to, the more it was able to strategize.

The type of MSE whether curio and souvenir, bed and breakfast, taxi or farm business also significantly impacted sales to tourism. Its coefficient was 0.288. The curio and taxi MSE realized more sales due to the nature of their business.

Location was found not to have a significant influence on the proportion of tourism sales. Other variables that did not have a significant effect were: credit utilization in the business, form of business ownership be it sole proprietorship, partnership or company.

4.5.4 Promotional Strategies Used by MSEs

The study found out that several promotional methods were used to promote MSE products. However, the most common was word of mouth with 100 % of the respondents acknowledging that this was the tool they mostly used to promote their products as shown in Table 16 below. This was due to the fact that a good word of mouth carries more weight and enables the businesses to get new and repeat customers. Due to the personal nature of the communications between individuals, it is believed that product information communicated in this way has an added layer of credibility. Research (Mangold et al, 1999, Reid and Reid, 1993) points to individuals being more inclined to believe word of

mouth than more formal forms of promotion methods. The receiver of word-of-mouth referrals tends to believe that the communicator is speaking honestly and is unlikely to have an ulterior motive. Word of mouth was also said to be cheap as the entrepreneur did not have to spend any money. Through good word of mouth, a business is able to build social networks.

Other promotional methods were mobile phones (80%), website (10%), and advertising in newspapers, radios and television. Mobile phones were mostly used to communicate to domestic customers. The use of e-mail and websites was of utmost importance in communicating with foreign customers. However many of the MSEs did not utilize this method because the owners did not know how to set up websites. Advertising campaigns in radio, newspapers or television often focused on highlighting specific products, services, and special offers.

Results showed that 20% of the respondents visited hotels to get orders directly. This was especially true for the farm MSE owners and taxi operators. This is important as it enables the businessman to establish contacts with the hotel employees. Good relationships with hotel managers helped MSEs to promote sales. However some of the hotels placed restrictions on MSE owners visiting the hotels.

The use of brochures and business cards was another promotional technique. Of the sampled MSEs, 40% used this technique. The MSE owners gave the brochures or business cards to customers who visited their businesses. In addition, others left their brochures in hotels and tour companies so that prospective customers could get them from these establishments. The use of signboards was also another promotional technique. Most of these signboards were placed at road junctions.

In summary, promotions were important to the sampled MSEs as they exposed the businesses to the public eye and help draw in new and retain customers as well as boost sales. Promotions informed the public that the business existed, and they typically did so in a creative, cost-effective way. For this reason, promotions were found to be advantageous to small business owners. Through promotion, current and prospective customers were made aware of the MSEs offering.

Table 16: Promotional Techniques Used by MSEs

Promotional technique	Percentage MSEs using the technique
Word of mouth	100
Mobile phones	80
Websites	10
Advertising in newspapers, radio, TV	5
Brochures and business cards	40
Signboards	60
Hotel walk-ins	20

Source: Survey Data

4.5.5 Competitive Strategies Used by the MSEs

Competition is one of the forces in the business environment. Competition among the MSEs was rife and growing more intense every year. MSEs had to know how to overcome competition if they were to succeed. Since markets have become more competitive, understanding customers only is not enough. For effective marketing planning, MSEs had to know and understand their competitors. Different strategies had been developed by the MSEs in response to competition.

The first strategy is having better customer relationships as pointed out by 80% of the respondents. Establishing a relationship with the customers showed that the business had moved from transactional marketing or from just making the sale to relationship marketing. As such, these businesses were concerned about customer satisfaction with their products and tried to make a follow up on the consumer after selling the product to know if they were satisfied with the product. This is a good way of getting repeat customers. The sampled MSEs built better customer relationships by being friendly to customers by nicely welcoming them to their business premises. In addition they offered business cards to customers which contained their contacts and products offered by the MSEs.

Secondly, MSEs responded to competition by offering lower prices to their customers as cited by 70% of the sampled MSEs. This was a form of sales promotion and could only be used for a short period of time so as to increase sales. This strategy was

important in attracting price sensitive customers especially the domestic tourists who like bargaining and negotiating prices.

Additionally, some businesses beat competition by offering better quality products. This competitive strategy was cited by 40% of the sampled MSEs. This strategy attracts the customers who love high quality products like the foreign tourists. However, quality usually comes with a price, thus such businesses did charge a slightly higher price than the other businesses. This strategy went hand in hand with having courteous employees.

Having better display of products was also another method that was cited by 70% of the respondents. This attracted customers into the stalls especially for the curio businesses. Having a good point of purchase display was important as it enabled buyers to notice the products and walk into the stalls. For the car hire and taxi businesses, better display took the form of being situated at a good location or getting conspicuous parking space. Another strategy to beat competition that was cited by 20% of the respondents was by providing product information on such aspects as handling and storage as well as materials used to make the products.

To be competitive, 5% of the sampled MSEs had diversified into other businesses such that one owned a curio business, kept chicken or owned a taxi. This enabled the entrepreneur to offer a variety of products to customers. In relation to this, sometimes family members owned different businesses; for example one family member could own a curio business, another car hire and yet another restaurant. In such a case, these family members recommended the other businesses to potential customers.

4. 6 Contribution of Tourism to MSEs Growth

MSEs' perception on the effect of tourism on their activities is given in this section. Further, the section discusses MSE growth as well as the contribution of tourism to farm and non-farm MSE growth.

4.6.1 Respondents Perception on the Effect of Tourism on Business Growth

The MSEs were asked to give their perceived effect of tourism on the growth of their businesses. Table 17 below gives the findings.

Table 17: Respondents Perceptions of the Effect of Tourism on MSE Growth

Effect of Tourism	Type of business				Total
	Art and souvenirs	Restaurant, bed and breakfast	Car hire and taxi business	Farm MSEs	
to a great extent	70.6%	30.5%	73.8%	31.0%	56.6%
to a moderate extent	25.6%	39.0%	20.4%	39.3%	29.4%
to a small extent	3.3%	20.7%	4.9%	27.4%	11.4%
no effect	0.6%	9.8%	1.0%	2.4%	2.7%
Total (N= 449)	100.0%	100.0%	100.0%	100.0%	100%

Source: Survey Data

From the results, it was found that 56.6% of the respondents indicated that tourism affected the growth of their business to a great extent, 29.4% to a moderate extent, 11.4% to a small extent and only 2.7% said it had no effect on their business. The results clearly indicate that tourism affects the operations of these businesses. This is because it provides customers for the businesses.

It is worth noting that there was found to be a significant difference on the perception of the effect of tourism on MSE growth and the type of MSE. For MSEs like the curio businesses and car hire, these mostly depend on tourism and thus its effects are mostly felt in these businesses as only the tourists (especially foreign tourists) buy these curios. From table 18 above, it can be seen that 70.6% of the curio businesses and 73.8% of car hire businesses responded that tourism affected their businesses to a great extent. For curio businesses, tourism has a significant effect since shopping is an important activity for tourists. This is due to the fact that as part of their travel experience, tourists enjoy purchasing goods which serve as symbolic reminders of the trip. As such curio vendors in tourist market areas, the Kenya coast included, traditionally supply goods and services that make the tourists' visit in the area more pleasant and memorable. Curios and handicrafts have proved profitable for small-sized retailers in tourist areas. These curios are handmade with attention to materials, design, and workmanship. Of late, handcrafted items are receiving greater attention by the tourism industry not only in Kenya but also in

other tourist destinations. This is because they are a means of providing cultural enrichment. Furthermore, they are an economically viable market that can be further developed.

For farm and restaurant businesses, the results are mixed as they serve both locals and tourists. All in all, it can be seen from the results that only 2.7% of the businesses responded that tourism had no effect on their businesses. Thus, it is worth noting that tourism activities do indeed affect small business activities. This finding is supported by Migot-Adholla et al. (1982) who found out that 81% of the respondents agreed that tourism raised the sale of local goods.

4.6.2 MSE Growth between 2002 and 2006

The study found out that in total 81.5% of the businesses recorded positive income growth. Only 18.5% businesses recorded negative income growth. Table 18 below gives the business growth of the MSEs for the period between 2002 and 2006 in terms of growth in assets, employees and business income.

Table 18: MSE Income, Asset and Employee Growth (2002-2006)

	Location	Pooled Data	Non-Farm MSEs	Farm MSEs
Growth in business income (Kshs.)	Diani	1723.86	-5702.79	39869.87
	Mombasa	26738.72	26318.87	28407.88
	Malindi	28054.39	31971.33	11454.00
	Total	19539.87	17783.58	27171.36
Growth in business assets (Kshs.)	Diani	14531.89	16693.84	3427.27
	Mombasa	19271.83	22026.89	8318.78
	Malindi	34524.54	39765.16	12314.28
	Total	21583.42	24701.06	8036.54
Change in employees (%)	Diani	11%	04%	45%
	Mombasa	28%	27%	34%
	Malindi	59%	40%	138%
	Total	31%	23%	63%

Source: Survey Data

The mean income growth for all the MSEs was found to be Kshs 19 539.87. For non-farm MSEs the mean growth was Kshs 17 783.58 and for the farm MSEs it was Kshs 27 171.36. Malindi recorded the highest income growth for the non-farm MSEs while Diani recorded the highest growth for farm MSEs.

