

Determinants of the Level of Revenue of Tourist Enterprises within the North Coastal Region of Kenya

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Abstract

Revenue of produced goods and/or provided services is determined by the volume of sales, prices of particular products, variety of products, ways of invoicing and period of payment. The current study was carried out at the north coastal region among tourist enterprises to establish factors that influence the amount of revenue they generate per year. The target population involved all enterprises relying on tourists for their business. They include hotel accommodation facilities, curio shops and tour companies. Simple random sampling technique was used to select a final sample of 97 enterprises, whose owners were given self administered questionnaires. Afterwards a regression on determinants of revenue by tourist enterprises was expressed as $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \varepsilon$; Where: Y – is the dependant variable; X_{1-n} – are the independent variables; β_0 – is the constant β_{1-n} – are the regression coefficients or change induced in Y by each X , while ε is the error. The results indicated that the net monthly income of enterprises was determined by the age of the enterprise ($\beta = 0.169$, $p = 0.001$), the location of the business ($\beta = 0.149$, $p = 0.038$) and the number of employees within the enterprise ($\beta = 0.703$, $p < 0.0005$). Therefore findings indicated that the main determinants of revenue for tourist enterprises at Kenya's north coast were the age of the business, business location and the number of employees.

Keywords: Tourist enterprises; Determinants of revenue; Firm; Tourist expenditures

1. Introduction

The Organization for Economic Cooperation and Development points out that tourism is one of the three main sectors of trade in international services, since higher education, more leisure time and consistent growth of employment and personal income are inducing more people to travel and to explore new regions. The world's top tourist destinations in 1996 were France, United States, Spain, Italy, and China. International tourist arrivals in France reached 61.5 million, 44.8 million in the United States, 41.3 million in Spain, 35.5 million in Italy, and 26.0 million in China. In a revised forecast announced mid-1996, the WTO predicts that international tourists, which amounted to 566 million in 1995, will grow to 702 million in 2000 and to 1,018 million in 2010, while tourist international expenditures will climb from \$393 billion in 1995 to \$526.5 billion in 2000 and 4620.5 billion in 2010.

Developed and developing nations look to the industry to have a positive impact on their economic activity, by contributing to the Gross National Product (GNP), supporting the country's balance of payments and creating employment opportunities. A country that depends heavily on revenue from tourism will have a high relative figure for contribution to GNP, and vice versa.

Compared to creating employment in the manufacturing sector, service sector jobs in tourism are seen as a relatively cheap and easy way of making employment opportunities available since the associated capital start-up costs are generally considerably lower (Ray, 1998; Crandall, 2006).

Tourism expenditure contributes greatly to the economic impacts of sectors in the tourism industry as a whole. However, direct and indirect impacts of tourism expenditure depends on the ways in which the receipts are allocated which in turn depends on the ownership and resource utilization of the tourism supplying factor (Bull, 1995). Additionally, the economic benefits of travel and tourism in an area are the gross contributions to resident's income and wealth resulting from the presence of travelers who make expenditures in the area (Ritchie, 1994; Fretchling, 2000). It is thus measured in monetary terms to determine levels of income over and above levels that would prevail in the absence of the activity under study *Ceteris Paribus* (Ritchie, 1994). The role of tourism in the generation of earnings and employment, as well as its contribution to investment, government revenue and balance of payments is well recognized and understood (Cleverdon, 1979; WTO, 1998; 2001a; 2001b). Consequently, destinations become involved in tourism due to the potential economic and other benefits that can be derived from it (Odunga, 2006). According to the World Travel and Tourism Council (WTTC) 2004, tourism generates around 214.7 million jobs worldwide (or 8.1 per cent of world employment) and accounts for over 10 per cent of global Gross Domestic Product (GDP).

Locally, Kenya provides a good example of a developing country that has embraced tourism as a tool for socio-economic development (Sindiga, 1999; Odunga, 2006; Akama and Kieti, 2007). Tourism is one of the leading foreign exchange earner, only coming after tea, and contributes immensely to employment generation. Kenya has become a popular tourist destination for visitors from Europe, North America and emerging tourist generating regions, particularly South East Asia. Tourism also leads to income generation, provision of resources

for investment and generation of government revenue through taxation (Sindiga, 1999).

