

Moderating Effect of Government Policies and Regulations on the Relationship between Diversification Strategies and Organizational Performance among Star Rated Hotels in the Kenyan Coast

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ABSTRACT

Nowadays, organizations must exploit opportunities and avoid risks by applying relevant strategies and developing various strategic approaches that will improve their competitive edge and overall performance. One of the possible ways to improve business efficiency and performance is through diversification in light of available government policies and regulations. The purpose of this study was to evaluate the moderating effect of government policies and regulations on diversification strategies and organizational performance amidst organizational and environmental forces within star rated hotels in the coast region of Kenya. The specific objectives were; to determine the moderating effects of government policies and regulations on the relationship between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast. Notably, 36 star rated hotels were selected while 419 respondents were involved which comprised; strategic managers, tactical and operational managers. This represented a response rate of 92.4% and 80.6% for the questionnaires and interviews respectively. Stratified sampling was used to select the hotels while purposive sampling was used to select the managers. Questionnaires and interview schedules were used during data collection. Data analysis was both analyzed using both descriptive and inferential analysis. The model summary results indicate that R-Square value improves (from 0.598 to 0.617) when the moderating variable (Government policies and regulations) was added to the regression model. This means that government policies and regulations improve the relationship between related diversification strategies and performance of star rated hotels in the Kenyan Coast. The model summary results in Table 5 show that the value of R-Square improves from 0.558 without the moderating variable to 0.670 with the moderating variable. The moderating variable therefore improves the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast. The null hypothesis "Government policies and regulations do not have a significant moderating effect on the relationship diversification strategies with performance of star rated hotels in the Kenyan Coast" was rejected. In conclusion, government policies and regulations have a significant moderating effect on the effect of diversification strategies on performance of star rated hotels, annihilating the simple linear relations between predictor and outcome variables. The

government should encourage diversification among hotel industry by providing favourable environment to conduct business through reduced tax and subsidies especially during economic turbulence.

Keywords: Moderating effect, government policies & regulations, hotel performance, unrelated Diversification Strategies, related diversification strategies

INTRODUCTION

Today, the hospitality industry operates in an increasingly dynamic and challenging environment, due to diverse factors such as; stringent government policies and strategies, seasonality and the recent Covid-19 pandemic, which has disrupted almost all businesses. Therefore, organizations must be able to take action swiftly by scanning business future and responding to any obstacles or opportunity that may arise (Kalnins, 2016). Rizea (2015) advocated that firms must formulate diversification strategies to achieve efficient performance and market competitiveness. Heckman, Steger and Dowling (2016) further stated that organizations must learn to adapt in order to remain highly competitive over time in a volatile business environment. Misigo (2018) stated that the choice of a firm's diversification strategy is based on a careful assessment of its mix of resources and capabilities and must reflect market influence. Barney (2018) further believes that the determinants or sources of business performance are scarce, valuable, inimitable and irreplaceable resources.

As organizations operate in a competitive environment with the aim of improving their performance, hotels are constantly striving to meet the diverse needs of their customers and maintain a competitive edge in the market (Li & Liu, 2018). As a strategic choice, firms use diversification to crowd out new entrants and/or existing firms. In recent years, diversification has become among the most preferred strategy implemented by a good number of organizations. Diversification strategies provide organizations with different benefits from a monetary point, including lowering of cost, asset depreciation, and lowering of risk. Strategic benefits involve growing, establishing, and upgrading the organization's permanent strategic assets.

In the hospitality industry, the benefits of partnerships may range from cost sharing, risk mitigation and brand enhancement. In addition, long term business sustainability as well as geographic growth. The vulnerability of the hospitality industry has led to the strategic decision to diversify by understanding the right mix of business strength and business combination. This is important for a business to face with its competitors (Sheel, 2017). Akewushola (2015) asserts that diversification strategies enable organizations to spread their excess resources for economic benefit.

In Kenya, factors such as additional tourist attractions and leisure activities have contributed to the exponential growth of the hospitality industry (Bama. *et al*, 2022). While this growth is encouraging for the industry, the existing hotels and related businesses are threatened. This concern has prompted managers and hoteliers to seek effective ways to maintain business performance through diversification (Matarazzo *et al.*, 2021). The slowdown in the Kenyan economy, the push for privatization and the impact of globalization has made the industry vulnerable with many competitors and unattractive profit, making it very difficult for the industry to survive. The industry has increased volatility and competitiveness making it more vulnerable to fluctuations in demand, thus aggravating the situation and making survival more critical (Wanjala, 2020).

