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# Evaluating the role of the investment climate in shaping firms' decisions to enter county markets: a case study of Busia and Narok counties.

Munavu, Michael Mutemi  
*Strathmore Business School*  
*Strathmore University*

**Recommended Citation**

Munavu, M. M. (2018). *Evaluating the role of investment climate in shaping firms' decisions to enter county markets: A case study of Busia and Narok counties* [Strathmore University].

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EVALUATING THE ROLE OF INVESTMENT CLIMATE IN SHAPING FIRMS' DECISIONS  
TO ENTER COUNTY MARKETS: A CASE STUDY OF BUSIA AND NAROK COUNTIES



Michael Mutemi Munavu

MBA/73334/14

A dissertation submitted in partial fulfilment of the requirements for the award of a degree in  
Master of Business Administration at Strathmore University

December 2018

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**Michael Mutemi Munavu**

MBA/73334/14

December 2018

### **Approval**

The dissertation of Michael Mutemi Munavu was reviewed and approved by:

Dr. Elizabeth Muthuma (Supervisor)

Strathmore University Business School

Dr. George Njenga

Dean, Strathmore University Business School

Prof. Ruth Kiraka

Dean, School of Graduate Studies

Strathmore University

## ABSTRACT

Kenya has been implementing, since 2013, a devolved governance structure, based on 47 county units. This new county system potentially offers opportunities, but also poses constraints to the business sector. To maximize these opportunities, firms need to understand the range of benefits and constraints to engage strategically with the county structures. However, few studies have previously documented the investment climate offered by county governments. The most prominent of these is the recent World Bank Sub National “Doing Business” Survey (SNDBS) of 2016, which is a quantitative assessment of infrastructure, regulation and policy that are supportive of starting and maintaining enterprises. There is need, however, to determine whether (i) these quantitative measures do indeed determine the motivation to initiate new businesses in counties; or (ii) are considered key determinants for business owners in selecting counties in which to establish themselves. This study aimed at undertaking this analysis from the perspective of firms that have recently been established in selected counties in Kenya. The study aimed to (i) establish the perceptions of firms in selected counties about the ideal investment climate at the county level (ii) assess the importance of investment climate factors in shaping strategic decision-making processes (iii) recommend how firms should strategically position themselves to benefit from the devolved county structure.

The study results identified priority investment climate areas from the perspective of firms. The most important of these are: getting connected to electricity, ease in registering businesses, and the nature of the tax regime in the county. The findings of the study point to the fact that firms are considering county performance across various metrics, and how these factors relate to their own planning and decision-making processes. The study recommends that firms and counties should engage more intentionally, to bridge this information asymmetry. This should lead to a more conducive investment climate. The use of County Integrated Development Plans (CIDP) and Investor Forums are a good platform to strengthen these links.

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## LIST OF ABBREVIATIONS

CEO	Chief Executive Officer
CFO	Chief Finance Officer
COO	Chief Operating Officer
CMA	Capital Markets Authority
DB	Doing Business (Survey)
ES	Enterprise Survey
FDI	Foreign Direct Investment
FGD	Focus Group Discussion
ICA	Investment Climate Assessment
KAM	Kenya Association of Manufacturers
KBV	Knowledge Based View
KEPSA	Kenya Private Sector Alliance
KEU	Kenya Economic Update
KRA	Kenya Revenue Authority
KWIC	Key Words in Context
MBV	Market Based View
MNC	Multi-National Corporation
NSE	Nairobi Securities Exchange
QDA	Qualitative Data Analysis
RBV	Resource Based View
SNDBS	Sub National Doing Business Survey
SU – IRB	Strathmore University Institutional Review Board
VAT	Value Added Tax
WB	World Bank
WDR	World Development Report

## **CHAPTER 1: INTRODUCTION**

### **1.1 Introduction**

This chapter introduces the subject of the study, namely the considerations that firms make in their choices about whether to start operations in selected counties, or not. This is premised on the fact that counties, through devolved country structures, have developed investment climates particularly to attract firms. This chapter briefly discusses the objectives of the study, and presents the research problem, questions and objectives, as well as scope and significance of the study.

### **1.2 Background of study**

#### **1.2.1 Investment and Business Climate**

Profitable and successful business enterprises contrast themselves from non-profitable ones based on well-formulated strategies (Herring, 1993; Grant, 2011). Business Strategy concerns itself with how an organization plans to use its resources (human, material and otherwise) to achieve its corporate goals and intentions (Herring, 1993). Herring argued that an effective strategy is founded on (i) an understanding of the company's internal functioning (its resources and capabilities) and importantly, (ii) intelligence about the external environment in which it operates.

Building on this model, Grant (2011) suggested that a competitive firm will seek to match its corporate strategy to the environment in which it operates. In other words, strategy should be aligned to, and based on, the competitive space in which the firm operates. A well-defined strategy that is responsive and confers competitive advantage, rather than being a static exercise in planning, should be viewed as a mechanism through which a firm responds to its environment. They further noted that the environment in which firms operate is in flux. It is constantly evolving, as evidenced by the growing internationalization of business in an increasingly globalized world.

The business environment in which firms in Kenya operate is changing. Kenya adopted a Constitution (2010) in line with the country's Vision 2030 of moving Kenya to a middle-income country. This is viewed as an opportunity for the country to transition to a rights-based, socially

just and economically developed nation. The Constitution is consistent in many ways with the country's blueprint for moving Kenya to a middle-income country: Vision 2030 (Nyanjom, 2011). The Vision 2030 is based on three pillars: the social, economic and political pillars. Indeed, the World Bank (2012), as does Kilonzo<sup>1</sup> (2011), argued that Vision 2030 and its provisions anticipated the passing of a new Constitution and in many ways its success depends on the extent to which the constitutional provisions will be realized.

Moreover, the Constitution is viewed by many (see the World Bank, 2012 and Kilonzo, 2011) as transformative across several social and economic pillars in Kenya. A defining feature of the Constitution is its devolved structure. The Constitution seeks to decentralize the delivery of Government services by establishing key functions at subsidiary administrative levels. Through the creation of Counties, the new dispensation decentralizes services from the central (national) government and empowers County's to design, manage and implement service-delivery and administrative functions. With increased authority and power, comes responsibility.

Consequently, the 47 Counties are expected to raise resources to implement their programs. A key challenge, as this study argues, is how Counties may effectively raise these resources to meet their new social, political and economic mandates. This raises the question; what measures do county governments adopt to attract, and retain businesses, and what factors do businesses consider critical for them to start businesses and make them competitive within the county structures?

Because of the devolved structure, several institutions, particularly within the public sector, have considered the implications of the Constitution on how they function (Kenya Association of Manufacturers, 2011; Mwenda 2010; Nyanjom, 2011; Tsofa, et al., 2017); Mwikali and Wafula, 2015). What has not been explored in significant detail, however, is the implication of the Constitution and its provisions on the private sector in Kenya. The County structure, for example, may provide new opportunities that firms can leverage to increase their profitability in Kenya,

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<sup>1</sup> This is based on a presentation made by Stella Kilonzo, Chair of the Capital markets Authority (CMA) at Strathmore University in 2011. It supports the argument that few studies exist on the links between the constitution and the private sector in Kenya. A second piece of literature on this is a report based on a discussion organized by the Kenya Private Sector Alliance (KEPSA) that documents business leaders' *views* on the links between the two phenomena

expand their market share and achieve broader corporate goals. The World Bank (2012) for example, notes that, "... while the ratification of the Constitution was itself a major step towards transforming the institutional landscape of the country, specific operational measures - such as the creation of new counties- need to be implemented to make decentralization a reality".

The World Bank (2012) study further considered some challenges that the Kenyan Constitution, if properly implemented, could address from a business perspective. For example, entrepreneurs from across the country still need to travel to Nairobi to visit the Registrar of Businesses, presenting a constraint to effective initiation and growth of enterprise. With decentralization, such logistical challenges and related costs could be removed and potentially present new opportunities for growing businesses across the country. Similarly, the county structure may constrain how private companies operate in the country. For example, making the choice to operate in new counties could invite significant language and cultural barriers to private firms.

From a conceptual perspective, the opportunities and constraints noted above could be viewed through the lens of investment climate discourse. Investment climate models have largely been applied in the context of global investment through Foreign Direct Investment (FDI) by seeking to understand what makes countries attractive to Multinational Corporations (MNCs). However, the same conceptual framework and tools can be usefully applied to sub-national levels, such as counties.

This approach provides data on the extent to which these sub national climates can attract domestic investment. Do counties have an investment climate that is sufficiently attractive to potential domestic investors? If not, what reforms, arising from increased decentralization envisaged by the devolved structure, are being planned to improve this climate and therefore attract more domestic investment? Analyses based on existing investment climate theory and instruments provides a basis for answering these questions. The extent to which investment climate factors do determine firm decisions in starting, expanding or maintaining businesses in counties was the subject of this study.

For firms to maximize the opportunities presented by counties and to minimize potential constraints to their continued expansion, they need to better understand the range of benefits and constraints arising from the new structure and to determine how to engage, strategically, with this new dispensation. To this end, the study used semi-structured interviews to establish firms' perspectives on current investment climate at county level and their perceptions of the planned reforms in investment climate.

The study used existing quantitative findings of county investment climate (SNDBS, 2016) as well as a brief survey, to explore the extent to which selected firms in Kenya consider these factors in their strategic decision-making processes. A conducive investment climate attracts investors to start new businesses, or to expand existing ones. It provides the necessary regulation, policies, laws and infrastructure to reduce the risks associated with starting and growing a business, and the costs associated with the same. Conversely, a poor investment climate discourages businesses from long-term planning and making investments over time. This study contributes to establishing the relevance of investment climate to firms' strategic decision-making, and to determining what other factors shape such decision making.

### **1.2.2 Kenya's county structure**

The counties of Kenya are geographical units established by the 2010 Constitution of Kenya as administrative units of devolved government. As at 2013, there were 47 counties whose size and boundaries are based on the 47 legally recognized Districts of Kenya. The counties are in the process of developing their second County Integrated Development Plan for the period 2018-2022 and the County Fiscal Strategic Paper for FY 2018/1, having completed their "first generation" plans (2013-2017).<sup>2</sup>

The constitution of Kenya distinguishes between the distribution of functions between the national government and the county government, based on the fourth schedule of the constitution (Article 185 (2), 186 (1) and 187 (2)). The National government is responsible for functions related to foreign affairs, foreign policy and international trade, the use of international waters and water resources, immigration and citizenship and national defense, amongst others. From an

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<sup>2</sup> The information presented in this section is collected from County Government of Busia (2013) and County Government of Narok (2013), Integrated Development Plans (2013-2017)

investment climate side, national government is responsible for national economic policy and planning, intellectual property rights, consumer protection, amongst others.