From the 2008 Economic Survey, Kenya's economy has been on a recovery path since 2003, after a slump in the late 1990s and early 2000. The renewed expansion has mainly been on account of the economy's resilience, improved business confidence, stable macro-economic environment, and a rebound of the global economy. Real Gross Domestic Product is estimated to have expanded by 7.0 per cent in 2007 compared to a revised growth of 6.4 per cent in 2006 (GoK, 2008). The Kenya Tourism sector performed very well in 2007 earning the country an estimated Ksh. 65.4 billion representing a 16.4 per cent increase over the Ksh. 56.2 per cent earned in 2006. This made tourism not only a socio-economic driver but one of the largest categories of international trade. This was in part as a result of 23.6 percent expansion in foreign travel earnings from Ksh. 49.6 billion in 2006 to Ksh. 61.3 billion in 2007. The volume of international arrivals grew by 13.5 per cent from 1,600.6 thousand recorded in 2006 to 1,816.8 thousand in 2007. This was attributed to sustained marketing in the traditional markets and in the Far East. The improvement was also supported by the growing conference tourism and the launch of new tourism circuits as value addition to compliment the traditional products of beach and wildlife.

Kenya's coastal region is a key attraction to international tourists visiting the country. In retrospect the region attracts many investors who want to invest in tourism related enterprises. As a result, this study was carried out in order to establish factors that greatly contribute to revenue levels of tourist related enterprises.

1.1 Theoretical framework

Revenue makes up the prime part of a firm's yield corresponding to money gained through selling goods and services in a particular accounting year (Krizanova and Hrivnak, 2006). They make up the main financial source of the firm, which is used to pay fees, taxes, costs and dividends, and as an instrument of extended reproduction.

The revenue of produced goods and/or provided services is determined by the volume of sale, prices of particular products, variety of products, way of invoicing and period of payment. The firm may influence the volume of sale, but to a large extent it is limited by production capacity and demand. Prices are the result of interaction of demand and supply. They are affected by a structure of a market, thus the firm can influence them only to a certain extent. But the variety of goods lies in the firms hand so its revenue is affected by optimization.

Therefore the firm can raise its revenue by increasing volume of sales and price of products, improving quality and technical level, introducing new goods, improving customer services and introducing more effective advertisement.

This greatly applies to tourism enterprises which depend on tourist expenditures for their revenue. Revenue accrued is used to pay rent, rates, cost of running the business, salaries, dividends and keep the rest as profits. However, for tourist enterprises to benefit more from tourism, they have to maximize on sales that is achieved through marketing. They must also diversify tourism products and make mode of payment for services rendered easier to guarantee returns. In addition, tourist enterprises should blend their offerings with customer care services aimed at generating loyalty among guests.

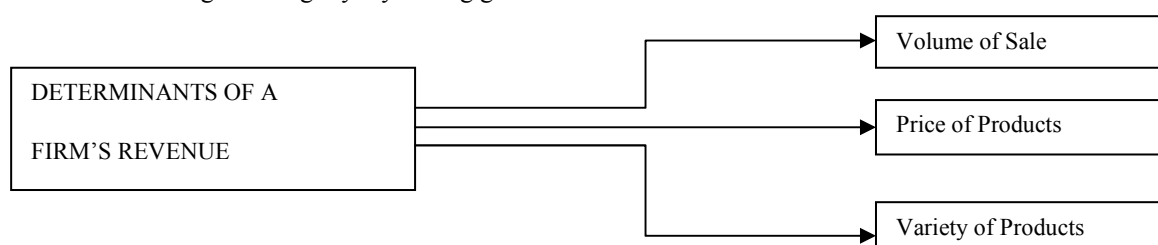


Figure 1 Theoretical framework on determinants of a firm's revenue

Source: Krizanova and Hrivna, 2006

1.2 Aims of the study

The study aimed at accomplishing five objectives. These are: To determine the number of employees within the business enterprise; To establish the age of the business; To determine the distance in location of the business enterprises from the central business district; To establish whether business enterprises were seasonal in nature; To establish the determinants of level of revenue among tourist enterprises.

Consequently, one hypothesis was tested:

H₀ Age of business, number of employees, distance of location from the central business district, seasonality and revenue levels of tourist enterprises do not determine the level of revenue among tourist enterprises.