Researchers such as Ringbakk (1972) and Robert-Baum & Wally (2003) asserts that hotels must have a good strategic plan and management framework in order to survive competitive business environment. They further pointed out that a firm's survival is determined by its ability to adapt changing environments and therefore strategic planning is a tool for managing such environmental upheavals. The Kenyan Coast hotel industry is very competitive. Therefore, investors plan ahead and find advanced methods of appealing to the market. Significant investments in the business have added value to the level of service delivery on the

Kenyan coast, the main driver being diversification of business services. Succeeding in hospitality can be a daunting task for hoteliers without good customer service. Despite the excellent facilities, customers may avoid the company if diverse products are not offered.

Several studies were conducted on diversification strategies and organizational performance with varying results. While other findings show a positive relationship between diversification and performance, others hold contradictory view. However, the aspect of the simple linear relationship between diversification strategies and performance of hotel business does not take into account other moderating factors. Thus, government policies and regulations has been considered as a critical factor in the overall performance of hotel business. Government policies and regulations affect different aspects of society, including businesses, the economy, and the overall welfare of citizens. Governments use policies to address issues such as economic growth, social welfare, security, and international relations (Macrolajara et al, 2022). It is in this context that the researcher has seen the need to examine the moderating effect on the relationship between diversification strategies and organizational performance among star rated hotel in the Kenyan coast.

STATEMENT OF THE PROBLEM

The hospitality businesses continuous to operate in a dynamic and challenging environment, which promotes resilience in order to survive the diverse organizational and environmental forces (Baloch *et al.*, 2022). The hotel sector should emphasize on diversification strategies in order to motivate and develop resilience to counter these forces (Arsenieva *et al.*, 2019). Improving the competitive advantage is crucial by strengthening the business position of the hotel industry, as well as attracting new guests and generate additional benefits (Teo, 2002).

On the other hand, both national and county government plays an important role in ensuring all business operations are conducted in line with the law. To resonate with this, there are numerous regulatory policies ranging from consumers' protection to tax policies that incentivize investment. While a section of business may view government intervention with skepticism, there are also advantages of government policies that can help businesses thrive (Government of Kenya – GOK, 2021). In order to achieve its objectives, the government must implement policies. Government policies can have a significant impact on businesses by creating an environment that either supports or hinders their growth. This impact in areas such as taxation, regulation, subsidies, and infrastructure development, affect businesses' costs, competitiveness, and market opportunities. Government policies will determine many of the directions the industry will take, which have an impact in the hotel industry since just like other escorts it severely suffer from negative effect of government policies like inflation rates (Onyeonoro, 2023).

Despite numerous studies on the impact of diversification strategies on organizational performance, these studies are not devoid of government policies and regulations. Thus, irrespective of diversification strategies deployed by the hotel business one should not overlook at the available government policies and regulations in order to minimize conflict and risk associated with such. However, revealed conflicting results. Therefore, this study sought to bridge the knowledge gap between the application of related diversification strategies and organizational performance in light of government policies and regulations among star-rated hotels in the Kenyan coast.

Specific Objectives

To determine the moderating effect of government policies and regulations on the relationship between diversification strategies and organizational performance among star rated hotels in the Kenyan Coast.

Research Hypothesis

H₀₁: Government policies and regulations have no significant moderating effect on the relationship

between diversification strategies and organizational performance among star rated hotels in Kenyan Coast.

LITERATURE REVIEW

Theoretical and empirical review

Ansoff Matrix Theory

The Ansoff Model (1987) presents a strategic approach that can assist a firm to identify their future strategic growth direction. Ansoff Model itemizes four basic ways in which a firm can develop its portfolio of products and markets. Ansoff Model outlines a matrix that focuses on the firm’s present areas where competences and generic strategies is depicted. These include; market penetration, market development, and product development and diversification strategies. Diversification occurs when a business introduces a new product or enters into a new market. Organizations can only manage risk by minimizing potential harm to the business during economic turbulence through diversification approach.

The theory states that diversification is the best approach to use in order to minimize potential harm to the business during economic turbulence. Ansoff proposed three stages of diversification in three levels that include; related markets where customers and markets are new, none-related markets; customers and markets are different. Consequently, Ansoff theory relates to this study as it gives direction on how organizations can manage risks and improve their performance. The study investigated the moderating effect on diversification strategy and organizational performance among star rated hotels in the Coast region of Kenya.