County governments are responsible for agriculture, county health services, control of air pollution, noise pollution, other public nuisances and outdoor advertising. In terms of infrastructure, they are responsible for county transport, including county roads, street lighting, traffic and parking, public road transport. They are also responsible for trade licenses (excluding regulation of professions), fair trading practices and local tourism. The distinction in these roles is factored into the instruments used for the study. This study examined two counties, Busia and Narok, in which in-depth research into the firms in those counties was undertaken.

### **1.3 Problem statement**

Despite robust constitutional and policy changes in Kenya that could potentially provide new growth opportunities for firms, little empirical research has been undertaken to determine what specific opportunities and constraints exist because of this new dispensation, especially for local firms at county levels.

There is limited empirical evidence on the nature of the investment climate at county level, and what measures firms are undertaking to align themselves strategically in response to the devolved county structure. Firms will only be able to take advantage of opportunities if they have a clear understanding of the present investment climate and the county plans to develop more attractive investment climates.

The Sub-National Doing Business Report of 2016 (World Bank, 2016) formed an important methodological basis for the study. The findings of this first sub-national report were used to interrogate the relevance of the investment climate to strategic decisions regarding whether to start a firm and where to start it. The Report is the first under the devolved system of government in Kenya. It is a follow up to similar reports in 2010 and 2012 that benchmarked 11 and 13 local authorities, respectively. The Doing Business in Kenya 2016 creates quantitative indicators on business regulations and documents progress since the last report published in 2012 (World Bank, 2016).

The study benchmarked 11 counties within Kenya (Busia, Isiolo, Kakamega, Kiambu, Kisumu, Machakos, Mombasa, Nairobi, Narok, Nyeri, and Uasin Gishu) across four regulatory areas—starting a business, dealing with construction permits, registering property and enforcing contracts. The report essentially reviews different dimensions of regulatory quality. The report observes that firms face regulatory hurdles depending on where they establish their businesses, and no single county in Kenya performs equally well on all indicators. The report further finds that there is no relationship between the size of the county and the rankings (World Bank, 2016).

The SNDBS is innovative in that, previous studies of a similar nature (for example, Enterprise Surveys and Ease of Doing Business assessments) focused on national, regional and global levels, providing little insight on the state of investment climate at sub-national level. As with the larger studies, the SNDBS used rated indicators and provided a composite score on how good the investment climate is at sub national level, and then ranks the units under analysis. While this approach provides insight into the nature of the investment climate, it does not provide the reasons behind these rankings. The findings do not explore why firms view the investment climate as they do, or what constraints counties experience in developing the ideal investment climate, for example. These questions may only be addressed using in-depth structured interviews, as the present study does.

Further, the SNDBS did not directly address its survey to individual firms and those established after the implementation of the county structure. Rather, the SNDBS generated responses from a limited number of professionals and professional associations, such as architectural associations, rather than firms directly. The study therefore did not benefit from an in-depth engagement with individual firms on their views on the investment climate and how it should be improved.

The approach of the current study addressed this limitation by selecting individual firms based on several criteria, and exploring in-depth, their perceptions on investment climate and how these interact with their decision-making processes. Moreover, the SNDB limited itself geographically to cities within the selected counties. The present study, however, sought to identify businesses established and documented by the county administration, regardless of locality of operation

within the county. This broadened insight into the factors (beyond those that are situated within urban or city contexts) that influence decision making amongst selected firms.

#### **1.4 Research objectives**

- i. To establish the perceptions of firms in selected counties about the ideal investment climate at the county level;
- ii. To assess the importance of investment climate factors in shaping strategic decision-making processes;
- iii. To ascertain how firms should strategically position themselves to benefit from the devolved county structure

#### **1.5 Research questions**

- i. What are the perceptions of firms on the ideal investment climate at the county level?
- ii. From the perspective of firms, are investment climate factors important in shaping their strategic decision-making processes?
- iii. How should firms strategically position themselves to benefit from the devolved county structure?

#### **1.6 Scope of the study**

The the study focused on two counties, namely Busia and Narok counties. As discussed under the research methodology chapter, thee counties were selected based on their performance in the Sub National Doing Business Study (World Bank, 2012). Busia performed best while Narok the worst. The counties are described below.

**Busia County:** The county, in the former Western Province, bordering Uganda at two border crossing points at Busia and Malaba towns. Busia, whose main economic activities are subsistence farming and fishing, has the potential to become a trading hub for the two East African countries. Busia County consists of seven constituencies, namely: Budalangi, Matayos, Nambale, Funyula, Teso North, Teso and Butula. The county has a population of 743,946 people (2009 National Census) (Busia County , 2013). In terms of economic activity, agriculture, fishing and trade are the main activities in Busia County. Being the entry points between Kenya and

Uganda, Busia and Malaba towns are thriving trade centers where livestock, agricultural products and manufactured goods are traded. Busia's climate is conducive for agriculture. Some of the crops that are grown within the county in small scale include maize, beans, sweet potatoes, millet, cassava, cotton and sugar cane. Given the proximity to Lake Victoria, fishing is also a major economic mainstay of the county.

**Narok County:** Narok County is situated along the Great Rift Valley. It covers an area of 17,944 kilometers squared and has a population of 850,920 (Narok County , 2013). The Maasai Mara National Park, an important tourist destination, is in Narok County. It constitutes 6 sub-counties namely: Kilgoris, Narok North, Narok South, Narok East, Narok West and Emurua Dikirr. Narok town is the capital Head Quarters of the Narok County. The main economic activities in Narok County include mining, crop farming (both subsistence and commercial) and livestock farming. A key economic feature is tourism, perhaps the largest contributor to the county's economy as it hosts the Maasai Mara National Reserve famously known as the seventh wonder of the world for the annual wildebeest migration. It hosts several hotels, lodges, clubs and camp sites.

### 1.7 Significance of the study

Following the inception of the Kenyan Constitution in 2010, Kenya's 47 county governments have been put in charge of their investment policies. Until recently, most counties have depended largely on the national government for attracting and retaining investors, but the county governments are now required to develop investment opportunities that will lead to the growth of businesses and creation of new jobs.

The study findings are of significance to firms, counties and academia. The findings of this study inform **firms** as they consider how to better engage with the county structure. It indicates the investment climate measures counties are putting in place to attract investment from firms. It also provides recommendations on how firms could better leverage the opportunities available in the counties.

The study comes at a time when the recently established **county governments** seek revenue streams to support their operations, and by implication taxpaying investors. More private

investors establishing businesses in the county expands the tax-base in the county (see also Bird, 2010). Increased availability of private investors will also provide products and services to the county residents, as well as job creation. The recommendations arising from the study are useful for counties as they consider how to develop attractive investment climates in devolved government structures.

With regards to academia, few studies have been done on county investment climate and firms. To date, such studies have been largely focused on how county governments use the concept and practice of strategic management in their own affairs. The study shows that there are indeed efforts being undertaken by counties to develop and improve investment climate factors. The study shows that; indeed, these factors are important to private investors. Further research should be done to delve into specific questions around investment climate and counties. For example, do different types of firms (large or small, for example) differentiate in which types of investment climate factors they consider important.

## **CHAPTER 2: LITERATURE REVIEW**

### **2.1 Introduction**

This chapter presents the theoretical and empirical literature underpinning the current study. The chapter interrogates how firms make decisions to start-up in a new county, and how investment climate considerations shape this decision-making process. As argued in this chapter, there is a sufficient body of literature on investment climate to provide a basis for identifying the factors that are necessary to attract business. The investment climate model therefore provides a useful framework through which to determine county level attractiveness to domestic businesses. The chapter also presents a theoretical and conceptual framework for the study.

### **2.2 Theoretical context**

#### **2.2.1 Strategic decision making and competitive advantage**

Competitive advantage is achieved when a firm builds or acquires a set of attributes or undertakes some actions, which enable it to compete better than other firms (Wang, 2014). Several theories have been formulated to explain the strategic decision-making process, and how it can lead to competitive advantage for firms. The theories are wide-ranging, from resource-based theory to network view, resource dependence theory, agency theory, game theory, knowledge-based theory and market-based theory. Several scholars however, essentially distil the broad theories into two main schools of thought: Resource Based View (RBV) and Market Based View (MBV), essentially locating other frameworks and approaches within these two broad conceptions (Sciarelli, 2008; Akio, 2005; Srivastava & Fahey, 2001).

#### **2.2.2 Resource Based View (RBV)**

The RBV is hinged on the notion that a firm is a group of resources and capacities, ranging from physical, to financial, human and intangible assets. These resources can be translated to competitive advantage if they meet certain criteria, viz. valuable, rare, inimitable and non-substitutable. Knecht (2014, p.19) argued that the theory is based on the idea that the resources and capacities held by a firm are unique to that firm, and the “goal of a resource-based approach is therefore to implement a strategy that is based on the firm’s heterogeneous resources and that is not being implemented by competitors.”

### **2.2.3 Market Based View (MBV)**

The Market Based View (MBV), on the other hand, explains a firm's performance through the "external industry structure and the strategic conduct of competitors within the industry. Per this "outside-in" perspective, the performance of a firm and its competitive advantage can be largely attributed to the structure of its industry, for instance, to entry barriers that keep additional competitors at bay and protect profit margins" (Knecht, 2014, p14). Unlike the RBV perspective, MBV contends that the competitive advantage lies in the external environment, how it is structured, and how the firm engages with this external environment to leverage advantage. Other theories, such as Michael Porter's Five Competitive Forces Theory, the PESTLE analyses, and others, are often considered aligned to the MBV, given their "outward" rather than "inward" look (Connor, 2002).

For purposes of this study the Market Based View (MBV) has been adopted. MBV provides a sound theoretical basis to consider how firms make decisions about their external environment to leverage competitive advantage. In the case of the current study, the market view is defined as the county and the investment climate in these counties. MBV provides a broader "outward" looking theoretical approach, consistent with the object of analysis, but avoids the specific distinction offered by the micro-theories found within the framework. This is consistent with the objectives of the study, which are to explore the views of firms on ideal investment climate, and how important this is to the decisions that they make for their firms. The study addressed itself to the policies, programs and external resources in the counties, rather than at the internal capabilities of the firms.

## **2.3 Review of empirical studies and relevant literature**

### **2.3.1 The Investment climate model**

Investment climate model can provide a useful theoretical approach to understanding the attractiveness of counties to domestic investors. While discussion on investment climate has largely been at a global and national level, the approach and tools that characterize this concept can find applicability at sub national level. Dreyhaupt et al (2012) argued that, "...when considering investments, companies assess countries' investment climates as well as the stability and likely direction of their laws, regulations, and political institutions". The authors recognize

that a supportive environment developed by government is a key driver of attracting investors. As with much of the literature in this area, discussions on the investment climate model address themselves to regional and global spheres, in the context of Federal Direct Investment (FDI). What factors in national countries, these studies ask, are necessary to attract FDI and the interest of large multinational corporation (MNCs)?