As concerns asset growth, the study found that 90.9% MSEs recorded positive asset growth while 9.1% recorded negative asset growth. Overall, between 2002 and 2006, the MSEs grew on average by Kshs 21 583.42. Farm MSEs recorded an average asset growth of Kshs 8036.54 while non-farm MSEs Kshs 24701.06.

For farm MSEs the percentage change in employee 45% for Diani, 34% for Mombasa, 138% for Malindi. The average change in employees was 63%. Non-farm MSEs recorded an average percentage change in employees of 23%.

4.6.3 Changes in MSEs Activities Due to Tourism

Growth in a business may not only be considered in quantitative terms but may sometimes be looked at from a qualitative perspective. An increase in business activity is also an indicator of business growth. When asked if there were any business changes due to tourism activities, 76% of the businesses responded positively while only 24% said that their business did not change due to tourism. This finding shows that many of the businesses have been able to change their activities due to tourism.

An analysis of the ways in which tourism affected business activities gave the results shown in Table 19 below.

Table 19: Tourism’s Effect on Business Activities

Tourism effect on business activities	Percentage of businesses
Increased production	90%
Started another business	40%
Developed new products	95%

Source: Survey Data

From the results 90% of the respondents indicated that they had increased production or sales volume. Increasing production was considered as a form of business

growth. For the curio businesses, this took the form of having more stock while for the car hire businesses it was in the form of making more trips to transport customers or purchasing an addition vehicle. For the farm businesses, this took the form of keeping more chicken or increasing the production of fruits and vegetables. For restaurants and bed and breakfast businesses this was in the form of making more dishes.

Another way was that tourism had enabled the business owners to start another business as given by 40% of the respondents. Sometimes enterprises diversify into other business activities as a way of investing their proceeds or spread risks associated with owning one type of business venture. Business diversification is used to overcome threats in the business environment. For the 40% of the MSEs that had started other businesses, 20% of them who were earlier in curio and car hire had also invested in farming activities like poultry keeping. Getting customers for farm products (chicken and eggs) was easier for them as they had established contacts with hotel employees and managers through their earlier businesses.

Growth was also considered in terms of addition of new products into the business ventures. From the above table it can be deduced that most MSEs (95%) had developed new products thus had grown. Curios had new products such as slippers, clothing materials, shirts and t-shirts, paintings and soap stone carvings. Some of the curio sellers indicated that due to customer demand, the type of curios they sold had changed and that there was a trend to add some very delicate curios called 'mosquitoes' which some of them got from as far as Tanzania. Car hire business and taxis indicated that their new product introduction was in terms making their vehicles more comfortable by offering drinks. Restaurants had introduced traditional foods. Indigenous food can be a form of tourist attraction to these restaurants. New product introduction is viewed as a competitive tool and businesses strive to introduce new products so as to satisfy changing consumer needs and tastes and avoid product obsolescence. Adding new products enables a business to have an array of products to sell to its customers. This supports Phillips (1996), whose study on small tourism business performance had a dimension of adaptability as a measure of performance. Adaptability involved the number of successful new services or products introduced and percentage of sales accounting for new products or services.

The businesses also indicated that they modified their products due customer tastes and preferences. Product modification is a way of ensuring that the business is able to come up with products that satisfy customer needs and not only satisfying them but also delighting them. Increasing the range of products sold to customers enables them to have a variety from which they can make a choice.

From these results, it can be said that tourism affects many businesses positively in that many of the respondents affirmed that their businesses had in one way or another increased in size.

4.6.4 Determinants of Farm and Non- Farm MSE Growth: A Multiple Regression Analysis

An Ordinary Least Squares (OLS) multiple regression model was used to determine the entrepreneur, business and tourism characteristics influencing MSE growth. The results are shown in the Table 20 below. The nature of the business has an effect on its growth as found in Basu and Goswami (1999). This is because of differences in production technologies inherent in specific industries that have an impact on the determination of the optimal size of the business. From the multiple regression results shown in Table 20 below, tourism is seen to affect the asset growth of micro and small scale businesses.

Table 20: OLS Estimates of the Determinants of MSE Growth

	POOLED DATA		NON- FARM		FARM MSEs	
	Beta	z	Beta	z	Beta	z
(Constant)		2.166		0.849		0.990
Gender	0.013	0.307	0.003	0.056	0.118	1.385
Age of owner	0.031	0.676	0.033	0.644	0.089	0.943
Education level	0.069	1.630*	0.069	1.444	0.166	1.865*
Business training	0.027	0.681	0.023	0.535	0.026	0.289
Marital status	0.062	1.519	0.079	1.725*	0.029	0.364
Age of business	0.075	1.655*	0.089	1.763*	0.017	0.186
No. of businesses owned	-0.055	-1.340	-0.050	-1.089	-0.112	-1.230
Form of business organization	0.092	2.226**	0.098	2.150**	0.034	0.355
Location - Mombasa	-0.002	-0.039	-0.009	-0.166	-0.094	-0.864
Location- Malindi	0.041	0.887	0.035	0.671	0.194	2.025**
Number of employees	0.091	1.892*	0.078	1.820*	0.182	1.942*
Amount of start up capital	0.048	1.094	0.037	0.671	0.025	0.280
Business income	0.496	11.868***	0.505	10.884***	0.683	8.252***
Loan use in business	0.052	1.282	0.056	1.259	0.109	1.183
No. of tourist activities	0.148	2.797***	0.204	3.401***	0.266	2.763***

Table 20: Continuation

	POOLED		NON-		FARM	
	DATA		FARM		MSEs	
	Beta	z	Beta	z	Beta	z
changes in business from tourism	0.048	1.049	0.058	1.134	0.200	2.122**
Access to tourist information	0.078	1.739*	0.102	2.065**	0.018	0.194
Sales from tourism	0.139	2.868***	0.127	2.193**	0.229	2.264**
Tourist numbers	0.094	1.841*	0.159	2.634***	0.128	1.252
Type of customers	0.019	0.465	0.013	0.288	0.121	1.398
	$R^2 = 0.37$	$F = 12.4$	$R^2 = 0.39$	$F = 10.9$	$R^2 = 0.67$	$F = 6.3$

*** significant at 0.01, ** significant at 0.05, * significant at 0.1,

Source: Survey Data

The pooled data model had an R^2 of 0.37 while that of the non-farm MSEs was 0.39 and for the farm MSEs was 0.67. The model's F statistic was found to be 12.4 for the pooled data, 10.9 and 6.3 for the non-farm and farm MSEs respectively. Business growth was measured as the change in MSEs' assets from 2002 to 2006 divided by five years. The factors that denoted tourism were type of customers served by the business, changes in MSEs activities due to tourism, sales brought in from tourism, number of tourism activities held in the country, number of tourists visiting the country, changes in business activities due to tourism, access to tourist information on future tourism activities. A detailed discussion of the variables influencing growth follows below.

The study found out that the education level of the entrepreneurs had a positive and significant effect on the growth of farm MSEs at 0.1 level. This was due to the fact that educated entrepreneurs were found to have the ability to make better business decisions than those who were less educated. Education has been presumed to be related

to knowledge and skills, self-confidence, problem solving ability, discipline, commitment and motivation. As such, higher education level increased the ability of entrepreneurs to cope with problems or business threats and exploit business opportunities that arise in the business environment. For the curio and taxi operators, education in terms of knowledge of foreign languages was very important to get customers. This supports the findings of Papadaki and Chami (2002) who found out that growth was lower for businesses whose owners did not finish high school and this had a significant and negative impact on growth at a 1% level. Other literature also points out that the entrepreneurs' education level has a positive impact on growth of the business (Basu and Goswami, 1999; Casson, 1991; Bates, 1990; Basu, 1998; and Cooper et al., 1994). However the findings of this study are contrary to Barbieri and Mshenga (2008) who indicated that the entrepreneur's education attainment did not have a significant impact on agritourism business performance.

The coefficient for marital status was found to be positive and significant at 0.1 level for the non-farm MSEs. MSEs whose owners were single, divorced or widowed realized less asset growth than those that were married. The high asset growth of MSEs of those who were married was because of the effect of pooling of resources of husband wife and thus their joint effort led to better growth of the business especially if both husband and wife worked in the business.