2. Research methodology

The study was undertaken at the North Coastal region of Kenya. The coastal region was chosen because the Kenyan coast is a premium tourist attraction due to its long coast line and pristine beaches. In this regard it attracts 60% of tourists who visit the Kenyan (GoK, 2010). Survey designed was adopted for the study, where a sample was selected in order to analyze and discover occurrences (Oso and Onen, 2005). In this case, self-administered questionnaires were used to collect data. The study population included owners of tourist enterprises, who benefit directly from tourist expenditures. Specifically, the "respondents" enterprises comprised

of all star rated hotels either four star or five star, selected tour companies and curio shops. The owner of sampled enterprises was administered with a questionnaire to fill or the person best suited to give the required information. The validity of the instrument was determined by carrying out a pre-test of the instrument to a small population within the study area but who did not form part of the actual research group. Construct validity was achieved by using various sources of information such as previous empirical findings gathered from literature review, and information on revenue from tourism enterprises notably hotels, tour companies and curio shops.

Multiple regression analysis was used to test the hypothesis that several parameters determined the revenue levels of tourist enterprises at the Kenyan Coast. Consequently, multiple regression model was used (Equation 1).

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \dots + \beta_n X_n + \varepsilon \quad \text{Equation 1}$$

Where: Y – is the dependant variable; X_{1-n} – are the independent variables; β_0 – is the constant; β_{1-n} – are the regression coefficients or change induced in Y by each X; ε – Is the error

In this case Y is the function of X_1, X_2, X_3 (Equation 2)

$$Y = f(X_1, X_2, X_3) \quad \text{Equation 2}$$

Where Y- is the dependent Variable; X_1 - Age of the Business; X_2 -Business location; X_3 -Number of employees.

3. Results

This study aimed at establishing whether age of the business, number of employees in the business, location of the business and seasonality of business jointly determined the level of revenue for tourist enterprises. However, this section begins with a presentation of the demographic characteristics of the respondents.

3.1 Demographic characteristics of respondents

Demographic characteristics of the respondents show that there were differences in the age among the respondents ($\chi^2 = 48.429, df = 4, p < 0.0005$) with about three quarters of all respondents falling between the age bracket of 28-47 years (n=70, 71.4%). There were also significant differences in gender among the respondents ($\chi^2 = 37.4230, df = 1, p < 0.0005$), where there were more male (n=76, 81.7%) than female (n=17, 18.3%). Additionally, there were also differences in marital status among the respondents ($\chi^2 = 191.684, df = 4, p < 0.0005$) with the highest number being the married (72%). Most respondents had attained secondary level of education ($\chi^2 = 34.104, df = 4, p < 0.0005$). Therefore most business owners were aged between 28-47 years, the business enterprises were mainly owned by men and the owners were likely to be married. Additionally owners of business enterprises were likely to have attained secondary level education.

3.2 Nature of business

A one sample χ^2 test conducted to test that there was no difference in the type of business operated by respondents was found to be significant ($\chi^2 = 42.670, df = 3, p < 0.0005$). Thus, most enterprises sampled at the Kenyan coast were either curio/gift shops (n=41, 42.3%), and tour operations (n=39, 40.2%), or accommodation (n=13, 13.4%). Hence all the business enterprises chosen for the study highly depended on tourism.

3.3 Number of employees

A one sample χ^2 test was also conducted to establish the difference in the number of employees hired by the tourism enterprises, and it was found to be significant ($\chi^2 = 283.247, df = 9, p < 0.0005$). This means that most enterprises are likely to employ between one to five people (n=56, 62.9%), followed by six to ten employees (n=9, 10.1%) while (n=20, 18.9%) had between 10-40 employees and only 3.4% had above 50 employees. Of the respondents sampled, (n=4, 4.5%) did not have any employees and were running the businesses themselves.

3.4 Age of business

A one sample χ^2 test was conducted to test whether there was a difference in the age of the various business enterprises. It was found that most enterprises are likely to be between one to ten years old ($\chi^2 = 58.245, df = 7, p < 0.0005$). The highest number of business enterprises (n=31, 31.0%) were between the age of 1-5 years, followed by 6-10 years (20, 20%), then 16-20 years (n=13, 13.0%) and finally 11-15 years (n=11, 11.2%) while (n=15, 15%) of the business enterprises were less than one year in operation.

3.5 Location of business

The location for the business was determined by asking the respondents the approximate location of the business from the central business district of Mombasa city. A one sample χ^2 test was carried out to establish whether there was any difference in the location of business enterprises, and it was found to be significant ($\chi^2 = 33.735, df = 4, p < 0.0005$). Thus, most businesses tend to be located over 50 km from the Central Business District (CBD) (n=34, 34.7%), followed by those between 16 - 20 km (n=27, 27.6%) and 6 - 10 km (n=25, 25.5%) from the CBD.