Conversely, the studies ask themselves what factors are required to assuage investor concerns, especially in environments that are politically or otherwise unstable. What are the measures that government needs to put in place to convince investors that they will be protected from adverse effects that characterize that country or region? Entrepreneur's investment decisions are driven by factors from cost of inputs, to reliability of infrastructure, to quality of institutions. Lahimar (2007) similarly argued that business climate is a "fundamental competitive advantage that stimulates globalization of production".

The literature suggests policy, legal and institutional reforms that can be brought to bear to "reduce investor perceptions of risk, governments can make their business environments more competitive—lowering investors' transaction costs, which can significantly slow new investments if too high". Countries that have put in place business-friendly processes and regulations are more likely to attract investors (Escribano & Guasch, 2008).

The concept of business climate is also used frequently in the literature. Investment climate and business climate are often used interchangeably in other studies. The World Bank's seminal publication in investment climate, the World Development Report (2005, p. 35), defines business climate more broadly thus:

...The Investment Climate reflects the many location-specific factors that shape the opportunities and incentives for firms to invest productively, create jobs, and expand. A good Business Climate is not just about generating profits for firms—if that were the goal, the focus could be limited to minimizing costs and risks. A good Business Climate improves outcomes for society.

It provides multiplier effects which attract other business, but also provides broader public goods for the society. A good investment climate, therefore ensures growth and productivity. Khan's

(2005) work focusses on the infrastructure factors that shape a good business climate and uses a Property index to build his argument. Similar arguments are made by World Bank Development Report (2005), and Escribano and Guasch (2008).

### **2.3.2 The potential business opportunities offered by the devolved county structure**

One of the more explored elements of the new constitution is the devolved county structure and the related opportunities for Kenyan firms. The area of devolution has been explored from a fiscal, political and administrative perspective (Mwenda, 2010). Nyanjom (2011) stated that the devolution is based on the principle of subsidiarity, in which the role of the center (of an entity), is reduced in relation to its periphery. The rationale for devolution, Nyanjom postulated, is based on increasing efficiency in the function of government, primarily. Further and citing Article 174 of the Kenyan Constitution (2010), he indicates that devolved government increases checks and balances in excesses of government management, creating a more just environment. Through devolution, social inequality is reduced, and marginalized communities are brought into the mainstream of development agendas.

This promise of devolution has been discussed by several other authors, including Chatham House (2016), and Transparency International (2016). Hope (2014) demonstrates how decentralization and devolution should lead to more resident participation, and by extension, they can better monitor and evaluate their government's policies and programs and push for improved performance. This was indeed one of the key expectations of the county devolution structure.

But Kilonzo (2011) and Mwenda (2010) caution that the passing of the constitution and the creation of devolved government are not a panacea to the challenges facing the country. Separately, they argued that numerous risks, including lack of sufficient awareness and knowledge among the citizenry, threaten the full realization of the benefits of the devolved structure. Later work by D'Arcy and Cornell (2016) and Cornell and D'Arcy (2014), have interrogated the role of devolution in the formation of decentralized political elitism and ethnic patronage. Bulle and Ombui (2016), studying leadership and governance in Marsabit county, found that nepotism, clannism, and embezzlement of revenues were common there.

With the increased revenue generation in counties (see Kenya Association of Manufacturers, 2011; World Bank 2012), it is expected that much infrastructural development will take place at the county level (Nyanjom, 2011). The development of this infrastructure is a potential opportunity for business opportunity and could benefit the construction industry. More importantly, improved infrastructure could reduce the cost of doing business by bringing businesses closer to their customer base or allowing them easier access to the natural resources they require (Ogutu & Samuel, 2012).

The county structure will also affect the nature of government procurement processes. Cortes (2011) examined the effects of decentralization on government procurement of private education services. His study found out that more decentralized governments procure more private services, creating opportunities for profit-making entities. He suggested that this could be because more decentralized structures have less developed public providers, and thus rely more on the private sector. Within the present Kenyan dispensation, much of the government operations are managed from the central government level.

With the introduction of the county structure and the decentralization of government services and operations, there are likely to be more opportunities to service the county structure government. The growth of government presence at county level is likely to broaden the market base for well-positioned firms. Businesses that situate themselves at the county level may therefore apprehend and leverage such an opportunity to enhance their profitability.

One of the envisaged outcomes of the devolved structure is that it will pull businesses away from the already developed and populated “centers”. This could translate to a growing consumer market at the county level, presenting a broader customer base for businesses. Kilonzo (2011) stated, for instance, that the country structure will result in a “general increase in supply, distribution and access to goods and services.

### **2.3.3 The potential constraints to firms resulting from the county structure**

Given the limited literature on the county structure and potential constraints to business profitability, this section explores literature related to businesses operating in new environments.

Kilonzo (2011) identified one of the key challenges in the implementation of the county structure as change management. The establishment of the county structure will involve significant time and financial resources. The estimated cost of the first phase of the devolved structure, she argued, will amount to K.sh. 7 billion. Delayed implementation, for these reasons, may mean that businesses cannot fully operate at the county level effectively until the structure is successfully and comprehensively implemented. The World Bank (2012, p.V) notes that the devolution process is “very ambitious and therefore commensurately risky. It is a massive undertaking from a logistical point of view.” Such risks could be transferred to businesses operating in counties and to firms considering operations in counties.

Relatedly, significant education, knowledge and commitment will be required from businesses, the citizenry and government to ensure the structure functions to the benefit of all. A poorly managed information and knowledge campaign around the county structure could lead to poor and delayed implementation of the structure and indeed, compound the very constraints to business enterprises that the system was designed to address in the first place.

For example, Nyanjom (2011) cited examples of the possible creation of “enclaves” in county structures. Counties are sometimes geographically aligned to groupings (ethnic, religions, and others) and this structure could create or aggravate social divisions and tensions. Such political and social tensions would pose a challenge to the effective functioning of businesses. For businesses, these ethnic or religious boundaries could further make the conducting of business difficult. Bodea and Elbadawi (2008) and Solamini (2004) reviewed the effects of political instability on general national economic growth and on the business and investment climate, and both find negative correlations between the two. An unstable political or social context, they contended, affects infrastructure, reduces purchasing power and ultimately, discourages investment.

#### **2.3.4 County policy and strategic management and research**

Since 2013, several studies have been undertaken on the main themes that are the subject of the present study. Several studies have focused on the role of strategic management, from the point of view of counties using strategic management as a concept and as a practice, to manage their

broad objectives effectively. Opano, Shisia, Sang, and Josee (2015) and Chogo (2015) have undertaken studies on strategic planning and implementation practices at two different counties in Kenya: Kisii and Kajiado. Their studies concluded that much needs to be done to improve the strategic planning capacity of county governments, and that financial and human resources are the main resources that are required in the implementation of the strategic plan. In a similar vein, Chogo (2015) undertook a similar analysis this time focusing on Kajiado County. The findings, given the fact that they were undertaken around the same time, arrived at similar conclusion regarding the low capacity of counties to develop and utilize strategic plans. Keraro, Gakure, Katuse, and Cheluget (2013) investigating the same issue, found out that counties that do undertake strategic management formally and intentionally exhibit higher levels of probability of success at service delivery and meeting of local needs.

From an education sector perspective, Sang, Nyaga, Sang, Rotich, and Kipruto (2015) discussed the availability and the level of implementation of strategic plans in schools in Nandi County. The findings of this study revealed that majority of the secondary schools in Nandi County had no functional strategic plans to guide their respective schools to achieve their desired mission and vision. Rather than investigate how the county as a structure regulates this phenomenon in the county, the authors appear to use the county as a unit of analysis.

Tsofa et al (2017), Nyikuri, Tsofa, Okoth, Barasa, and Mollyneux (2017) and Gimoi (2017) have recently looked at the effects of devolution with particularly reference to the health sector. They explored how devolution has affected health sector workers, management of commodities at the county level. Nyikuri et al (2017) reviewed the perceptions of county level health sub-managers on devolution. Gimoi's dissertation looked at the effect of devolution on health infrastructure, on access to health services and the effect of devolution on health care workforce.

Specifically related to the subject of this research, a few recent studies have focused on different elements of business start-up in selected counties. Muvea (2013) for example, has reviewed the extent to which family-owned business in Mombasa develop and use strategic planning processes. The findings were generally positive, however, and identified factors that were rated as having an influence on strategy formulation, including economic factors, leadership factors

and political factors. Mugo, Minja and Njanja (2015) investigated the effect of succession planning on growth strategy among the local family businesses in the manufacturing sector in Nairobi County. However, these studies do not specifically explore how the county structure and policies regulate firm decisions in this respect.

### **2.3.5 Regional experiences on devolution and decentralization**

Over the past few decades, several countries, particularly in Africa, have moved toward multi-level government structures. These constitutional changes in administrative structure are variously referred to as federalism, devolution or decentralization, with some authors arguing that the terms are similar but not the same, and others arguing that there are only nuanced differences in their character (Mohmand and Loureiro, 2017). Commentators generally agree that the terms refer to deconcentrating of power, resources or governance from a central government, to sub national entities (Pan et al, 2018).

The degree of such deconcentrating varies. In Africa, recently decentralized countries include Uganda (1995), Ethiopia (1994), Nigeria (1999) and South Africa (1996). The nature and form of the decentralization in each of these countries varies. Kenya is the most recently decentralized within the region and given this, there has been interest in comparing the Kenyan devolution model with other countries in the region, including South Africa.

In comparing the two countries, Abiatte and Federiko (2018) observe the similarities and differences, forged by differing historical, cultural, political and legal bases. They note that in both cases, devolution was introduced as a mechanism to foster democracy, governance, service delivery and socio-economic development. They argue that, despite the differences in the two, the broad objectives are similar. The aim is to reduce power from the center and to bring services and economic opportunity closer to the people. The challenges of devolution are also similar across the two countries, and include, high operating costs, poor central government distribution of funds to the local government, maladministration of resources, and underperformance at county level, amongst others.