Age of the business was found to be positive and significant in its effect on business growth for the pooled data and non-farm MSEs. This implies that older businesses realized higher growth than younger businesses. Age of the business was also a measure or an indicator of experience the business had in undertaking its activities. This was because older businesses benefit from dynamic economies of scale by learning from experience. It was found that older businesses benefited from reputational effects, early mover advantages, and network effects which allowed them to earn a higher margin on sales as found in Bensako et al. (2004). This supports the findings by Barbieri and Mshenga (2008) whose results indicated a significant positive relationship between age of the farm and agritourism business performance. However the findings are contrary to Glancey (1998) as well as Papadaki and Chami (2002) who found out that growth decreased with the increasing age of the firm.

The legal form of the business had a significant impact on non-farm MSE growth. For farm MSEs this variable was insignificant since most of the businesses surveyed were sole proprietorships. This finding supports that of Dietmer et al. (1998) and Papadaki and Chami (2002). From the results, businesses that were partnerships and companies were found to realize better growth than those owned by individuals. This was due to the pooling of resources of partners as well as management skills and ideas. Papadaki and Chami (2002) indicated that sharing ownership with a partner had a positive and significant effect on firm growth due to the fact that having partners at different stages of business development contribute capital and moral support as well as complementary expertise in areas of management or other functional area such as technical expertise, marketing, human resource or financial management. Additionally, tax treatment of profits and the liability of the owner under the various legal forms affect the owners' incentive to grow. Incorporated firms had higher growth than unincorporated firms. This could be explained by the fact that corporations have the ability to issue shares to raise capital and shareholders have the freedom to resell their shares.

The study found out that location of a business had a significant impact on the growth of farm MSEs but was insignificant for the non-farm MSEs. However, businesses in Mombasa were more likely to realize less growth relative to Diani whereas those in Malindi realized more growth relative to Diani. This may be due to the fact that different locations have different infrastructure levels, institutional factors as well as policy regimes. These factors impact on the level of business activity and also the cost of doing business.

The number of employees in the business was found to have a significant and positive influence on its growth. Businesses with more employees realized better growth. It was observed that businesses with more employees could divide their work activities leading to specialization and hence better performance. Additionally, it was found out that larger businesses were better positioned to grow because of size, reputation and other effects described above. The number of employees a firm has is an investment in terms of human capital, and the more the business investments, the more likely it is to grow. This finding is consistent with literature and is recognized by economic theory (Casson, 1991; Campbell, 1992) and empirical studies by Cressy (1996), Haber and Reichel (2005) and

Bates (1990). These findings are however contrary to those of Papadaki and Chami (2002) who found that growth decreased with increase in business size. This may be true in that as the size increases, there is likely to be more formality and red tape in the business.

The amount of business income was found to have a significant positive impact on MSE asset growth at 0.01 level of significance. This is because the more income the business has, the more likely it will be to increase its level of assets thus leading to growth. Income will enable a business to increase its inventory and also buy capital assets. A positive relationship between business income and growth is expected if larger firms benefit from economies of scale. Firms become large if their entrepreneurs have previously re-invested profits in order to provide finance for expansion. In addition, business income enabled the business to diversify its activities in terms of starting other businesses. This finding is in line with that of Haber and Reichel (2005) who found that the average growth of tourism businesses was positively related to revenues. Lee et al. (2001), suggest that entrepreneurial orientation, technological capabilities and financial resources are the three important internal capabilities that significantly influence small business size.

Recently there has been increasing interest in cultural tourism and Kenya is embracing this as a way of diversifying its tourism product. Festivals and events being part of cultural tourism attract visitors to destinations. As such, the results showed that the number of tourism activities in the country had a significant positive effect at 0.01 level of significance. In Kenya, there are tourism activities like the Safari Rally, the Mombasa Cultural Festival, the Mijikenda Festival and the Rabai Festival which showcase the culture and traditions of the Mijikenda people that live along the Kenyan Coast, the Lamu Cultural Festival and the Lamu Dugong Festival. Tourism activities like festivals and special events play a significant role in communities' lives because they provide important activities and spending outlets for locals and visitors, and enhance local communities' image as found in Getz, (1993). Festivals and events benefit tourism related services like accommodation, travel, restaurants and shops which in turn help to boost local economies (Crompton and Mc Kay, 1997). Furthermore, they are also unique travel attractions because they do not rely upon expensive physical development. Rather,

the success of festivals and special events is more dependent upon the enthusiasm of the local community and event organizers than upon unique natural or built attractions. Also it is important to note that small events require minimal capital development and take the advantage of existing infrastructure. It can also be noted that festivals and events are volunteer intensive and locally controlled. However, as noted by (Getz, 1993) they have the potential of generating substantial returns on small financial investments.

Changes in business activities due to tourism had a positive significant impact for the farm MSEs. These changes were in terms of introduction of new products, modification of existing products, and producing more for the tourism market.

In today's information-based world, customer information is an important competitive tool for businesses. The MSEs access to information on the number of tourists expected in the country had a significant and positive effect on the growth of the non-farm MSEs. MSEs that had access to tourist information realized better growth than those that did not. This is because such information is important for them to forecast the demand for their products.

The proportion of total sales brought in from tourism had a significant positive effect on the growth of micro and small businesses. Tourist spending was in terms of food, accommodation, traveling and shopping. The more tourists spent, the more the businesses were able to get income and this led to business growth.

The number of tourists visiting the country also had a significant positive effect at 0.1 level of significance. This is because greater numbers of tourists are associated with higher amounts of products sold. Farm MSEs sold more fruits and vegetables, chicken and eggs; taxis and car hire got more passengers and curio businesses and restaurants got more customers. As such, this led to more business income and hence growth.

Factors like gender of the MSE owner, age of the MSE owner, number of other businesses owned, loan use in business, business training, amount of start up capital and the type of customer served did not have significant effect on MSE growth.

4.7 Purchase Trends and Purchase Considerations of Tourist Hotels at the Kenyan Coast

This section discusses the purchasing patterns of hotels as well as suppliers of hotel products.

4.7.1 Linkages between the MSEs and Hotels

Linkages are important if businesses are to grow. They include interaction, regular communication, exchange of information and resources (Larson and Shaw, 2001). The respondents were asked if they had any business linkages with other organizations whether large or small and specifically with large hotels. Most of the MSEs interacted with each other. Most of the times, the linkage between the MSEs and hotels was as a result of a successful tender as found out by Rogerson (2002). This is especially true for MSEs that supply foodstuff like eggs, meat, chicken and fish.

4.7.2 Purchasing Patterns of Hotels

The survey determined if hotels had a purchasing policy in terms of local purchase and purchasing from MSEs. From the results, 63% affirmed the existence of a purchasing policy while 37% did not have a policy. Having a purchase policy is important as this indicates that laid down purchasing procedures have to be followed.

An analysis of the purchasing patterns of the hotels revealed that all the hotels preferred buying local products. The respondents preferred local purchases because they are considered to be relatively cheap, fresh, and easily available.

Table 21 below gives the purchase considerations by the hotels. The results are discussed below.

Table 21: Purchase Considerations in Local Buying Decisions

Considerations in local buying decisions	Percentage
Price	14.3
Quality	34.7
Supply reliability	8.2
All the above	42.9
Total	100.0

Source: Survey Data

Asked what factors they consider in the decision to buy local, 14% of the hotels considered price, 35% quality, 8% supply reliability and 43% all the above. Local purchases are cheap due to reduced transport costs from the place of production to the place of consumption. As regards freshness, this is especially important for perishables like vegetables, fruits, meat and fish. These need to be consumed immediately to avoid spoilage otherwise there will be need for storage and refrigeration facilities which is an extra cost. With respect to availability, if products are available locally, this reduces the search costs involved in looking for prospective suppliers. The above findings are supported by Starr et al. (2003), Hakansson and Wootz (1975), Leenders and Fearon (1993) as well as Torres and Momsen (2004). The above findings and literature point to the importance of price, quality, quantity and availability in purchase considerations.

4.7.3 Type of Suppliers Used by Hotels

An analysis of the type of suppliers of hotel products revealed that 80% of the hotels purchased products from MSEs, 6% sourced mostly from large businesses while 14% mostly purchase their products both from large businesses and MSEs as shown in Table 22 below.

Table 22: Type of Suppliers of Hotels' Local Products

Type of Supplier	Frequency	Percentage
Mostly MSEs	39	79.6
Mostly large businesses	3	6.1
Both	7	14.3
Total	49	100

Source: Survey Data

4.7.4 Characteristics of Hotels that Mostly Purchase from MSEs

To establish the characteristics of hotels that mostly purchase from MSEs as opposed to those that purchase from large scale enterprises a binary logit regression model was used with the source of supply (whether the hotel mostly purchased from MSEs or it mostly purchased from large businesses) as the dependent variable. The results are shown in Table 23 below.