Conceptual Framework

Figure 1.1 illustrates the study’s conceptual framework, showing the independent variables (related and unrelated diversification strategies) and the dependent variables (organizational performance). Ideally, the conceptual framework suggests linear or direct relationships between diversification strategies and organizational performance. However, due to the dynamic nature of the industry, there are diverse factors influencing such, and in this study government policies and regulations was regarded as a moderating variable. Thus, as shown in Figure 1.1 the relationship between diversification and performance is moderated by government policies and regulations. Government policies and regulations was operationalized through laws and legislations, and incentive programs.

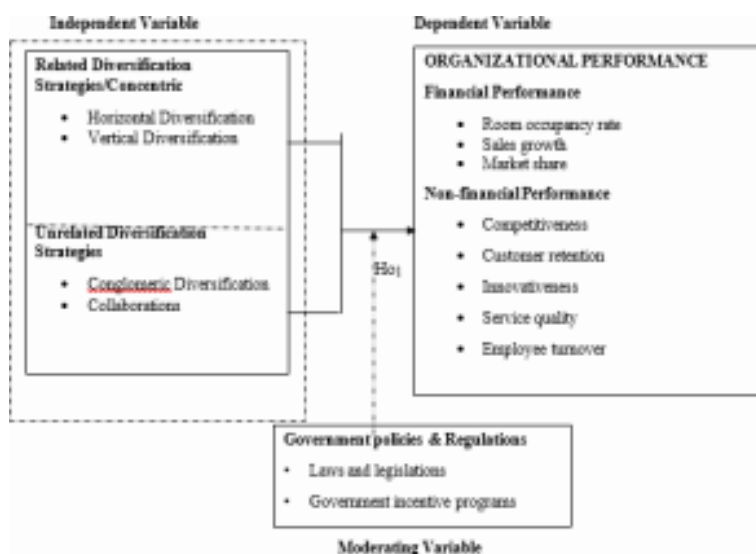


Figure 1.1: Conceptual framework. (Researcher, 2022).

Review of Empirical Literature

Business competition either at the local and international markets has become fierce thereby putting a supplementary strain on the competitiveness of firms in the small and medium enterprise sector since they have to compete in a globalized business environment that seems to favour only larger firms (Krasniqi, 2010). However, hospitality industry that is part of (Small and Medium Enterprises – SMEs) has been structurally and institutionally marginalized because of many factors, one of which is the non-supportive regulatory framework (Omar, Arokiasamy & Ismail, 2009). Joeckel, (2005) pointed out that a good legal and regulatory framework by governments is key for job creation, poverty reduction and national economic development. The legal and regulatory framework within which an enterprise operates influences its survival and growth potentials (Khan, 2019).

According to Luiz and Mariotti (2011), Abor and Quartey (2010) government policies and regulations can contribute an atmosphere for businesses, which can result to either growth or crumble. Consequently, Chen and Chang (2012) noted that government policies might inhibit creativity and innovation, improved efficiency and enhanced productivity and growth of business enterprises when the legal and regulatory framework in a given economy is excessive. Similarly, Fonseca *et al.* (2009) opined that regulatory requirements that are in most cases not well streamlined cause a lot of stress to entrepreneurs in their desire to develop their business enterprises.

Amran and Mwasiagi (2019) conducted a research study by assessing the impact of the legal framework on the performance of medium-sized manufacturing enterprises (MSMEs) in Kenya. According to the findings, Manufacturing businesses face several obstacles due to the intricate regulatory framework, tough customs and trade laws, expensive tax regimes, rigorous monetary and credit policies, corruption in the workforce, and labor regulations, all of which have a detrimental impact on diversification strategy and performance. The result further indicated that organizations' competitiveness is majorly affected by nature of the legal framework.

Otwani, Simiyu and Makokha (2017) studied the effect of corporate income tax on the financial performance of Kenyan companies listed on the Nairobi stock exchange (NSE). The findings revealed a favourable impact of corporate income tax on financial performance of companies. According to Besley and Persson (2014), government may initiate policies that lead to appropriate cost benefit to organization investing in projects. They further noted that policy might state cost estimates, which include not just the amount, invested in a project, but also the administrative and efficiency costs associated with raising any required tax revenue, which will be especially high in developing countries. This study was limited to NSE and therefore the results cannot be generalized to hospitality industry.