As with this study, the links between decentralization and investment, private sector growth and economic growth have been considered. In reviewing decentralization and firm investment in China, Pan et al (2018) argue that previous focus has been on macro-level impacts and on developed markets. Their review selected decentralized provinces in China, emerging markets, and the differences in firm investments at decentralized level. Through a quasi-experimental approach, they conclude that decentralization encourages investment of firms, but do not advance possible explanations. Lund and Skinner (2003) also look at investment climate in Durban, South Africa. They consider how local government policy and programming shapes investment climate, but with a focus on the informal economy. The findings of their study conclude that the informal economy is indeed influenced by the local government policies and programs, but their recommendations are very much focused on the informal economy.

#### **2.4 Research gaps**

The literature review shows that little analysis has been done on county investment climate, and what counties are doing specifically to attract private investment. There is dearth of systematic knowledge on constraints and opportunities that counties face in relation to providing appropriate investment infrastructure and other policies, programs and services to attract firms. The study addresses this by documenting the perceptions of firms on investment climate at county level.

Furthermore, previous studies have adopted the approach of creating rankings based on the extent to which counties score on climate indicators. There has been no in-depth and qualitative exploration on these investment climate factors, and neither have there been attempts to interrogate the challenges, constraints and opportunities counties face in putting in place these policies and programs. The study addresses this by exploring the investment climate factors that firms consider important and documents views of counties on challenges, opportunities and constraints in implementing them.

From the perspective of firms, the literature shows broadly that investment climate is important for attracting investors at regional and national level. However, there is need to further the knowledge base on which factors shape the firms' decision making, at sub national level. It is also important to understand what firms are doing to communicate their ideal investment climate

considerations to county governments. This study considers what firms should do to better influence the ideal investment climate at the subnational level.

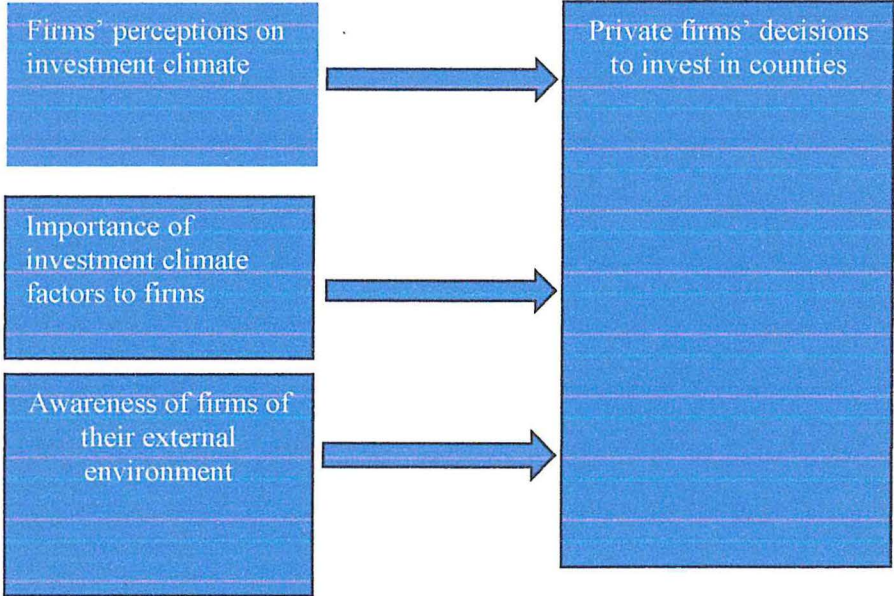
## **2.5 Conceptual framework**

Firms need to understand their environment and engage with it competitively, to appropriate the value that it offers. In this way, firms can develop capabilities and resources to compete successfully against other firms. However, in the context of this study, recently established counties also need to define effective strategies to attract and retain investors. Counties should understand their present capacities in relation to attracting domestic investors. Investment climate theory provides a useful framework through which counties can develop this understanding. In identifying potential gaps in their investment climate architecture, counties can begin to develop the factors necessary to attract and retain domestic investment. In documenting the perceptions of firms about the ideal investment climate at the county level, county government will have ‘first hand’ knowledge about what, in the minds of investors, are factors important enough to attract them to these counties.

Important elements of the conceptual framework include investment climate, firm perceptions of investment climate, and how important these considerations are on firm’s decisions to enter in county markets. These three pillars, and how they interact to shape local economic growth, are the subject of the present study. According to the World Bank World Development Report (WDR, 2005, p.1), “...a good investment climate provides opportunities and incentives for firms—from microenterprises to multinationals—to invest productively, create jobs, and expand. It thus plays a central role in growth and poverty reduction”. This perspective provides the key elements of the framework above. Private firm competitiveness is defined by its capabilities and its resources on the one hand, and on the other, the environment in which it chooses to operate. The characteristics of the environment in which it chooses to operate determine, to a large extent, its capacity to create and/or appropriate value, and therefore profit.

What, therefore, are the factors that determine how and where a firm chooses to operate? In its chosen position, what factors shape how profitable the firm is likely to be? Both questions are dependent on government policies on the one hand, and on the other, static factors that cannot be

easily controlled by government, such as market share and geographical characteristics of the location (Market Based View). These intervening considerations affect the cost of doing business, the opportunities available for appropriation of value by the firm and the risks that the firm must contend with. The Conceptual framework is guided by investment climate models, that is, the policies, regulations, systems and infrastructure put in place by countries to attract firms (ii) Firms perceptions on ideal investment climate and (iii) firms decision-making processes on whether to enter counties, both guided by Market Based Theoretical approaches.



**Figure 2.1: Conceptual Framework**

**2.6 Conclusion**

Strategic architecture suggests that companies should develop strategies that are responsive to future opportunities, rather than present realities. The literature review shows that a useful approach to understanding the investment environment can be found in concepts of investment and business climate attractiveness. By assessing the extent to which regions are investment or business friendly, firms can make decisions about where best to invest or grow their presence. Similarly, based on understanding how firms think about investment climate and the importance

that firms place on these factors, the county governments can develop plans to increase the attractiveness of their counties to private firms and thus, attract more domestic investors.

## CHAPTER 3: RESEARCH METHODOLOGY

### 3.1 Introduction

This chapter discusses the research approach, with a focus on qualitative approaches. The study collected data on the perceptions of selected firms from across two economic sectors; on their perceptions of the investment climate in existing counties; and the firm's perceptions about what counties should be doing to improve this investment climate in the medium term. The chapter discusses the process of collecting, processing, analyzing and presenting the data.

### 3.2 The Research Design

Informed by the objects under investigation, the study used a multiple case study method. The case study method, according to Gerring (2004, p. 342) is the "intense study of a single unit for understanding a larger class of (similar) units". For this study, the case study unit is the county. A unit, Gerring notes, is a "spatially bound phenomenon" and could include a country, an election, a person, or, as the case is in the current study, a business unit. Zaidah (2007, p.1) on the other hand, views case studies as a critical tool for the "exploration and understanding of complex issues". The case study lends itself to the detailed, contextual analysis of a phenomenon, in a real-life context.

A defining characteristic of the case study design is that it's focus, its ability to investigate in depth a small unit, with a view to generating an understanding of similar units or a larger collection of such units (Baxter & Jack, 2008; Meyer, 2001; Rowley, 2002). The choice of design was informed by the object of the analysis. In the case of the current study, for example, the intention of generating an understanding of a phenomenon that had not been exhaustively studied and that had not been clearly supported by existing conceptual or theoretical frameworks.

While the case study method has gained popularity within social science, sociological, political and biological studies (Meyer, 2001), it is often considered as a "fuzzy" method, particularly in relation to more statistical studies that provide clearer causal findings (Gerring, 2004). But the

case study, as with other studies, has both merits and demerits, depending on the nature and object of the study being undertaken.

While the study was limited in its capacity to generalize findings to a population, efforts were made to produce comprehensive, rich and diverse data that would allow for some comparison within the unit of analysis. Moreover, case studies offer analytical generalizations through assessing commonalities of concepts. To this end, therefore, the study used a multiple case study method. Multiple case studies, as Meyer (2001), as does Folksestad (2008) argued, provide a “pluralist perspective” to the limited scope and sampling of the case study methods. It allows for comparison and contrasts not only within units, but also between units, adding to the richness of the data gathered. To this end, from the 47 counties in the country, two counties were selected based on performance in the “Doing Business Study” of 2016 (World Bank, 2016).

The study used qualitative approaches to sample two counties in which to undertake semi-structured interviews and brief survey instruments with (i) firm owners (ii) firm representatives at county level and (iii) county-level officials. Reviews of quantitative surveys of sub-national investment climate undertaken by the World Bank (2016) were used, as a basis to interrogate the relevance of the findings in actual decision-making undertaken by firms in these counties. The survey tool developed by the World Bank is based on its larger investment climate assessments (World Development Report, 2005) and used extensively all over the world. Specifically, the SNDBS (2016) used elements of the larger National Doing Business Surveys, focusing on four of the ten themes used in the national-level surveys.

### **3.3 Population and Sampling**

Given the relatively limited empirical study on the links between the investment climate and business strategy, this study was exploratory in nature. The study aimed to illustrate an in-depth evaluation of the investment climate and firm perceptions under analysis. Meyer notes that the sampling logic behind the case study method is different from that of other methods, particularly quantitative ones. The samples were purposively selected that most likely “spoke to” the object of the investigation.

The study identified two counties from the SNDBS (2016). The top and bottom ranked counties which are Busia and Narok respectively, were selected. Given the objectives of the study, firms established in these counties following the establishment of counties in 2013, were selected and included in the sample. Only firms established after this period formed the basis for the study. This list of firms was requested from the county governments.

Based on this list, a random sample of firms in the real estate and hospitality and tourism sector were identified. 27 firms responded to the study (12 in Busia and 15 in Narok county). Data was collected from these firms, based on the tools presented in the annexes (see Appendix 1, 2, 3 and 4). For county representatives, the staff responsible for trade and investment, infrastructure development and/or hospitality and tourism, were identified and interviewed in-depth. At least four county officials were interviewed in each county.

The rationale for the selection of these industries is that one key aim of devolution was to transfer resources and people from the center to the counties. As such, with establishment of county governments, the staffing of these facilities, and the developments in infrastructure emanating from devolution, the expectation is that there would be an “opening” of previously inaccessible regions, and the movement of people to counties. The real estate/construction and hotel industries are the sectors most likely to immediately react to the devolved structure.

### **3.4 Data Collection Methods**

The data were collected from respondents within the selected cases above. An exploratory interview was undertaken with relevant respondents in each case. These included the policy, strategy or research and development managers within firms. In this case of smaller firms, these were business owners. Interviews were also held with key personnel within the county governments, as well as senior managers and operating officers from the selected business. The main areas of data to be collected were around the main constraints, opportunities, risks existing in the county (investment climate); relations between firms and county government and perceptions of the firms on the ideal investment climate (firm perceptions); factors that shaped decisions to establish in the county, external and internal (firm decision drivers). Each interview

generally took place between 40-60 minutes. The interviews were undertaken by the Researcher, with the support of one Research Assistant.