Table 23: Logit MLE for the Determinants of Hotel Source of Supply

N = 49

LR $X^2_{2(7)} = 20.338^{***}$ Pseudo $R^2 = 0.410$

Log likelihood = -14.625

% correct prec. = 83.6735

	Marginal effects	Standard	Z	P Z >z
	Coefficient	Error		
Constant	0.1460	0.1756	0.8360	0.4031
Location- Diani	-0.0003	0.0125	-0.238	0.8116
Location -Mombasa	-0.0002	0.0129	-0.124	0.8773
Years in Business	-0.0934	0.0496	-2.009	0.0446**
Number of employees	-0.0312	0.0145	-2.152	0.0314**
Management (local =1, others=0)	-0.1473	0.1000	-1.481	0.1385
Ownership	-0.0805	0.0870	-0.926	0.3546
Bed capacity	-0.0022	0.0010	-2.189	0.0286**

* significant at 0.1, ** significant at 0.05, *** significant at 0.01

Source: Survey Data

The log likelihood ratio chi-square results indicated that the variables that were included in the model were significant in explaining the factors that determined the source of supply. The model's McFadden Pseudo R^2 also indicated that a large proportion of changes in the choice of supplier indicator were attributable to the independent variables considered in the model. The findings revealed that age of the hotel, number of employees in the hotel and bed capacity of the hotel had a significant effect on whether the hotel was to purchase from MSEs or large businesses as discussed below.

The results on age of the hotel were found to be negative and significant. Thus the number of years a hotel had been in operation determined whether it would purchase from MSEs or from large businesses. This indicated that as the number of years the hotel had been in operation increased, the lower the probability of the hotel purchasing from MSEs. This was due to the fact that older hotels had established contracts with larger

businesses and thus would not want to dishonor the contracts and start buying from MSEs. Additionally, MSEs supplying to hotels is a new phenomenon and thus older hotels may not want to risk dealing with them.

The significant effect of the number of employees a hotel had shows the importance of hotel size on whether a hotel purchased from MSEs or from large businesses. This showed that smaller hotels purchased more from MSEs than from large businesses. This was because smaller hotels required smaller quantities which could easily be supplied by MSEs.

Bed capacity had a significant and negative effect on the source of supply of hotel products. This showed that the bigger the hotel in terms of number of beds, the less likely it was to purchase from MSEs.

Variables such as location, ownership and top management had no significant influence on whether a hotel purchased from MSEs or large businesses.

4.7.5 Purchase Arrangements of Hotels with Suppliers

Table 24 below gives the results of purchase arrangements the hotels had with suppliers.

Table 24: Types of Purchase Arrangements with Suppliers

Supply arrangement	Percentage
Spot markets	23.9
Formal contracts	47.8
Informal contracts	19.6
Formal and Informal contracts	8.7
Total	100.0

Source: Survey Data

From the results, 24% of the hotels did not have any arrangements as they bought from spot markets. This was mostly in the case of foodstuff such as fruits and vegetables that were purchased from markets. The respondents who purchase from spot markets usually send their staff to markets such as Kongowea. For other products, the hotels shopped around to get the best prices.

The percentage of hotels that had formal contracts with suppliers was found to be 48%. Formal contracts are good as they define the conditions for exchange and specify remedies in case one party does not fulfill its obligations thus protecting parties to a transaction from opportunistic behaviour (Bensako et al., 2004). A good example is the White Sands Hotel which had formal contracts with the suppliers of chicken and eggs. The reason they gave for this was that they wanted to be assured of supplies especially during the peak season when demand is high. In fact, this hotel went as far as assisting the poultry producers in setting up the poultry so as maintain quality standards. This hotel also had a contract with the supplier of small decorative baskets.

Another type of purchase arrangement was informal contracts of which 20% of the hotels used. These informal contracts had to do with the 'gentleman's agreement' whereby the supplier agreed to supply while the hotel had the responsibility to pay. It has been observed that business networks based on social ties and governed by norms of trust and reciprocity are extremely powerful (Bensako et al., 2004). Trust gives parties access to resources and information and this helps improve efficiency which would be difficult to acquire through arm's length contracts. Informal contracts are viable since there is a threat of losing future business in case one party breaks the contract. Finally, 9% of the respondents had both formal and informal contracts with suppliers.

Most of the contracts were non-exclusive. Having non-exclusive contracts enables the MSEs to have a wider market to supply their products and have more customers as well as expanding their network base as they will have an opportunity to interact with many large scale hotels.

4.8 Current and Future Opportunities Available to MSEs in the Tourism Industry

Large hotels cannot undertake all operating activities by themselves. To be efficient some of the activities are subcontracted or outsourced. A total of 49 hotels were interviewed on the opportunities available to MSEs and the results are given in Table 25 below.

Table 25: Percentage Responses on Opportunities Available to MSEs

Opportunity	Currently available (%)	Available in the future (%)	Potential opportunities (%)	Currently unavailable to MSEs (%)
Food Supply	79	81	3	19
Laundry Services	79	79	0	0
Garbage collection	53	60	7	9
Building materials	75	75	0	25
Maintenance and repair	70	72	2	0
Handicrafts and souvenirs	78	85	7	2
Child care services	57	74	17	10
Transportation services	79	79	0	2
Security services	0	2	2	57
Room Cleaning services	73	78	5	0

Source: Survey Data

4.8.1.1 Opportunities in Food Supply

Food supply to the hotels such as fruits, vegetables, milk, meat, eggs, fish and produce or commodity goods denotes an opportunity to MSEs. As seen from the proportions of these products supplied by MSEs to hotels, currently this is a big opportunity as indicated by the responses where 79% responded affirmatively. The results indicated that this opportunity will be available in the future as given by 81% of the respondents. Only 19% said that food is currently not available to MSEs as mostly these purchase foods from large organisations. Looking into the future, food supply will still be an opportunity accorded to MSEs. In fact as standards of living go up, many people who are employed look for alternative means of earning more income, hence activities like poultry keeping are becoming very lucrative. Therefore, farm MSEs should specialize in producing chicken, eggs, fruits, and vegetables for the tourist hotels. As countries are looking for ways of diversifying the tourism product, one way is through food testing in food festivals by the tourists. Ngomongo Village offers tasting of indigenous food to tourists. Preparation of indigenous foods by the hotels can offer an

opportunity to small scale food suppliers. The opportunity for MSEs to supply food to hotels was also discussed by Jansen (2001) as he looked at the MSE opportunities offered by the rise of cultural villages in South Africa.

The findings of this study support those of Batt and Parining (2000) and Telfer and Wall (2000) but are contrary to the findings by Bachmann (1988), Migot-Adholla et al. (1982) and Jommo (1987). Therefore, the findings of this study are of utmost importance as food purchases constitute one-third of all tourist expenditure (Belisle, 1983) and thus presenting an opportunity to stimulate local agriculture and generate income and employment in the local economy (Telfer and Wall, 2000). Stimulation of local agriculture to supply tourist hotels is important as this will provide jobs and income to many people.

4.8.1.2 Opportunities in Security Services

Currently, about 40.9% of security services are offered internally by the large hotels employing their own security personnel. However, some hotels supplement this by outsourcing security services from large security firms like Group Four Security. Most hotels (56.8%), responded that security services are provided by large businesses. No security services are currently offered by micro and small businesses. The reason for this is that hotels need many security guards. This supports the finding by Kirsten and Rogerson (2002) who found out that small security companies may not have sufficient scale to provide unfaultable security services to large hotels. However in the future, this may be possible as most firms providing security are tending towards the use of security gadgets such as security cameras, which reduces the number of people employed as security personnel. Other findings by Alila and McCormick (1999) point out that one third of the large tourism firms outsourced security services; however this was in the case of large tour operators.

4.8.1.3 Opportunities in Selling of Handicrafts

Almost all the large hotels (75%) reported that selling of handicrafts and curios was a current opportunity for micro and small scale businesses. However, currently some of the hotels sell their own handicrafts to tourists or have rented hotel premises to a micro

and small scale business owner to sell the handicrafts within the hotel. All the respondents in this case reported that in the future, this will be an opportunity accorded to micro and small scale enterprises. This finding is supported by Jansen (2001) and Roe et al. (2002).

4.8.1.4 Opportunities in Maintenance and Repair Services

Of the interviewed hotels, 28.3% said that maintenance and repair services are currently being offered internally, by the hotels, as they have employed people to undertake these activities. The majority of the respondents, 69.6% said that these services were currently available to MSEs and will also be available in the future. These findings support Rogerson (2002) who found out that at Umngazi in South Africa, electrical repairs and certain building works were outsourced from MSEs.