Estevadeordal and Taylor (2013) indicated differential tax rates for profits from export sales, import-tariff rebates on imported intermediates, and credit lines for exports as among the measures that are currently being used to promote exports and encourage participation in global value chains. Subsidies to foreign investors on the purchase of domestic inputs can achieve the same outcome as local content requirements among the organizations. However, an Industry case study conducted by Harrison and Rodriguez-Clare (2010) revealed a contrary result. The result indicated that, it usually leads to a net loss among the firm even when protection allowed domestic producers to grow and become competitive. Ohashi (2005) observed that tariffs on capital and intermediate goods are especially likely to reduce growth partly because such imports embody new technology.

According to Carvalho (2022), tax holidays and exemptions, special corporate tax structures, targeted allowances, and subsidized infrastructure are sometimes justified as a second-best option when the economy wide corporate income tax is relatively high. The emphasis is often on attracting foreign direct investment

(FDI), which is viewed as generating particularly strong spillovers, including improved technology and management techniques. Tax incentives can significantly erode revenues without achieving offsetting benefits, unless they are properly designed and time-bound (Carvalho, 2022).

Well-targeted incentives to reduce the cost of capital, including accelerated depreciation schemes, investment tax credits, and super deductions, have been used with some success in advanced economies. In contrast, open-ended and profit-based tax holidays are less effective and can erode the tax base indefinitely (Cherif *et al.*, 2022). Similarly, Banerjee and Duflo (2014) added that government could instruct banks to allocate a proportion of their lending to a particular sector thus boost production when the targeted firms are severely credit constrained. This study was general and therefore failed to be specific. In addition, the geographical scope of the study is not known.

Diversification on its own is not the sole determinant of performance of a firm. Its effect on performance can be influenced by the settings in the industry, conditions of the economy, structure of governance and the resources of the firm. When considering structure of governance many aspects come into play such as the existing laws and policies by the prevailing government which can have an impact on how diversification influences performance of a firm. Government policies and laws affect the labour, capital and product markets, which have an effect on firm performance. However, diversified firms may be attractive to employees and investors, regulatory frameworks and processes may affect the operations, which indirectly affect performance (Meijer, 2015).

METHODOLOGY

Research design

The study adopted a descriptive cross-sectional survey design since it involves an in-depth explanation of a situation (Siedlecki, 2020). Pragmatism philosophical approach was adopted which denotes that knowledge emerges from a range of specific outcomes, which is not necessarily shaped by antecedence (Cherryholmes, 1992; Kaushik & Walsh, 2019). This study was carried out in the coast region of Kenya, which is endowed with a variety of natural resources and biologically rich ecosystems and landscapes of both national and international importance pertinent in supporting hospitality industry. According to KNBS (2019) 65 percent of tourists' in Kenya visit Coastal region. The study area was in three counties namely; Mombasa, Kilifi and Kwale.

The researcher employed stratified random sampling technique in selecting the hotels. Strategic level managers, tactical managers and junior level managers were purposively chosen. Semi-structured questionnaires were used to collect data from tactical and operational managers. Structured interview schedule was used to collect data from the strategic managers since they were the key informant in this study.

Both descriptive (means and frequencies) and inferential analysis (multiple linear regression) were used to analyze data. Specifically, the study collected data from employees in selected star rated hotels working in the following departments; food and beverage, housekeeping, front office, banqueting, finance, human resources and sales and marketing. The total population per hotel category from 2 to 5 star is 8775 (TRA, 2022).

Sample Size and Sampling Techniques

The sample size for the study was computed using Yamane (1967) formula defined as:

$$n = \frac{N}{1 + Ne^2}$$

Where N is the target population, n is the desired sample size and e is the level of precision (5% for this study). Thus, $n = \frac{8775}{1+8775(0.05)^2} \cong 383$ respondents selected from middle level and lower level of management in star rated hotels along the Kenyan Coast. The respondents were allocated proportionately based on the population of each star rating category of the hotels. The study also interviewed 36 general managers as key informants for the study as shown in Table 1.