Table 3.1 indicates the number of respondents that responded to each instrument. The specific number of interviews, particularly with firm respondents, were determined by the number of firms that had been established in the county within the period specified for the study.

**Table 3.1: Number of respondents for each research tool**

<b>Instrument</b>	<b>Respondent</b>	<b>Number per County</b>	<b>Total</b>
County investment climate semi structured interview	County Official	4	8
Firm perceptions on investment climate questionnaire	Chief Operating Officer/Firm owners	15 (Narok) 12 (Busia)	27

Rather than focus on one sector, the study explored at least two industrial sectors. The intention was that at least eight firms in each sector would form the sample in each county. However, on the ground, it was noted that there was not an equal distribution of firms and the most accessible of these were around the hospitality and services sector.

### **3.5 Data Analysis**

#### **3.5.1 Qualitative data analysis and presentation**

For the purposes of this dissertation, the constant comparison methods were used. In Taylor-Powell and Renner (2003), these specific methods could be found in the processes of categorizing data and identifying patterns and themes, making connections between these themes and then making ‘sense’ of the themes. Interview data were coded, themes developed, grouped together and then interpreted based on the literature review and the conceptual framework. The main steps used in the analysis of the data in this study are presented in the matrix below, adopted from Taylor-Powell and Renner (2003). This model was selected because of its clear description of each analysis step, and the consistency with other descriptions of Qualitative Data Analysis

(QDA). Accounts such as those by Leech and Onwuegbuzie (2007), for example, can be located within steps 3-5 in the model below.

**Table 3.2: Data analysis process**

	Step	Description
Step 1	Getting to know data	Spending time reviewing and reading the transcripts
Step 2	Focusing the analysis	Related the transcript content to the research objectives and questions
Step 3	Categorizing main themes into manageable parts	Identify key theme and patterns that repeat themselves in the transcripts
Step 4	Identifying themes and patterns and connections between them	Define the context in which these themes and patterns repeat themselves in the transcripts
Step 5	Interpretation of the data (bringing it all together)	Interpret the meaning of the themes, patterns and relationships in context of literature, research questions and objectives. Define the meaning of this data and draw conclusions.
Step 6	Data Presentation	Present data in themes, respondent quotes, words of interviewees, etc.

*Adopted from Taylor-Powell and Renner (2003)*

### 3.5.2 Quantitative Data Analysis and Presentation

The study used both nominal and ordinal scale instruments to explore the investment climate, and perceptions of the same. The data were analyzed using descriptive statistics in the form of frequencies and measures of central tendencies such as mean, mode and median. In relation to presentation of data, frequency tables, means and percentages are presented in the form of tables and graphs.

### 3.6 Research Quality

Because of the exploratory nature of the study and the small sample size, interviews were recorded and transcribed. The transcripts formed the basis for the analysis described above. Given that this was predominantly a qualitative study that largely used interviews; the researcher endeavored to undertake all interviews personally. This provided additional insight into the



interviewee responses, allowing the researcher to observe and note key contextual factors that may not be directly reflected in the interview data. The researcher did undertake most interviews, but not all of them as planned. The Likert scale and open questionnaire were administered via email link (TypeForm), online and telephone.

### **3.7 Ethical Issues in the Research**

In line with agreed ethical standards, the study protected the rights and freedoms of human subjects of the study, including (i) Freedom from harm, which ensured that the process of the study protected the human subjects from physical, emotional, or psychological harm. (ii) Respondent's privacy, by ensuring that the information collected through the study was used only with the consent of the subjects, and ensured respondents confidentiality and their right to full disclosure regarding the use of the study findings (iii) Voluntary participation of respondents, ensuring the respondents participated with full information about the design, process and uses of the study, and were given the opportunity to decide whether to participate in the study, and at any points, to withdraw from the study if they so wished. To this end, the study was approved by the Strathmore University's Ethics Review Board, as elaborated in the Strathmore University Institutional Review Board (SU-IRB).

## **CHAPTER 4: PRESENTATION OF RESEARCH FINDINGS**

### **4.1 Introduction**

Presented in this chapter are findings gathered from the study respondents on their views on investment climate at county level and firm's drivers of strategy formulation in the context of county structures.

The study was largely qualitative in nature, focussing on semi structured interviews with county officials and firm owners. Quantitative data was collected via a questionnaire that consisted of a 5-point Likert scale and open-ended questionnaires for firm respondents. Data were collected from Narok and Busia counties. In total eight in-depth interviews were conducted with county officials in Narok and in Busia. Shorter, structured interviews were undertaken with firm's owners, a total of five in each county. There were 27 respondents to the Likert survey and the open-ended questionnaire, 12 in Busia and 15 in Narok. With respect to managing the data, detailed notes were taken during the interview process, and then uploaded into TypeForm, an online tool that enables easy storage and descriptive analysis of data.

### **4.2 Description of firms and county government respondents**

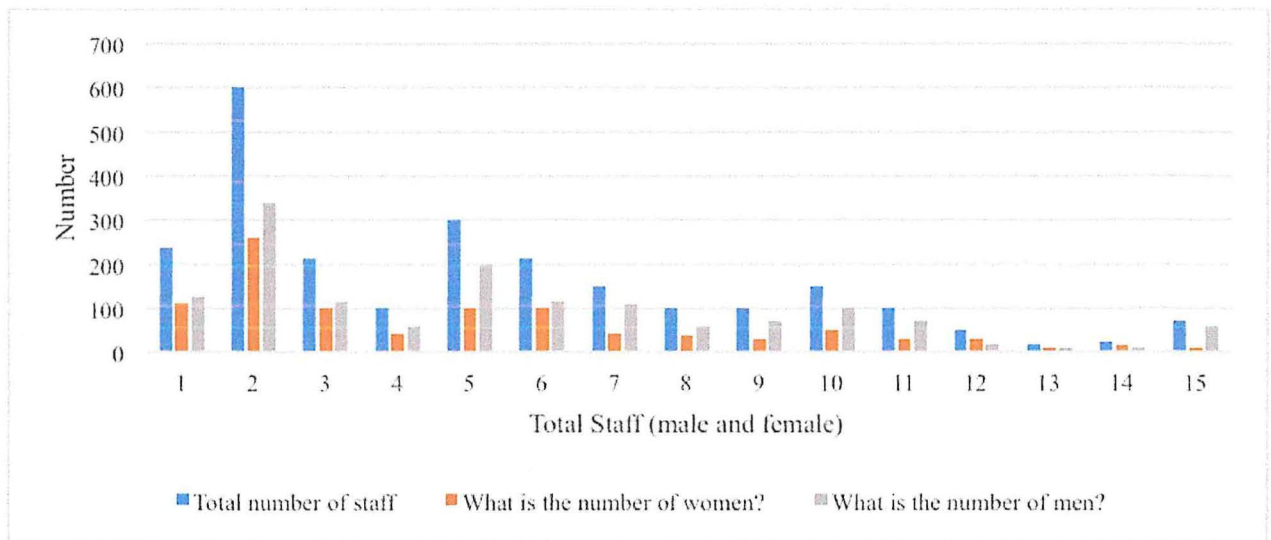
This section provides a general overview of the characteristics of firms and county respondents included in the study. This includes the description of the size of firms, the age of the firms and the strategic cycles deployed by the firms.

#### **4.2.1 Narok County**

##### **4.2.1.1 Size of firms in Narok County**

Of the 15 firms covered in Narok, the majority of them are considered small to medium, and employ between 100 and 600 workers, as seen in the graph below. With respect to gender disaggregation, the firms in the sample generally employed more male than female workers. Women accounted for 40 percent of the workers in the firms covered in Narok. Workers age ranges were between 22 years and 55 years of age. It is noteworthy that the majority of firms in Narok county, 12 of the 15, were from the tourism and hospitality sector, given that Maasai Mara Reserve is within the Narok county. Only 3 of the firms covered were from the construction and

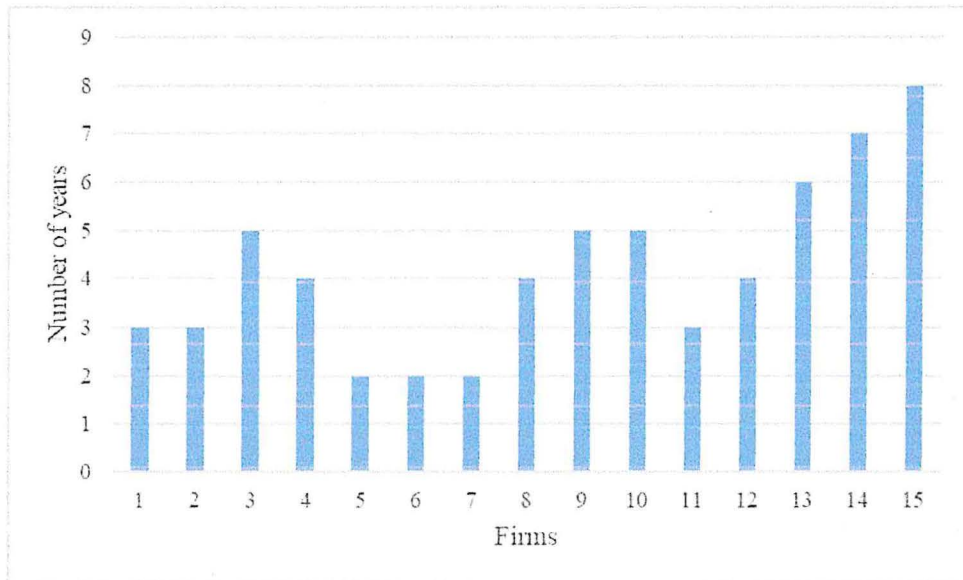
real estate sector. Figure 4.1 shows the number of employees and gender disaggregation of the work force in Narok county.