4.8.1.5 Opportunities in Housekeeping Services

Housekeeping services include room cleaning and laundry services. Currently, cleaning services for guest rooms, offices, or hotel grounds are offered internally. Many hotels have employed people to undertake these activities. Asked why most of the hotels employ cleaners, the respondents gave the reason that they felt that it was safer this way as this reduces the risk of theft of guests' belongings or hotel items as it is easier to control the activities of employees than outsiders. However, the respondents agreed that it may be cheaper to out source cleaning services and that in the future they may consider this option. As to whether room cleaning services will be a future opportunity to MSEs, most respondents affirmed this. In case this service will be availed to MSEs in the future, such MSEs will have to have equipment like vacuum cleaners and lawn mowers so that more work can be done by less people. They agreed that this might be an opportunity for micro and small enterprises in the future if security measures are beefed up.

The provision of room cleaning services as a future opportunity to MSEs is supported by Karrim and Lambrechts (1999) in Kirsten and Rogerson (2002) who found out that there was out sourcing of the non-core activity of room cleaning by hotels. Outsourcing is advantageous in that it reduces the number of paid employees by the hotel and this is considered as a cost cutting measure.

Hotels need laundry services so as to clean staff uniforms, table linen, bed sheets etc. The study found out that 90% of the respondents had internal laundry services. It was also found out that 79% of the respondents said that laundry services were an opportunity for MSEs at the present time as well as in the future. Micro and small scale enterprises can be able to exploit this opportunity by having washing and drying machines. In South Africa, laundry services are an opportunity for MSEs as found out by Jansen (2001).

4.8.1.6 Opportunities in Child Care Services

Some hotel guests are sometimes accompanied by their young children. Such guests may sometimes require child care services in case they would wish to undertake an activity in which the presence of the child will be a hindrance. From the study, 17% of the hotels said that these services were provided internally by the hotel, while 57% said that this opportunity was currently available to MSEs. Additionally, 74% of the hotels said that this opportunity will be available to MSEs in the future.

4.8.1.7 Opportunities in Building Materials Supply

In case a hotel would need to expand, it can decide to build another wing and thus would need building materials. Asked as to whether the supply of building materials will present an opportunity to MSEs, 25% responded that it is unavailable as their building materials are supplied by large companies. None of the building materials are supplied internally. However, 75% of the respondents affirmed that this is an opportunity currently available to MSEs and will also be available to them in the future.

4.8.1.8 Opportunities in Garbage Collection

Hotel waste needs to be collected and disposed of properly so as minimize environmental pollution. Garbage collection and disposal is thus one activity which the study sought to determine whether it was undertaken by the hotel itself or outsourced from other firms. It was found out that 31% of the respondents collected and disposed of their waste. Of the surveyed hotels, 53 % said that garbage collection is an opportunity currently available to the MSEs while 60% said that this opportunity will be available to MSEs in the future. It was also found out that 9% of the respondents said that this

opportunity is not available to MSEs as it was being undertaken by large organization, municipal council or county council.

4.8.1.9 Opportunities in Transportation Services

Transportation is an important activity in the tourism sector. Tourists have to be transported to and from the airport as well as for shopping and site seeing. Asked as to whether transportation services are an opportunity available to MSEs or not, 79% of the hotels said that this opportunity is currently available to MSEs as well as in the future. MSE transportation services are provided by two sources. Firstly are the private taxi owners who park outside or inside the hotels or at the airport as they wait to transport guests. Other than private taxi owners, there are also small tour firms that transport guests sometimes to national parks. These have build connections with hotel employees such that they get information when guests need transportation services. Moreover, 19% of the respondents said that transportation was provided internally. These hotels own buses or minibuses to transport their guests. However, 2% of the respondents said that transportation services are not available to MSEs.

The results above indicated that there were opportunities for MSEs in food supply, laundry services, garbage collection, supply of building materials, maintenance and repair, handicrafts and souvenirs, child care services, transportation services, and room cleaning services. These opportunities were currently available as well as in the future. However, apart from food supply, many MSEs are not currently exploiting these opportunities. The reason for non-exploitation was because of the disorganization of the MSEs as well as lack of capacity.

4.8.2 Challenges Faced by MSE in Exploiting Opportunities

When asked to identify problems that they face, all the MSE owners mentioned lack of finances and that credit from formal financial institutions was too costly for them. Additionally the respondents said that conventional financial institutions regarded businesses in the tourism sector as a high risk. This coupled with lack of collateral made accessing finance from conventional financial institutions difficult. As a result, this had inhibited their growth as most of them depended on credit from informal sources such as

merry-go-round (revolving fund) or from friends and relatives as this type of credit did not require collateral. As much as they mostly relied on savings, these businesses had very limited savings. As Jommo (1987) noted, 'all respondents would prefer the government to make loans available, or remove, or urge financial institutions to remove, the requirements for collateral'.

Another common problem was lack of government support. Most of the owners decried the many licenses required by government institutions to run the business. In addition lack of training especially on how to run a business was another problem cited by the MSE owners. Most of the owners agreed that training was important and that if such training were offered free, they would be willing to attend. However, the government had left this to non-governmental organizations who offered this training for a fee. As noted by Rogerson (2002), 'poor levels of education and training do not equip them to compete effectively in the increasingly knowledge based tourism industry.'

As for the handicraft businesses, these cited competition from the large tourist hotels as another major problem. Such hotels instructed tourists not to buy anything from outside the hotel especially for those hotels that sold curios, though the curios they sold within the hotels were far much more expensive than those sold by MSEs outside the hotels. Some of the hotels went as far as warning tourists that there was a lot of crime and violence and they were not safe shopping outside the hotel. Related to this was the fact that tourists spent little time shopping for curios in these businesses especially those who were accompanied by tour-guides. The guides had their own preferred sellers where they directed the tourists to hence the sellers who were not in good terms with the guides do not get any customers for their products. They also faced the problem of high rent for the stalls and during low season, they spent almost everything they earned to pay rent in order to keep the stall.

In addition, most business owners cited the problem of lack of demand for their products especially during the low season when foreign tourists are few. This calls for alternative markets in order to overcome the seasonality factor. Furthermore, they cited that access to new or established markets was limited for the local people who said that Asians had dominated this opportunity.

The taxi business owners and small tour operators identified competition from the hotels that had transport services and tour operators such as Kuldip and Pollmans Tours, who transport tourists from the airport to hotels, to game parks and other cities. They also cited lack of safety especially at night.

Inadequate funding by the government in the tourism sector was yet another problem. The government had not taken any initiative to fund or assist the tourism micro and small scale enterprises. Basically there had been no government initiated programmes to support these businesses which are very important. In fact, some of the curio owners suggested that it would be a welcome move if the government just assisted them by specifying what products the large hotels should deal in and the products that the small curio shops should deal in so as to minimize the animosity between these two groups as they compete for the same customers.

CHAPTER FIVE

CONCLUSION AND RECOMMENDATIONS

5.1 Summary and Conclusions

The contribution of tourism to the growth of farm and non-farm MSEs at the Kenya Coast has not been well documented yet these businesses are owned and draw labor from locals. Similarly, hotel consumption of local products from MSEs was yet to be measured. The study therefore sought to examine the influence of entrepreneur and business characteristics on the growth of farm and non-farm MSEs along the Kenyan Coast, document hotels' consumption of goods and services from farm and non-farm MSEs, determine tourism's contribution to the growth of farm and non-farm MSEs, determine the hotel characteristics that influence the choice of supplier of tourist hotels' products and identify current and future opportunities available to farm and non-farm MSEs in the tourist hotels. A multi-stage sampling technique was used. A total of 449 MSEs were interviewed and data analyzed using both qualitative and quantitative techniques.

Descriptive results showed that MSE owners were mostly men, fairly young, married and had a relatively high education level with the motivation of starting the business being mostly to have a source of income. Most of these businesses were in the micro category with between one and five employees, with the dominant mode of ownership being sole proprietorship. These entrepreneurs mostly used their personal savings or informal credit to start the business. The entrepreneur and business characteristics that were found to significantly influence MSE growth included age of the business, business income, marital status, number of employees, form of business organization. Therefore MSEs had to have experience, more employees, pool resources and more income if they were to realize more tourism sales.

Tourism was seen to contribute significantly to MSE growth. Results showed that tourism factors like tourist expenditures, number of tourists visiting the country and number of tourist activities in the country had a significant effect on the growth of the interviewed MSEs. Additionally, most of the respondents affirmed that tourism affected their businesses positively. Growth of the interviewed businesses was also considered in

terms of addition of new products, increase in the activities of the businesses as well as starting other businesses.

The tourist hotels were on average owned and managed by Kenyans indicating that there is a change in ownership and management from foreigners to Kenyans. Most of the customers of these hotels were foreign tourists from European countries indicating that Europe was an important continent for Kenyan tourism.