Table 1: Description of the Sample Size

Hotel Category	Population (Hotels)	Sample Size (Hotels)	Sample Size (Managers)	POPULATION	Sample Size per Hotel(Managers)
2-star	14	8	$\frac{1750}{8775} \times 383 = 76$	Tactical managers (middle level)	5
				Lower managers (operational level)	5
				TOTAL	10
3-star	14	11	$\frac{2450}{8775} \times 383 = 107$	Tactical managers (Middle level)	5
				Lower managers (operational level)	5
				TOTAL	10
4-star	13	11	$\frac{2925}{8775} \times 383 = 128$	Tactical managers (Middle level)	6
				Lower managers (operational level)	6
				TOTAL	12
5-star	6	5	$\frac{1650}{8775} \times 383 = 72$	Tactical managers (Middle level)	6
				Lower managers (operational level)	6
				TOTAL	12
TOTAL	47	36	383		
GRAND TOTAL		36 (General managers)	419		

Source: Researcher (2022)

RESULTS AND DISCUSSION

Response Rate

During data collection, 383 questionnaires were distributed while 36 general managers interviewed. The response rate was 92.4% and 80.6% for the questionnaires and interviews respectively, which according to Mugenda and Mugenda (2012) is more than adequate for drawing conclusions.

General Information of the Respondents

The results on the distribution of the respondents by gender indicated that 60.7% (215) of the respondents were male while 39.3% (139) were female. This means both genders were well represented validating the findings. On the other hand, the marital status results indicated that 68.6% (243) of the respondents were married while 31.4% (111) were single. Consequently, results on the distribution of the respondents by age indicated that 39.6% (140) of the respondents were aged 31-40 years, 35.0% (124) were aged 41-50 years, 13.6% (48) were aged 18-30 years, 10.7% (38) were aged 51-60 years and 1.1% (4) were aged above 60 years.

In terms of education level among the respondents' it was clear that 44.4% (157) had a bachelor's degree, 44.1% (156) had college (certificate/diploma) education, 8.8% (31) had secondary education while 2.8% (10) had postgraduate education level. This implies that formal training and skills absorption in the hotel industry is well embraced by hotel management as panacea of improved service delivery.

In regard to position held in the hotel by the management team it was evident that 58.2% (206) of the respondents were in lower level management (operational managers) while 41.8% (148) were in tactical management level (middle level managers). This implies that all cadres of management are well captured in the hotel industry thus playing a pivotal role in the formulation and implementation of diverse strategies and policies for enhanced performance.

In regard to terms of employment the results show that majority of the respondents, 60.7% (215) were permanently employed; 26.8% (95) were employed on contract terms while 12.4% (44) were on casual employment terms. This implies that majority of respondents are permanent and pensionable and this may lead to improved productivity and a sense of ownership concerning implementation of strategic decisions agreed.

Respondents also indicated the duration they had worked in the current hotel. The results indicated that 35.0% (124) of the respondents had worked between 1-5 years, 28.8% (102) had worked between 6-10 years, 16.4% (58) had worked for 11-15 years, 14.4% (51) had worked for above 15 years and 5.4% (19) had worked for less than 1 year. It is evident from the results that majority of the respondents (approximately 60%) had worked for more than 5 years in their current hotel and were therefore conversant with the operations of the hotel. In terms of star rating and distribution of respondents; 29.1% (103) were in 4-star hotels, 26.3% (93) in 3-star, 24.9% (88) in 5-star while 19.8% (70) were in 2-star rated hotels. This was a clear indication that respondents were evenly distributed among the star rated hotels.

Regression Model for the Moderating Effect of Government Policies and Regulations on the Relationship between Related Diversification Strategies and Performance

In order to evaluate the moderating effects of government policies and regulations on the relationship between diversification strategies and hotel performance, the moderating variable was added into the regression model to evaluate if the prediction ability of the regression model improved on addition of the moderating variable.

The model summary results in Table 2 showed that R-Square value improves (from 0.598 to 0.617) when the moderating variable (Government policies and regulations) was added to the regression model. This means that government policies and regulations improve the relationship between related diversification strategies

and performance of star rated hotels in the Kenyan Coast.

Table 2: Model Summary Results for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.773 ^a	.598	.583	.44200
2	.785 ^b	.617	.598	.41314
a. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies				
b. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies, Government Policies and Regulations				

Source: Research Data (2023)

The ANOVA results in Table 3 show that regression model in both cases (with and without the moderating variable) is significant since all the p-values are less than 0.00001.