**Figure 4.1: Firm size (by number of employees, male and female) - Narok**

#### 4.2.1.2 Years of operation of firms in the Narok County

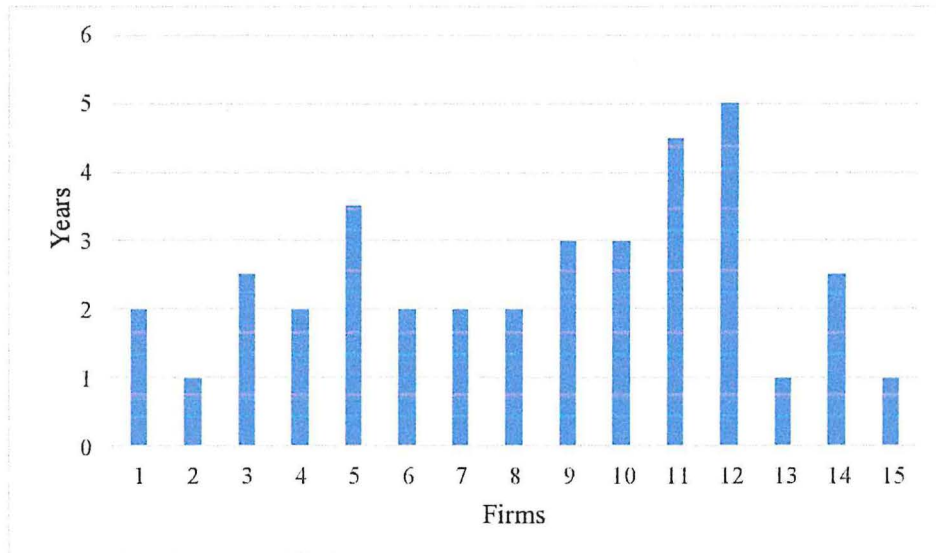
The data show that the firms included in the survey range in age (period of establishment) from two to twelve years of existence. This is noteworthy, given that the object of this was partly to consider whether the creation of counties in 2013 spurred the establishment or expansion of the firms. Most of the firms in the sample were established a year or two into the implementation of the county structure. While the firms did not directly attribute their establishment in the counties to devolution or the creation of the county structure, their responses, as will be seen below, indicate that they certainly appreciate the role that the county should play in creating a conducive investment climate for their operations. Moreover, the responses suggest that the firms acknowledge the role that such an investment climate would play in attracting further investments in the counties.



**Figure 4.2: Age of firms based on number of years in operation in Narok County**

**4.2.1.3 Strategy formulation cycle in Narok**

In part, the analysis sought to understand the factors that shape strategic decision making within firms, and particularly whether county policies, programs or investment considerations factor into the strategic decision-making processes. Based on the responses, the strategic reformulation processes are undertaken every two or three years. Given the previous discussion that the firms were established largely in the past two or three years, it would be anticipated that a good number have not therefore undertaken the strategic formulation processes. Figure 4.3 shows the duration (in years) that firms indicated they undertake strategic planning or reformulation processes.

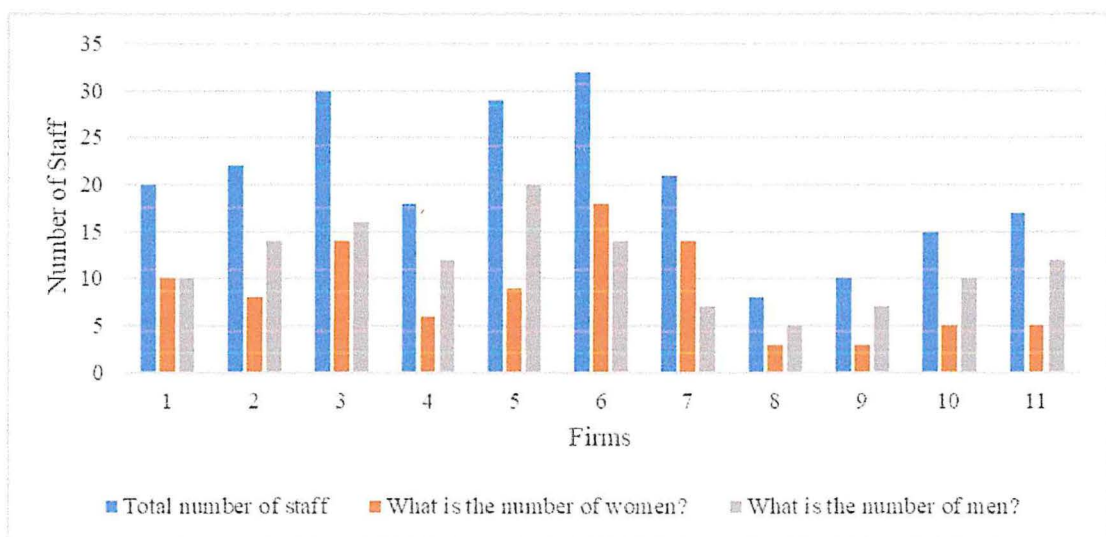


**Figure 4.3: Years undertaken in strategic planning (Narok)**

#### 4.2.2 Busia county

##### 4.2.2.1 Size of firms in Busia County

On average, the firm size in Busia was 18.5. Of the 12 firms covered in Busia, 9 were from the tourism and hospitality sector, whereas 3 were from the construction and real estate sector. Figure 4.4 shows the staff size and their gender disaggregation in Busia county.



**Figure 4.4: Firm size (by number of employees, male and female) - Busia**

#### 4.2.2.2 Years of operation of firms in Busia county

For the responding firms in Busia, the years of operation in the county range from 2 – 12 years. Figure 4.5 shows the number of years of operation of the firms in Busia county.

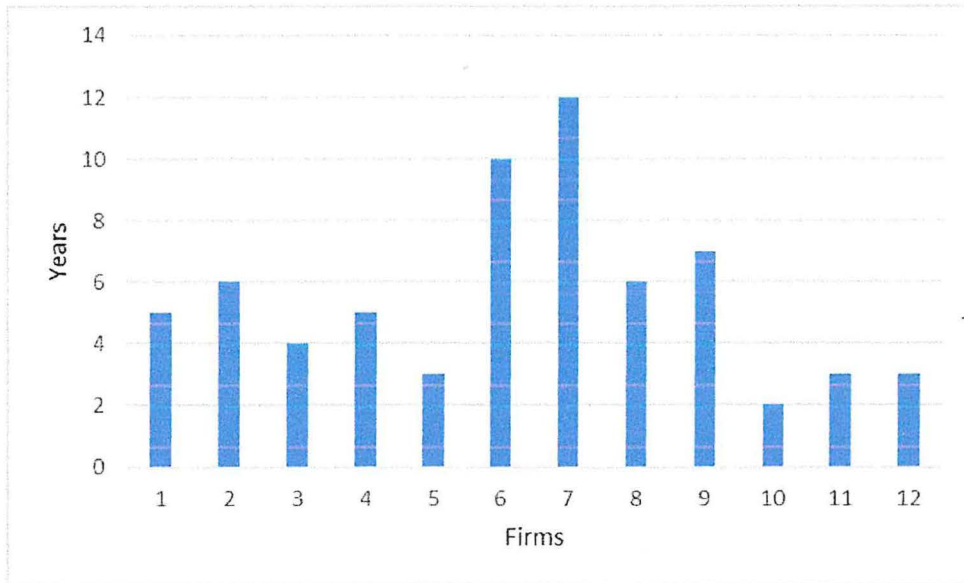
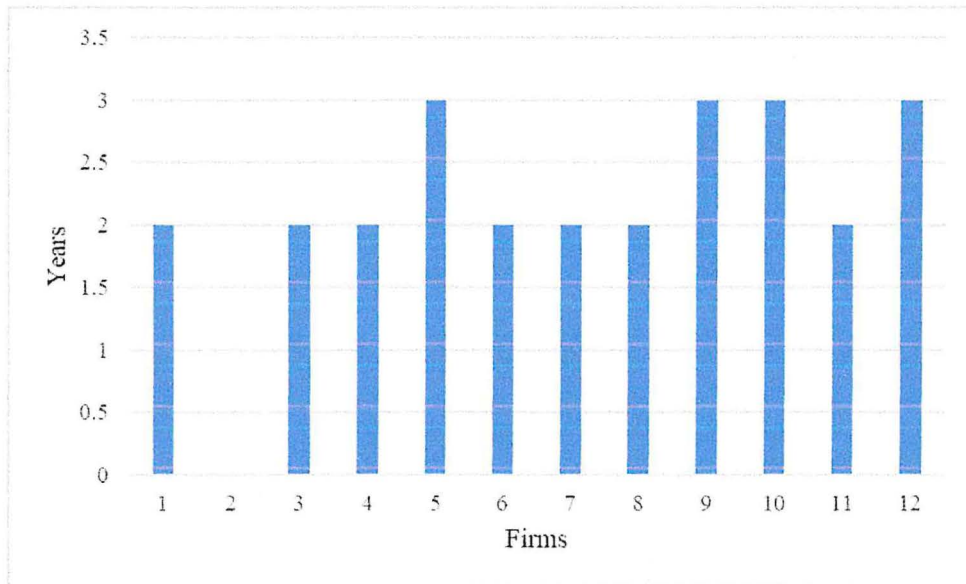


Figure 4.5: Age of firms based on number of years in operation in Busia County

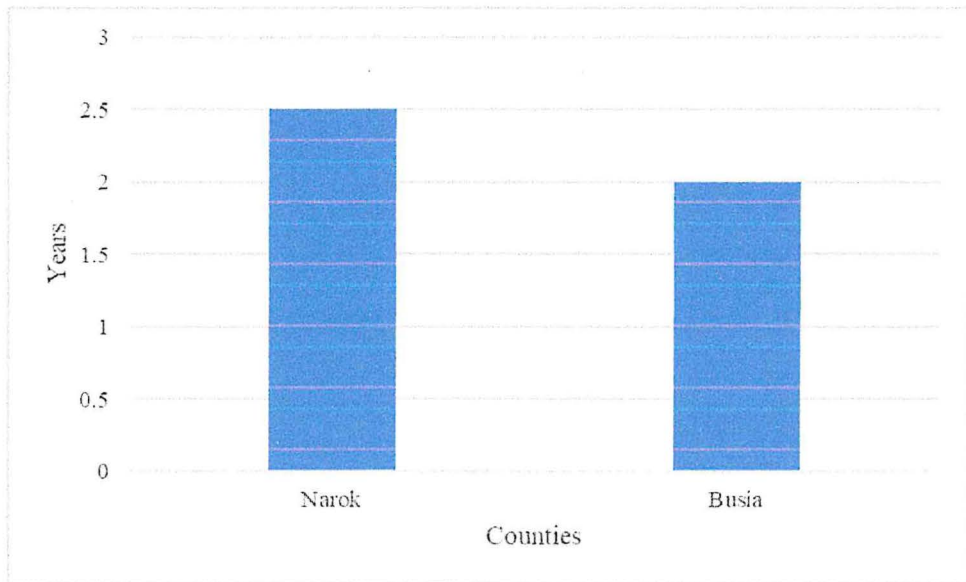
#### 4.2.2.3 Planned strategy formulation cycles in Busia

The firms in Busia indicated that their planned strategy reformulation period is between 2 and three years. Most of the firms in the study indicated that they had planned to review and reformulate their strategies every 2 years. The graph below shows the number of years that firms in Busia county indicated that they take between formulating strategies.