Further, results revealed that majority of the hotels preferred purchasing from local suppliers so long as they were able to meet their purchase specifications. The findings also showed that a large percentage of food stuff such as meat, eggs, chicken, fish, milk and produce as well as flowers are mostly purchased from small suppliers. This therefore presents an opportunity for MSEs to supply these products to the hotels.

Whether a hotel purchased its products mostly from MSEs or large businesses was determined by factors such as age of the hotel, bed capacity and number of employees. All these factors were found to have a significant impact on the sources of supply of hotel products. Thus the hotels that mostly purchased from MSEs were relatively smaller in terms of bed capacity and number of employees as well as being relatively new in operation.

The findings on the opportunities available to MSEs in the large hotels indicated that there exists opportunities in the areas of food supply, laundry services, handicrafts and souvenirs, transportation, room cleaning services, maintenance and repair, child care services, and supply of building materials. The opportunities that were found to have the most potential were food supply, garbage collection, maintenance and repair, handicraft and souvenir, child care services, security and room cleaning services.

These results point to the possibility of hotels outsourcing these products and services from MSEs in the future. The tourism industry is vital to the growth of MSEs. If products needed in the tourism industry are sourced locally and these products are integrated into the tourism product, the local economy will benefit in terms of improved livelihoods, employment and investment. Sales to hotels represent opportunities for market expansion, product development as well as increased incomes.

For the hotels, building linkages with local farmers or MSEs creates opportunities since local products add to the customer experience. This opportunity is also important for MSE growth, improving rural household income and poverty reduction.

5.2 Recommendations

Tourism can only be sustainable and benefit local people if it promotes the growth of MSEs. In order to reduce foreign exchange leakages, hotels should purchase local products as opposed to importation. As such, to assist MSEs in exploiting the opportunities available in the tourism sector, many interventions can be undertaken. Firstly, there can be training for MSE owners. This training can be in the form of tourism education. The government should come up with a programme to improve the skill-base of entrepreneurs in terms of tourism education since as tourism activities expand, so does the need for tourism education. Additionally, the government should establish a training organization which will function as the overarching training authority in the tourism industry. Apart from the government initiative in training, private firms can also be encouraged to open tourism and travel schools. However, there should be coordination and integration of training activities to avoid duplication of curricula and training.

Another way to help the MSEs is for the government to provide tourist information for example the number of tourists expected in the country. This can be disseminated from bureaus or offices. Information should also be provided on tourism activities in the country.

The government should also increase the number of tourism activities in the country. This can be achieved by having more cultural festivals, and other events that attract tourists. This can be a way of diversifying the country's tourism product.

In addition, efforts should be undertaken by such bodies as the Kenya Tourism Board to hold seminars to educate the large scale hotel owners and management on the importance of linkages between their organizations and MSEs and the importance of outsourcing products and services from these organizations. Such seminars should bring together these two groups in order to emphasize the importance of their co-existence.

Another intervention can be through the large tourism business owners to undertake responsible tourism by expanding linkages with local micro and small

businesses in order to promote local sourcing of goods and services. An affirmative procurement programme can be developed in order to allow large scale hotels and other businesses to purchase certain goods and services from micro and small scale businesses. This will enable MSEs to have ready customers for their products. Hotels can assist MSEs by giving them more business, making hotel premises more accessible to them and also making prompt payments for goods or services bought.

There can also be an initiative by the government and the hospitality sector to sensitize the local communities and MSEs that are in close proximity to tourism attractions of the available opportunities in the tourism industry and to encourage them to take advantage of these opportunities. This can be through training and seminars so as to change their attitude and be able to participate in tourism.

MSEs should also be join business associations since membership in associations is a form of networking. Through networking, the MSEs can be able to get resources for their businesses. The MSEs can also form a cooperative society which will be able to negotiate for the members. Cooperatives will also assist in coming up with quality products as well as the quantities and consistency in supply required by the hotels. The cooperatives can process and preserve local produce when supply exceeds demand. In addition, cooperatives can be a source of information to MSEs on opportunities available both locally and internationally.

Farmers should produce for the tourism industry. They should find out the food requirements of the hotels and supply these in the quality and quantities that are required. They can also grow exotic crops to meet market demand.

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APPENDICES

APPENDIX 1

Questionnaire for Farm MSEs

Section 1: Respondents Characteristics

1. Indicate the gender of the owner of the business: ☐ Male ☐ Female
2. Give the age of the owner:years.
3. Years of formal schooling of the owner of the business.....years
4. Business Training: ☐ No training ☐ Apprenticeship ☐ Vocational training
☐ College courses ☐ other (explain).....
5. What is the owner's marital Status? ☐ married ☐ single ☐ Divorced
☐ widowed
6. If married does your spouse work in the business? ☐ Yes ☐ No
7. Is the business your only source of income? ☐ Yes ☐ No
8. If no does the business provide you the most income? ☐ Yes ☐ No
9. What other sources of income do you have?
☐ Employment outside the business ☐ retirement benefits ☐ inheritance

Section 2: Business characteristics

1. Location of business ☐ Diani ☐ Mombasa ☐ Malindi (Not to be asked)
2. What types of farm products do you sell?
☐ fruits.....
☐ Vegetables.....
☐ Poultry
☐ Eggs
☐ Flowers
☐ others (explain).....
3. How many businesses do you own?.....
4. In what year did you begin operating the business?
5. Did you start this business? ☐ Yes ☐ No
6. If no how did you acquire it?
☐ purchased it
☐ inherited it

7. What was your motivation to start or acquire this business?

- ☐ As a source of income
- ☐ Encouragement from friends
- ☐ Retirement venture
- ☐ To be self employed
- ☐ To provide income to family members
- ☐ All the above

8. What was the source of capital you used to start or purchase the business?

- ☐ Savings
- ☐ Loan from friends and relatives
- ☐ Loan from financial institutions
- ☐ No money needed (for inherited the business)

9. What was the amount of start up or purchase capital?

- ☐ Start the business (kshs).....
- ☐ Purchase the business (kshs)
- ☐ None (inherited the business)

10. Give the number of employees in the business.....

11. What is the ownership status of the business?

- ☐ Sole proprietorship
- ☐ Partnership
- ☐ Cooperative society
- ☐ Limited liability Company

12. What is the value of all business assets?

- ☐ Buildings (kshs.).....
- ☐ Inventories (kshs).....
- ☐ Cash (kshs).....

13. Have you ever utilized a loan in your business?

- ☐ Yes
- ☐ No

14. If yes what was the source of the loan?

Source of loan	Amount	purpose
Banks		
Microfinance institutions		
Friends and relatives		
Others.....		

15. Was amount got adequate? ☐ Yes ☐ No

16. If no why?.....
.....

17. Who are your customers?

- ☐ Local residents
- ☐ Tourists
- ☐ Restaurants, bed and breakfast establishments
- ☐ Hotels and resorts

18. What percentage of products do you sell to each customer group

- ☐ Local residents%
- ☐ Tourists%
- ☐ Restaurants.....%
- ☐ Hotels and resorts%

19. If you sell to hotels and resorts how do you find these customers?

20. How do you sell to hotels and resorts?

- ☐ Direct
- ☐ Through an intermediary

21. If you sell direct, what are the advantages?

- ☐ Receive more money for products
- ☐ Not subject to control of middlemen
- ☐ Closer to the customer
- ☐ Others

22. What are the problems of selling direct?

- ☐ Difficulty in reaching the customer
- ☐ Lack of marketing experience
- ☐ Increased taxes when selling direct
- ☐ Inadequate education
- ☐ Lack of means of transport
- ☐ Lack of information about customers
- ☐ Others.....

23. If you sell through an intermediary what are the advantages?

- ☐ Not required to deliver products
- ☐ No hustle of looking for means of transport
- ☐ Don't have to establish contacts
- ☐ Others.....

24. What are the problems of selling through an intermediary?

- ☐ Lower prices
- ☐ Delayed payment
- ☐ Under their control
- ☐ Others.....

25. Are you able to meet the quantity demand of:

(a) local residents	☐ Yes	☐ no
(b) tourists	☐ Yes	☐ no
(d) restaurants and bed & breakfasts	☐ Yes	☐ no
(e) hotels and resorts	☐ Yes	☐ no

26. If No, give reasons (for each customer group mark the reasons appropriate)

	Local residents	Tourists	Restaurants, B&B	Hotels and resorts
(1) inadequate capacity to meet the demand				
(2) Inconvenient supply system				
(3) Lack of enough capital to purchase inputs				
(4) Technological limitations				
(5)Poor growing conditions (in case of farm business)				

27. Are you able to meet the quality expectations of:

(a) local residents	☐ Yes	☐ no
(b) tourists	☐ Yes	☐ no
(d) restaurants and bed & breakfasts	☐ Yes	☐ no
(e) hotels and resorts	☐ Yes	☐ no

28. If no give reasons

	Local residents	Individual customer	Restaurants, B&B	Hotels and resorts
(1) lack of capital to purchase packaging and processing materials				
(2) Transportation problems				
(3) others.....				