Table 3: ANOVA Results with and Without a Moderating Variable on the Effect of Related Diversification Strategies on Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	7.903	2	3.951	20.225	.000 ^b
	Residual	68.573	351	.195		
	Total	76.476	353			
2	Regression	16.737	3	5.579	32.685	.000 ^c
	Residual	59.739	350	.171		
	Total	76.476	353			
a. Dependent Variable: Performance						
b. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies						
c. Predictors: (Constant), Vertical diversification strategies, Horizontal diversification strategies, Government Policies and Regulations						

Source: Research Data (2023)

The regression coefficients in Table 4 results show that all the p-values are less than 0.00001. Government policies and regulations have a significant moderating effect on the relationship between horizontal and vertical diversification strategies with performance of star rated hotels in the Kenyan Coast.

The null hypothesis “Government policies and regulations do not have a significant moderating effect on the relationship between related diversification strategies and performance of star rated hotels in the Kenyan Coast” was rejected.

The new regression model that includes the moderating variable is presented as:

$$\text{Performance} = 1.578 + 0.153 \text{ Horizontal Diversification Strategies} + 0.127 \text{ Vertical Diversification Strategies} + 0.213 \text{ Government Policies and Regulations}$$

Table 4: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Related Diversification Strategies on Performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	1.977	.108		18.272	.000
	Horizontal diversification strategies	.232	.037	.425	6.351	.000
	Vertical diversification strategies	.110	.028	.262	3.914	.000
2	(Constant)	1.578	.115		13.683	.000
	Horizontal diversification strategies	.153	.036	.280	4.251	.000
	Vertical diversification strategies	.127	.026	.302	4.813	.000
	Government Policies and Regulations	.213	.030	.382	7.194	.000
a. Dependent Variable: Performance						
Model 1: Government policies and regulations is excluded						

Source: Research Data (2023)

Regression Model for the Moderating Effect of Government Policies and Regulations on the Relationship between Unrelated Diversification Strategies and Performance

The model summary results in Table 5 show that the value of R-Square improves from 0.558 without the moderating variable to 0.670 with the moderating variable. The moderating variable therefore improves the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast.

Table 5: Model Summary on the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification Strategies on Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747 ^a	.558	.553	.45303
2	.820 ^b	.670	.613	.42582
a. Predictors: (Constant), collaboration, conglomerate				
b. Predictors: (Constant), collaboration, conglomerate, Government Policies and Regulations				

Source: Research Data (2023)

The ANOVA results in Table 6 show that both regression models (with and without the moderating variable) are significant in predicting performance of star rated hotels in the Kenyan Coast; the p-values are

all less than 0.00001.

Table 6: ANOVA Results With and Without a Moderating Variable for the Relationship between Unrelated Diversification and Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.437	2	2.219	10.810	.000 ^b
	Residual	72.039	351	.205		
	Total	76.476	353			
2	Regression	13.012	3	4.337	23.920	.000 ^c
	Residual	63.464	350	.181		
	Total	76.476	353			
a. Dependent Variable: Performance						
b. Predictors: (Constant), collaboration, conglomerate						
c. Predictors: (Constant), collaboration, conglomerate, Government Policies and Regulations						

The regression coefficients result in Table 7 show that all the regression coefficients are significant; all the p-values are less than 0.05.

The null hypothesis “Government policies and regulations do not significantly moderate the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast” is rejected. Therefore, government policies and regulations significantly moderate the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast. The new regression model that includes the moderating variable is presented as:

$$Performance = 1.657 + 0.097 \text{ Conglomerate diversification strategies} + 0.102 \text{ Collaboration diversification strategies} + 0.209 \text{ Government policies and regulations}$$

Table 7: Regression Coefficients for the Moderating Effect of Government Policies and Regulations on the Effect of Unrelated Diversification on Performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.096	.096		21.720	.000
	Conglomerate	.108	.029	.235	3.721	.000
	Collaboration	.124	.025	.131	2.170	.031
2	(Constant)	1.657	.111		14.947	.000
	Conglomerate	.097	.028	.124	2.011	.045
	Collaboration	.102	.024	.120	2.155	.032
	Government Policies and Regulations	.209	.030	.376	6.877	.000

a. Dependent Variable: Performance

Note: Government policies and regulations excluded in Model 2

From these results, it is evident that government policies and regulations plays major role in ensuring that hotel business operate within the confines of law. Among the notable government policies and regulations

affecting diversification as evidenced from the interviews included policies on taxation, government laws and regulations on diversification (for example, labour laws, customer protection laws), licensing and permits, government subsidies, environmental laws, health and safety of customers and workers. Taxation policies were significantly noted from majority of the interviewees to affect diversification. Further, when interviews were conducted among the hotels top management the following sentiments were made;