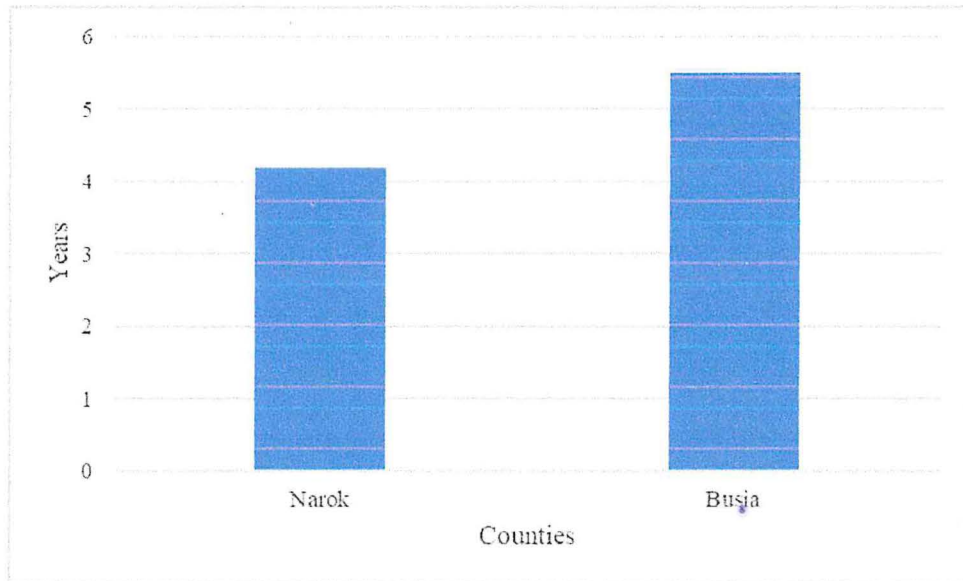
**Figure 4.6: Years undertaken by firms in strategy formulation-Busia**

In summary, the firms in Narok identified their strategic reformulation time lines as, on average 2.5 years, compared to 2 years in Busia county (see figure 4.7).



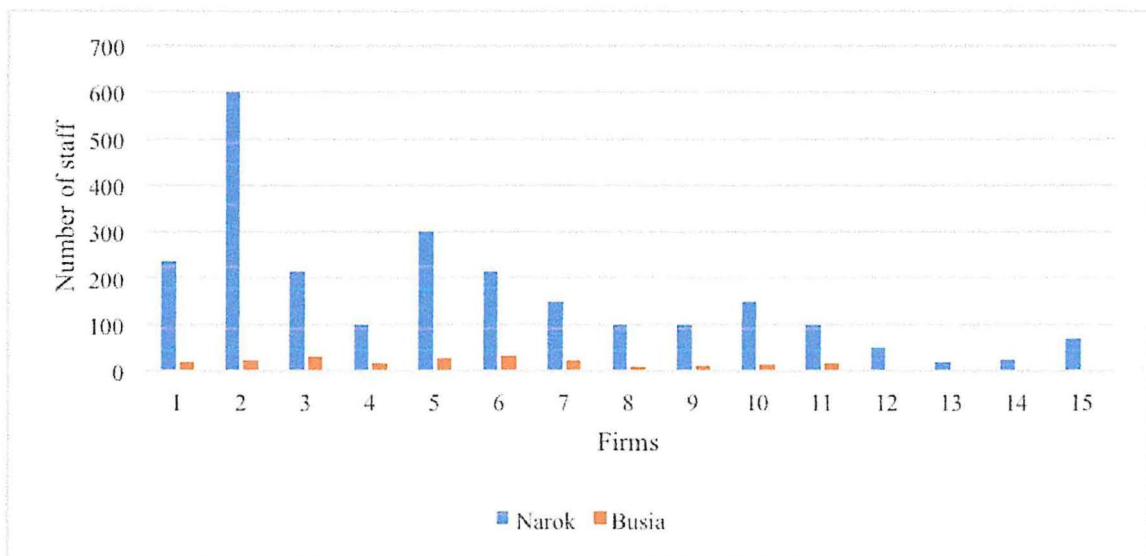
**Figure 4.7: Average years Narok and Busia firms take between strategy reformulation**

With respect to the number of years in which the firms have been operating in the counties, there was a difference between Busia and Narok counties. The average age of firms in Busia was 5.5 years, whereas those in Narok have been in operation for around 4.5 years. The age of firms in both Narok and Busia Counties is in Figure 4.8.



**Figure 4.8: Average years of operation of firms in Narok and Busia counties**

With respect to the number of employees in the firms in both counties, Narok firms had a higher number of employees, on average. Figure 4.9 shows the disparity in the number of employees in firms in both counties, with the highest in Narok being 600 and for those in Busia less than 50.



**Figure 4.9: Average staff size of firms in Narok and Busia counties**

### 4.3 Firm's perceptions on relative importance of investment climate factors

A Likert Scale was developed to determine the relative importance that responding firms put on these factors. The findings of the Likert scale are presented first for Narok, and then for Busia.

#### 4.3.1 Narok firms' perceptions on relative importance of investment climate factors

For the responding firms in Narok, the three highest responses were in relation to Enforcing contracts (15 of the 15 firms), Resolving insolvency (15 of the 15 firms) and Labor market regulations (13 of the responding firms). Paying taxes had the lowest response from the firms (7 of the 15 firms). Figure 4.10 shows the responses across each investment climate indicator.

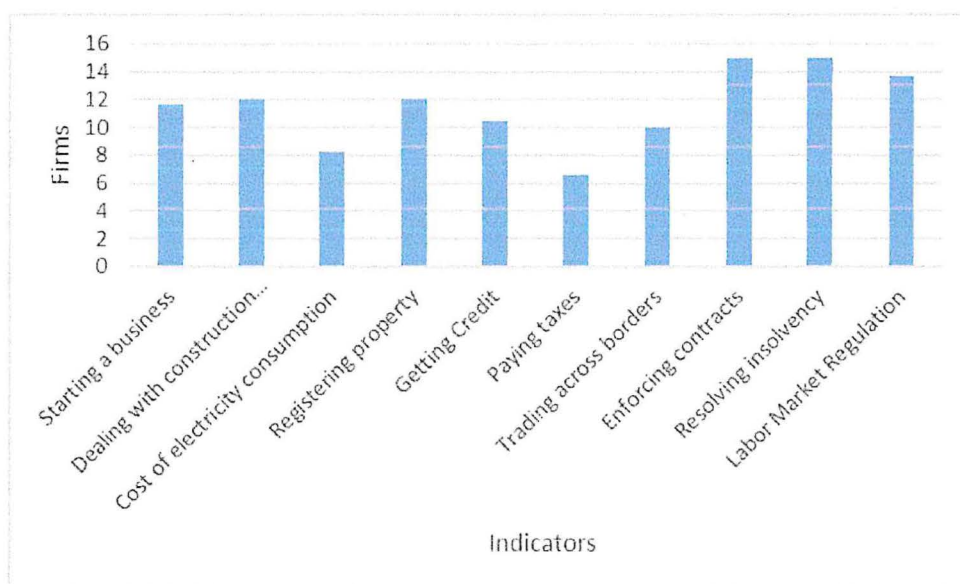
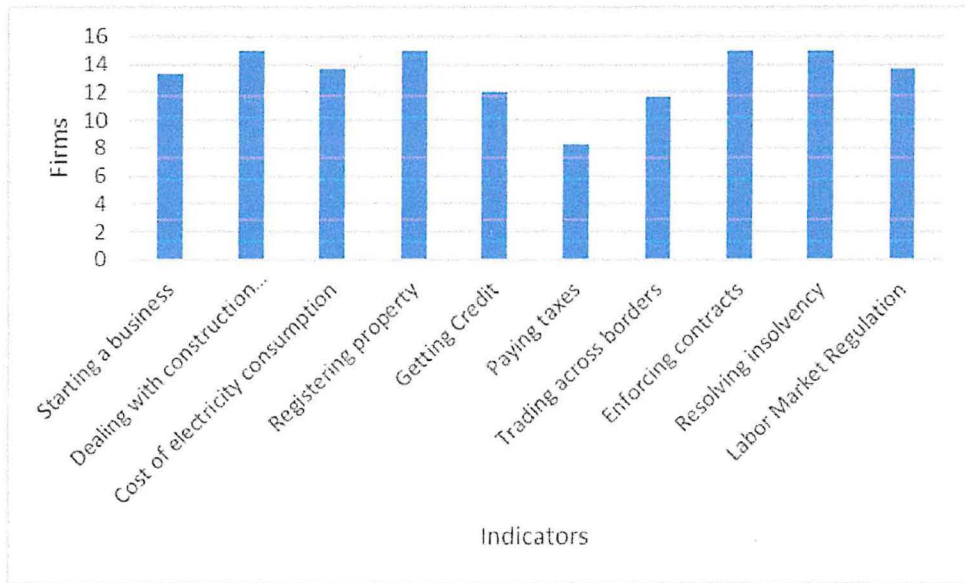


Figure 4.10: Narok firms “strong agreement” with investment climate factors

Reviewing responses to both “strongly agree” and “agree”, all 15 firms identified the following factors: dealing with construction permits, registering property, enforcing contracts and resolving insolvency. The lowest responses were around paying taxes (7 of the 15 firms).



**Figure 4.11: Narok agree and strongly agree**

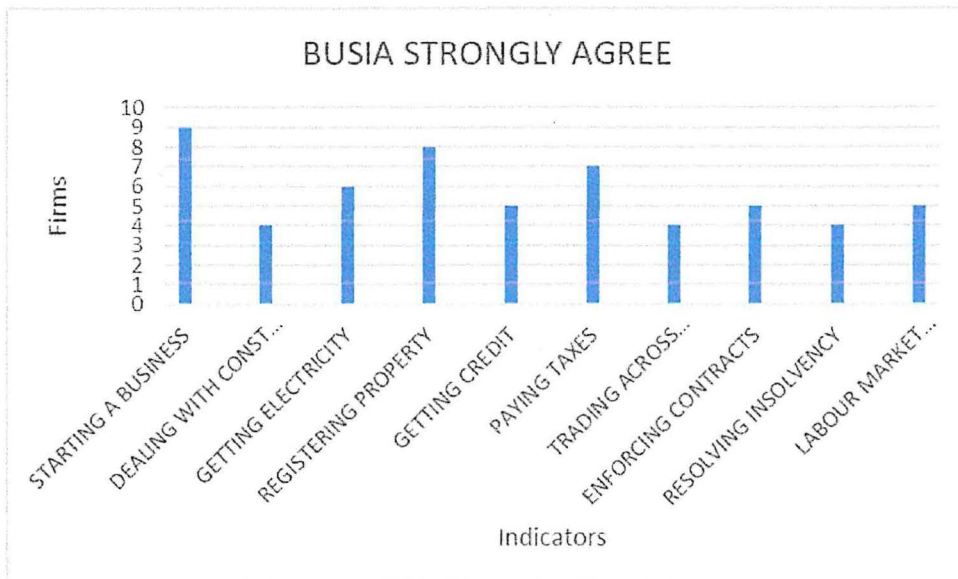
### 4.3.2 Busia firms' perceptions on relative importance of investment climate factors

The Busia county responses show that most firms strongly agreed on the importance of ease of starting a business, ease of registering property and paying of taxes. Table 4.1 shows the responses of the firms.