29. What are the advantages and disadvantages of selling to each customer group?

Customer group	Advantages	Disadvantages
(a) local residents	(1) (2) (3)	(1) (2) (3)
(b)tourists	(1) (2) (3)	(1) (2) (3)
(d) restaurants and bed & breakfasts	(1) (2) (3)	(1) (2) (3)
(e) hotels and resorts	(1) (2) (3)	(1) (2) (3)

30. What kind of buyers work best for your operation currently?

- ☐ One who is consistent
- ☐ One buying in large quantities
- ☐ Exclusive buyer
- ☐ Others

31. Do you have access to information on future tourist activities in the country?
- ☐ Yes ☐ No
32. If yes, where do you get the information?
- ☐ Through government sources
- ☐ Through newspapers
- ☐ From hotel employees
- ☐ From number of tourist customers
- ☐ Others
33. Does the number of tourists visiting the country have an effect on your business?
- ☐ Yes ☐ No
34. If yes to what extent
- ☐ To a great extent
- ☐ To a moderate extent
- ☐ To a small extent
- ☐ To no extent
35. Does the number of tourism activities in the country affect your business?
- ☐ Yes ☐ No
36. If yes in what way.....
37. In what ways does tourism affect your business? (list).....
-
-
38. Has there been changes in business activities due to increased tourism activities?
- ☐ Yes ☐ No
39. If yes in what ways
- ☐ Increased production
- ☐ Started another business
- ☐ Developed new products
40. What was your revenue in 2006? Kshs.....
41. What percentage of this revenue was from tourist activities?
42. Did your revenue increase or decrease between 2002 and 2006?
- ☐ Yes ☐ No

43. If yes by what percentage

☐ Increased by%

☐ Decreased by%

44. Has there been any changes in value of assets between 2002 and 2006?

☐ Increased by kshs.....

☐ Decreased by kshs.....

☐ No change

45. Has there been any changes in number of employees between 2002 and 2006?

☐ Increased byemployees

☐ Decreased by employees

☐ No change

46. Have your products changed since you started the business ☐ Yes ☐ No

47. If yes, what products have you added or phased out (list)

-Added :.....

-Phased out:.....

-Modified

48. Give reasons as to why products changed.....

.....

.....

49. What methods do you use to market your products

☐ Word of mouth ☐ fax ☐ mobile phone ☐ e-mail ☐ website

☐ Visit hotels for orders ☐ Others.....

50. Have these methods changed since 2002?

☐ Yes ☐ No

If yes explain.....

51. Are there any benefits with the new marketing technology? ☐ Yes ☐ No

52. If yes list them.....

.....

53. Do you have partnerships with other organizations?

☐ Yes ☐ No

54. If Yes what type of partnerships?.....

55. Tick where appropriate

Partnerships ☐ Yes ☐ No	Share training ☐ Yes ☐ No	Share marketing activities ☐ Yes ☐ No	have manufacturing or technological linkages ☐ Yes ☐ No
If yes with which organisations? ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises	If yes with which organisations ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises	If yes with which organisations ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises	If yes with which organisations ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises

56. What type of linkages do you have?

- ☐ Support alliances (sharing of personnel training, marketing, advertising, distribution)
- ☐ Technology and manufacturing linkages (joint ventures, joint manufacturing)

57. If no business linkages explain why

58. Are you a member of any professional associations?

- ☐ Yes ☐ No

59. If yes, list these associations
.....

60. How do you benefit from being a member of professional associations?

- ☐ Get customers for products
- ☐ Get information
- ☐ Get resources (give examples)
- ☐ Get partners

62. How do you utilize profits from tourism related activities?

- ☐ Re invest in the business
- ☐ Take it back to the rural areas to improve farm production
- ☐ Start other business related to tourism
- ☐ Others

APPENDIX 2

Questionnaire for Restaurants and Bed &Breakfast; Taxi &Hire companies, Curio and Handicraft Businesses

Section 1: Respondents Characteristics

1. Indicate the gender of the owner of the business: ☐ Male ☐ Female
2. Give the age of the owner:years
3. What is the education level of the owner: (in terms of years of formal schooling).....years
4. Business Training: ☐ No training ☐ Apprenticeship ☐ Vocational training
☐ College courses ☐ other (explain).....
5. What is the owner's marital Status?....☐ married ☐ single ☐ Divorced ☐ widowed
6. If married does your spouse work in the business? ☐ Yes ☐ No
7. Is the business your only source of income? ☐ Yes ☐ No
8. If no does the business provide you the most income. ☐ Yes ☐ No
9. What other sources of income do you have?
☐ employment outside the business ☐ retirement benefits ☐ inheritance

Section 2: Business Characteristics

1. Location of business ☐ Diani ☐ Mombasa ☐ Malindi (Not to be asked)
2. What type of small business(es) are you in?
☐ Hire companies and taxi
☐ Arts and Souvenirs
☐ Restaurant, Bed and breakfast
3. How many businesses do you own?.....
4. In what year did you begin operating the business?
5. Did you start the business ☐ Yes ☐ No
6. If no how did you acquire it?
☐ purchased it ☐ inherited it

7. What was your motivation to start or acquire this business?
- ☐ As a source of income
 - ☐ Encouragement from friends
 - ☐ Retirement venture
 - ☐ To be self employed
 - ☐ To provide income to family members
 - ☐ All the above
8. What was the source of capital you used to start or purchase the business?
- ☐ Savings
 - ☐ Loan from friends and relatives
 - ☐ Loan from financial institutions
 - ☐ No money needed (for inherited businesses)
9. What was the amount of start up or purchase capital?
- ☐ start the business (kshs).....
 - ☐ purchased the business (kshs)
 - ☐ None (inherited the business)
10. Give the number of employees in your businessemployees
11. What is the ownership status of the business?
- ☐ Sole proprietorship
 - ☐ Partnership
 - ☐ Cooperative society
 - ☐ Limited liability company
12. What is the value of all business assets?
- ☐ buildings (kshs.).....
 - ☐ inventories (kshs).....
 - ☐ cash (kshs).....
13. Have you ever utilized a loan in your business?
- ☐ Yes ☐ No

14. If yes what was the source of the loan?

Source of loan	Amount	purpose
Banks		
Microfinance institutions		
Friends and relatives		
Others.....		

15. Was the amount loaned adequate? ☐ Yes ☐ No

16. If no why?

17. Who are your customers?

☐ local residents

☐ tourists

18. What percentage of products do you sell to each customer group

☐ local residents%

☐ individual tourists%

19. Are you able to meet the quantity demand of:

(a) local residents	☐ Yes	☐ no
(b) tourists	☐ Yes	☐ no

20. If no, give reasons (for each customer group mark the reasons appropriate)

	Local residents	Tourists
(1) Inadequate capacity to meet the demand		
(2) Inability to meet quality required		
(3) Lack of enough capital to purchase inputs		
(4) Technological limitations		
(5) Others (explain).....		

21. Are you able to meet the quality expectations of:

(a) local residents	☐ Yes	☐ no
(b) tourists	☐ Yes	☐ no

22. If no give reasons

	Local residents	Tourists
(1) lack of capital to purchase needed inputs		
(2) lack of skilled personnel		
(3) others.....		

23. What are the advantages and disadvantages of selling to each customer group?

Customer group	Advantages	Disadvantages
(a) Local residents	(1) (2) (3)	(1) (2) (3)
(b) Tourists	(1) (2) (3)	(1) (2) (3)

24. Do you have access to information on future tourist activities in the country?

☐ Yes ☐ No

25. If yes, where do you get the information?

- ☐ Through government sources
- ☐ Through newspapers
- ☐ From hotel employees
- ☐ From number of tourist customers
- ☐ Others

26. Does the number of tourists visiting the country have an effect on your business?

☐ Yes ☐ No

27. If yes to what extent
- ☐ To a great extent
 - ☐ To a moderate extent
 - ☐ To a small extent
 - ☐ To no extent
28. Does the number of tourism activities in the country affect your business?
- ☐ Yes ☐ No
29. In what ways does tourism affect your business? (list).....

30. Has there been changes in business activities due to increased tourism activities?
- ☐ Yes ☐ No
31. If yes in what ways
- ☐ Increased production
 - ☐ Started another business
 - ☐ Others.....
32. What was your revenue in 2006? kshs.....
33. What percentage of this revenue was from tourism activities?.....