According to Key Informant 14:

“During mergers/acquisitions, the government charges some tax that has an effect on the overall cost of the merger or acquisition. If this cost surpasses the budget of the hotel, this hinders us from the entire process”

Key Informant 5:

“There have been very high taxes on imported gym equipment, Spa facilities and water sports equipment. This has always made it difficult and expensive for the hotel to invest fully in those sectors”

Key Informant 1:

“The hotel sector demands licenses and permits for different sections such as liquor licenses, bar licenses, health permits and county council permits among others. Diversifying also requires extra permits and licensing which are at times difficult to acquire”

For Key Informant 16, licensing and permits have been hindrances for diversification:

“Diversification requires engaging other government agencies apart from those regulating the hotel sector. The agencies have their own set of regulations and demand special permits and licenses for authorization of operations. This comes at an extra cost for the company”

Government policies noted from the interviews also included health and safety laws for the customers and workers. For example, the following response by Key Informant 21 emphasizes on this point:

“Diversification on water sports requires that we fulfill some safety regulations such as having life savers and divers in place. This has hindered us from fully exploiting a variety of beach sports available. We limit our diversification in water sports to those activities with less strict safety regulations”

Government subsidies were also notable from the interviews. For instance, Key Informant 5 stated that:

“Government through the ministry of tourism has been aiming at diversifying products and services in the tourism sector. There are subsidies for the hotels when they engage into tourism related sectors such wildlife conservation”

According to Maidugu (2019) government policies in taxation, laws, regulations, subsidies and infrastructure development, costs of doing business is affected; market opportunities and competitiveness are also adjusted. All these can affect the choice of diversification strategy. Maidugu (2019) further add that government policies and regulations determine the directions that an industry takes thus impacting the relationship of an industry with other sectors nationally and internationally.

The study's findings also concur with Nyarku (2018) who illustrated that when legal and regulatory frameworks are favorable, investment opportunities open up. Favorable laws nurture diversification opportunities. Further, Luiz and Mariotti (2011) note that government policies and regulations create an atmosphere for businesses to thrive. However, policies and regulations can also create an atmosphere in which businesses can crumble. Excessive legal and regulatory frameworks can inhibit diversification

especially if they are not well streamlined (Maidugu, 2019). Excessive laws as outlined in Fonseca *et al.*, (2007) are stressful to entrepreneurs in their desire to expand their businesses.

The findings are in agreement with Meijer (2015) who is of the opinion that diversification does not solely determine performance. Government policies and laws affect the markets, which in turn affect performance. This is further supported by Abor and Quartey (2010) who demonstrated that government policies and regulations could contribute to an atmosphere for business, which can lead to either growth or crumble of an industry. Some government policies as noted in Maidugu (2019) might inhibit or enhance creativity and innovation, efficiency and productivity of business enterprises. Greenwald and Stiglitz (2006) also noted that governments might impose tariffs and non-tariff barriers such as import quotas, local content mix and export subsidies that may affect the effect of diversification on performance. Thus, some policies by the government favour the development of a sector to make it viable for investors.

SUMMARY OF MAJOR FINDINGS, CONCLUSION AND RECOMMENDATIONS

Summary of the Study

From the regression model testing the moderating effect of government policies and regulations on the effect of related diversification strategies on performance of star rated hotels, the model summary results showed that R-Square value improved when the moderating variable (Government policies and regulations) was added to the regression model. This means that government policies and regulations improve the relationship between related diversification strategies and performance of star rated hotels in the Kenyan Coast. The regression model testing the moderating effect of government policies and regulation on the effect of unrelated diversification strategies on performance, the value of R-Square also improved indicating that government policies and regulations improve the relationship between unrelated diversification strategies and performance of star rated hotels in the Kenyan Coast.

Conclusion of the Study

From the findings of the study, the following conclusion can be drawn:

Government policies and regulations have a significant moderating effect on the effect of diversification strategies on performance of star rated hotels, annihilating the simple linear relations between predictor and outcome variables.

Recommendations for policy practice and further research

Based on the findings, the following recommendations were made;

The government should encourage diversification among hotel industry by providing favourable environment to conduct business through reduced tax and subsidies especially during economic turbulence. Further, the government should initiate policies that motivate organizations such as hotels to practice diversification to minimize negative performance to both financial and non-financial.

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