3.6 Seasonality of business

There was need to find out from sampled enterprises whether their businesses were seasonal or not. From the responses most businesses at the Kenyan coast tend to be seasonal ($\chi^2 = 86.367, df = 1, p < 0.0005$) according to those who answered in the affirmative (n=95, 96.9%).

3.7 Determinants of a firm's revenue

The results of the analysis indicated that the multiple regression model fits ($R = 0.795, R^2 = 0.631, F(7,78) = 19.076, p < 0.0005$). The net monthly income of the enterprises appears to be a major factor in determining

revenue levels of firms, explaining about 63% of the variance ($\beta = 0.169$, $p = 0.001$). The location of the business ($\beta = 0.149$, $p = 0.038$) and the number of employees within the enterprise ($\beta = 0.703$, $p < 0.0005$) also exhibited significant positive relationship. However, for unexplained reasons, seasonality of business did not appear to be a significant contributor to revenue of the enterprise and was therefore eliminated from the model. However, the increase in revenue for enterprises resulted from business age, location of business and number of employees, contributing 17%, 15% and 70%, respectively.

Table 1 Regression coefficients

Variables	Standardized Coefficients		df	F	Sig.
	Beta	Std. Error			
Business Age	0.169	0.075	4	4.999	0.001
Business Location	0.149	0.071	1	4.439	0.038
Number of Employees	0.703	0.074	2	89.840	0.000

Dependent Variable: Net Monthly Income

Source: Survey Data, 2009.

4. Discussion

The study has established that the main determinants of revenue by tourism enterprises included the age of the firm. This implies that the longer the firm remains in operation, the more likely that the higher net monthly income could be attained. This could be because of the experience gained over time by the enterprise in business, which hones their skills and strategies towards perfection in whatever they are involved in, hence an increase in earnings. The distance from the central business district also tends to affect the net monthly income of tourism enterprises within Mombasa. In this case the further away the firm was from the central business district the more money the enterprise made per month. This could be attributed to the fact that as the business moves away from the central business district, it is less congested and therefore more appealing to international tourists especially those seeking accommodation. It is also imperative to note that resort areas which are popular with tourists are supposed to be exclusive and among their characteristics is that they have to be far flung and tucked away from the hustle and bustle of city life. This is especially applicable to hospitality establishments of which the greatest attractions are beaches. However the situation could be different if the study looked at enterprises involved in retail business. Additionally, the results of the study corroborates media reports including Daily Nation (2012) observing that due to congestion in Mombasa town (Island), businesses are moving away from the central business district to the outskirts with Nyalı estate being the preferred destination where, besides building apartments, there are office blocks, shopping malls, making it the fastest developing commercial area in the region.

Seasonality is one other variable that the study investigated, and found that it affects most tourism enterprises at the Kenyan Coast. During the low season, very few tourists visit the Kenyan Coast, which puts a damper on revenue for tourism enterprises. To the contrary, the Kenyan Coast receives many tourists during the high season, who in turn increase revenue for tourist enterprises.

Lastly and more importantly, the number of employees in a business enterprise highly contributed to the level of revenue of tourist enterprises. It follows that the higher the number of employees within a business, the more likely for it to have high revenue turn out per month. This could be attributed to the fact that high numbers of employees signifies the size of the enterprise in terms of business and revenue.

5. Conclusion and recommendations

In conclusion, the study established the determinants of revenue by tourist enterprises as the age of the firm, distance from the CBD and the number of employees. The the longer the firm had been in operation, the more revenue it had at its disposal. Distance from the central business district was the other determinant. The further away the enterprise was from the central business district the more likely it was to have more revenue accrued to it monthly. Additionally, high numbers of employees was a great indicator of the amount of business and therefore the revenue stream for the enterprise.

The study also established that the connection between tourist enterprises and levels of tourist expenditures was the issue of seasonality. Since most enterprises at the coast are affected by seasonality of tourism, this has implications on tourist earnings. Therefore seasonality of tourism can be dealt with by encouraging the growth of domestic tourism. This will ensure that tourist enterprises have a revenue stream even when international tourists are not available during the low season.

From the findings, it is recommended that seasonality that characterizes Kenya's tourism industry should be shortened or even done away with by taking bold steps to promote domestic tourism to act as a fall back market when the international market becomes unstable during low seasons. It is also recommended that other source markets other than the traditional European countries should be targeted.

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