34. Did your revenue increase or decreased between 2002 and 2006?
- ☐ Yes ☐ No
35. If yes by what percentage
- ☐ Increased by%
 - ☐ Decreased by%
36. Give the changes in value of assets between 2002 and 2006
- ☐ Increased by kshs.....
 - ☐ Decreased by kshs.....
 - ☐ No change

37. Give the changes in number of employees between 2002 and 2006
- ☐ Increased byemployees
 - ☐ Decreased byemployees
 - ☐ No change
38. Have your products changed since you started the business? ☐ Yes ☐ No
39. If yes, what products have you added or phased out (list)
- Added:.....
- Phased out:.....
- Modified
40. Give reasons as to why products changed.....
-
-
41. What methods do you use to market your products?
- ☐ Word of mouth ☐ Fax ☐ Mobile phone ☐ E-mail ☐ Website ☐ Other
42. Have these methods changed since 2001?
- ☐ Yes ☐ No
43. If yes explain.....
44. Are there any benefits with the new marketing technology? ☐ Yes ☐ No
45. If yes list them
46. Do you have partnerships with other organizations?
- ☐ Yes ☐ No
47. If yes, what type of partnerships?.....

48. Tick where appropriate

Partnerships ☐ Yes ☐ No	Share training ☐ Yes ☐ No	Share marketing activities ☐ Yes ☐ No
If yes with which organisations? ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises	If yes with which organisations ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises	If yes with which organisations ☐ Non governmental organizations ☐ Microfinance institutions ☐ Universities and other research institutions ☐ Linkages with large tourism businesses ☐ Linkages with other small scale enterprises

49. What type of linkages do you have?

- ☐ support alliances (sharing of personnel training, marketing, advertising, distribution)
- ☐ Technology and manufacturing linkages (joint ventures, joint manufacturing)

50. If no business linkages explain why

.....

.....

51. Are you a member of any professional associations?

- ☐ Yes ☐ No

52. If yes, list these associations

.....

53. How do you benefit from being a member of professional associations?

- ☐ Get customers for products
- ☐ Get information
- ☐ Get resources (give examples)
- ☐ Get partners

54.How has increased activity in tourism affected your business

Restaurant, B&B	Souvenirs and handicrafts	Hire companies
☐ Increased size of restaurant	☐ Business has increased in size	☐ Business has expanded
☐ More income	☐ More and better quality handicrafts	☐ Bought more rental cars and equipment
☐ Variety in services	☐ Opened new markets or have export connections or contracts	☐ Invested in other businesses
☐ Better facilities	☐ Supply to others	
☐ Enabled diversification eg car hire		

55. How do you utilize profits from tourism related activities?

- ☐ Re invest in the business
- ☐ Take it back to the rural areas to improve farm production
- ☐ Start other business related to tourism
- ☐ Others

APPENDIX 3

Questionnaire for Tourist Hotels

1. Location ☐ Diani ☐ Mombasa ☐ Malindi (Not to be asked)
2. When was the hotel established?.....
3. What is the ownership of this business? ☐ Domestic ☐ Foreign ☐ Shared
4. Are your top managers domestic or foreign?
 ☐ Domestic ☐ Foreign ☐ shared
5. If foreign, from what country(ies) do they come from?.....
6. Number of employees ☐ Full time year round
 ☐ part time seasonal.....
 ☐ Full time seasonal
7. What is the bed capacity of the hotel?.....beds
8. What percentage of customers are domestic?%
9. From what countries do your foreign customers come from?
.....
.....
10. Do you purchase products locally? ☐ Yes ☐ No
11. Do you import any products? ☐ Yes ☐ No

12. Indicate the Products bought locally and those imported

Product	% Bought from MSEs	% Bought from large businesses	% Imported
☐ Fruits	%	%	%
☐ Vegetables	%	%	%
☐ Produce	%	%	%
☐ Meat	%	%	%
☐ Dairy	%	%	%
☐ Eggs	%	%	%
☐ Baked goods	%	%	%
☐ Milk	%	%	%
☐ Fish	%	%	%
☐ Flowers	%	%	%
☐ Furniture and furnishings	%	%	%
☐ Maintenance products	%	%	%
☐ Kitchenware	%	%	%
☐ Security services	%	%	%
☐ Alcoholic products	%	%	%
☐ Others	%	%	%

13. What are the advantages of local purchase of products?.....
.....
.....

14.What are the disadvantages of local purchase?.....
.....
.....

15. For imported products give reasons for importation

Reasons for importing	Fruit and vegetables , flowers	Eggs, meat and poultry	Fish	Milk	Baked goods	non-agricultural products
No local production						
Insufficient local quantity						
Poor local quality						
Inconvenient supply system						
High local prices						
Irregular local supply						
Tourists tastes and preference						

16. What factors are important when making local or within the country buying decisions

☐ Price ☐ Quality ☐ Quantity ☐ Supply reliability

17. Would you prefer to purchase all products locally? ☐ Yes ☐ No

18. Do you have purchase specifications that prohibit you to buy local products?

☐ Yes ☐ No

19. If yes, what are the specifications?.....
.....

20. If yes what can be done to encourage local purchase

- ☐ Have producer cooperatives
- ☐ Share transportation expenses
- ☐ Streamline ordering
- ☐ Have more farmers markets
- ☐ Have government subsidies to MSEs.
- ☐ Government to have quality control
- ☐ Listing of producers
- ☐ Others

21. How do you purchase your products? ☐ Direct ☐ From middlemen

22. If you purchase directly from producers what are the advantages and disadvantages

.....

.....

.....

23. If you purchase from middlemen what are the advantages and disadvantages.....

.....

.....

.....

24. What type of arrangements do you have with suppliers?

- ☐ sport market ☐ formal contracts ☐ informal contracts ☐ Others (explain)

25. Do the suppliers meet your quality standards? ☐ Yes ☐ No.

If no why

.....

26. Are suppliers dependable in terms of on- time delivery? ☐ Yes ☐ No

27. If no why?

.....

28. Do local suppliers meet your quantity requirements? ☐ Yes ☐ No.

29. If no why.....

.....

30. Do you allow the tourists to purchase locally produced goods outside the hotel?

- ☐ Yes ☐ No

31. If yes what type of products
☐ souvenirs ☐ clothes ☐ food beauty services ☐ Others.....

32. If no why?.....
.....

33. Do you support your suppliers ☐ Yes ☐ No

34. If yes how do you support them?

- ☐ Assistance in financing
- ☐ Training
- ☐ Long term contracts
- ☐ On time payment for products sold
- ☐ Enhanced access to premises when supplying products

35. What current and future opportunities does your hotel avail to MSEs

Opportunity	Currently available	Available in the future
Food supplies		
Laundry operations		
Rubbish removal		
Building material supplies		
Maintenance and repairs		
Craft production and sale		
Child care services		
Transport services		
Security services		
Room cleaning		

36. Would you consider that your hotel assists MSEs? ☐ Yes ☐ No

37. If yes how?
.....
.....

APPENDIX 4:

Correlations Matrix of Hotel Variables

		Location	Ownership	Bed capacity	Age of Hotel	Total employees	Management	Source of supply
Location	Pearson Correlation Sig. (1-tailed) N	1	.262(*) .035 49	-.246(*) .044 49	.168 .125 49	-.272(*) .029 49	.229 .057 49	.160 .136 49
Ownership	Pearson Correlation Sig. (1-tailed) N	.262(*) .035 49	1	-.239(*) .049 49	-.176 .113 49	-.139 .171 49	.507(**) .000 49	.046 .376 49
Bed capacity	Pearson Correlation Sig. (1-tailed) N	-.246(*) .044 49	-.239(*) .049 49	1	.316(*) .013 49	.230 .057 49	.043 .383 49	-.308(*) .016 49
Age of Hotel	Pearson Correlation Sig. (1-tailed) N	.168 .125 49	-.176 .113 49	.316(*) .013 49	1	.045 .382 49	-.270(*) .030 49	-.533(**) .000 49
Total employees	Pearson Correlation Sig. (1-tailed) N	-.272(*) .029 49	-.139 .171 49	.230 .057 49	.045 .382 49	1	.167 .125 49	.092 .265 49
Management	Pearson Correlation Sig. (1-tailed) N	.229 .057 49	.507(**) .000 49	.043 .383 49	-.270(*) .030 49	.167 .125 49	1	.256(*) .038 49
Source of supply	Pearson Correlation Sig. (1-tailed) N	.160 .136 49	.046 .376 49	-.308(*) .016 49	-.533(**) .000 49	.092 .265 49	.256(*) .038 49	1

* Correlation is significant at the 0.05 level (1-tailed).
 ** Correlation is significant at the 0.01 level (1-tailed).