**Table 4.1: Perceptions on investment climate**

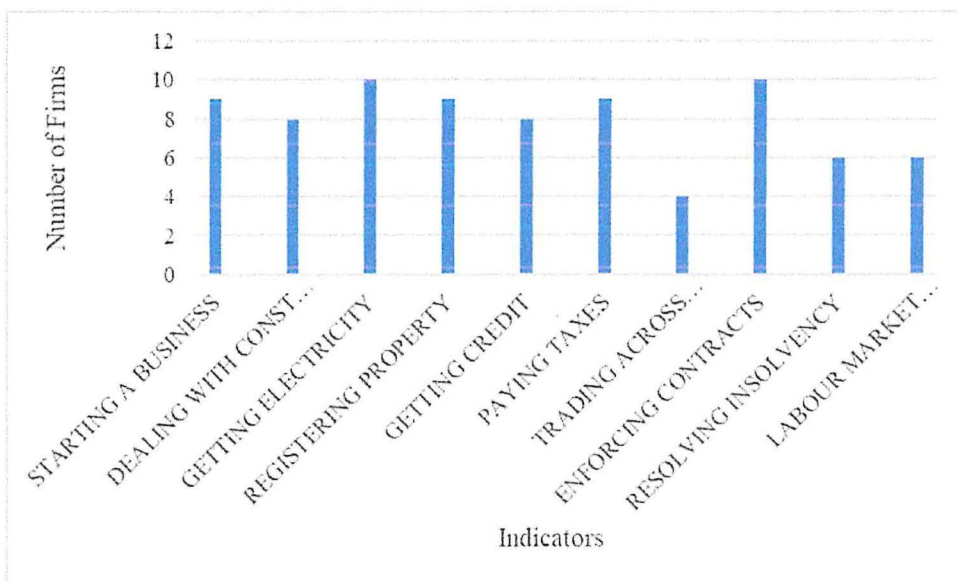
INDICATOR SET	Strongly agree	Agree	Neutral	Disagree	Strongly disagree	Total
Starting a business	9		3			12
Dealing with construction permits	4	4	3	1		12
Getting electricity	6	4	1	1		12
Registering property	8	1	3			12
Getting credit	5	3	3	1		12
Paying taxes	7	2	2	1		12
Trading across borders	4		7			11
Enforcing contracts	5	5	1			11
Resolving insolvency	4	2	5	1		12

The table shows that 9 of the 12 firms agreed on the importance of ease in starting a business, for example. The least important considerations for the firms in Busia were around dealing with construction permits (4 of the 12 firms) and trading across borders (4 of the 12 firms). Given that Busia is a border town, it would have been anticipated that the ease of cross-border trading would have been identified as a key determinant of investment climate. Figure 4.12 shows the number of firms responding “strongly agree” to the Likert scale.



**Figure 4.12: Firms responding to “strongly agree” Likert scale**

When one considers firms that both strongly agree and agree on the Likert scale indicators, the relative importance of the factors changes slightly. For example, getting connected to the electricity grid generates the most responses from the firms, followed by enforcing contracts and registering properties and paying taxes. As with the previous section, the least number of firms identify with the ease of trading across borders as an important consideration in the investment climate. The figure 4.13 shows the responses from the firms in Busia.



**Figure 4.13: Busia “agree and strongly disagree” with the indicator**

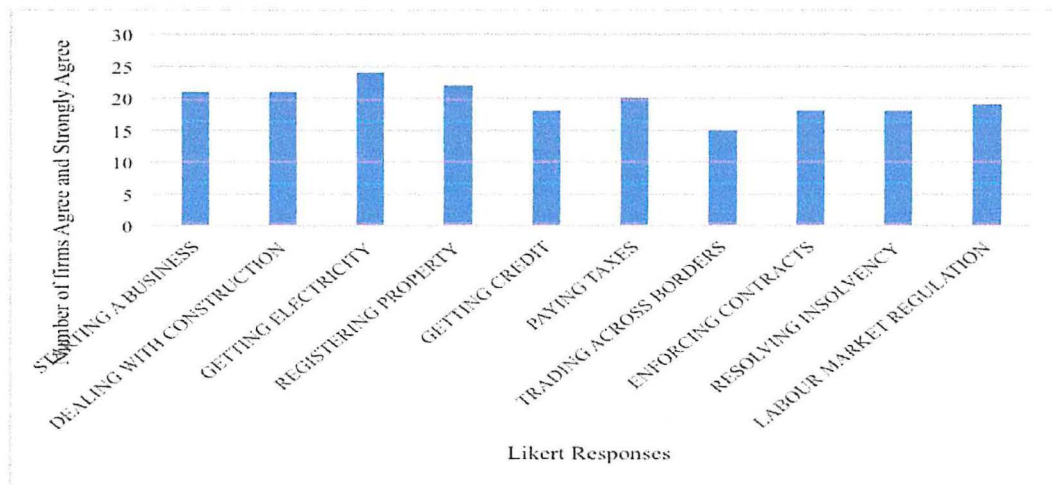
### 4.3.3 Investment climate perceptions: Combined responses for both Busia and Narok Counties

Looking at the combined responses from firms in Busia and Narok, the highest level of responses related to questions around the times, costs and procedures for starting a business, in which the majority of responding firms felt strongly that this is an important consideration in set-up or expansion decisions. Of the 27 firms in the study, 20 firms indicated that the processes around registering and establishing a business are a key consideration in their perspectives on investment climate at the county. The processes, rules and regulations around registering property in the county also emerges as an important consideration. 19 of the 27 firms strongly felt that this was an important factor. The area of labor market regulations was also identified as a key consideration, with 18 of the responding firms indicating strong agreement that it was an important factor. Figure 4.14 shows the relative importance firms place on the indicators.



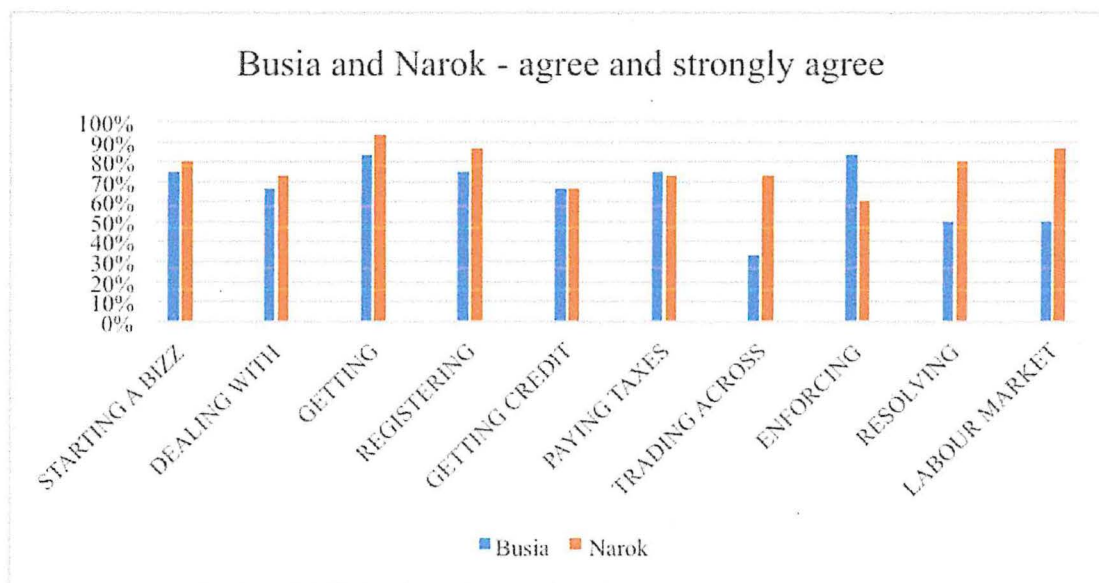
**Figure 4.14: Number of Firms indicating “Strong Agreement” to Selected Investment indicators as critical to their decision-making process**

When one considers the importance of the indicators in terms of both the “Agree” and “Strongly Agree” scales, however, the relative importance changes slightly. Figure 4.7 shows the effects on relative importance of the indicators, when scale 4 and 5 are combined. In this case, the data show that connection to the electricity grid, ease of registering property, and paying taxes, are the three priority areas. Figure 4.15 shows the results of combined scales 4 and 5



**Figure 4.15: Number of Firms indicating “Agreement and Strong Agreement” to Selected Investment indicators as critical to their decision-making process**

The responses to the Likert Scale also present further insights when differences between the county responses are considered (see Figure 4.15). Connection to electricity grid, and processes related to property registration are important considerations for respondents in both counties. However, for Narok respondents, Labor Market regulation also appears as a top consideration, which does not appear to be as important in Busia county.



**Figure 4.16 Comparison of responses between counties**

Similarly, trading across borders and the opportunities, ease of access and markets appears to be more of a concern to respondents in Narok rather than Busia (Figure 4.16). This is noteworthy, given that Busia is a border town, bordering Uganda. In-depth interviews, particularly with county officials, present a different picture, in which the fact that Busia is a border town is a primary plank in the economic growth strategy for the county. This characteristic would confer more opportunities to firms and investors in Busia than in Narok, which is not a border town.

#### **4.4 County and firm owner's views on investment climate and opportunities and constraints it confers**

Several patterns emerge as binding constraints and as potential opportunities based on semi-structured interviews and responses from firm owners and county officials. These themes relate to county mandate, land access and ownership considerations, infrastructure, funding and flow of funds, investment forums and individual county leadership efforts to develop sound investment climate.

##### **4.4.1 Narok County**

###### **4.4.1.1 Infrastructure and the role of national versus county mandates**

A key theme that emerged was the different mandates and functions that the constitution confers on counties and the national government. There are some functions linked to the broader investment climate, that are linked to the county and others to the national level. The respondents at county level identified this as a key constraining factor. One cannot do much if the functions fall with the national government. For example, the county is limited to developing access roads, but not major trunk roads. While the links and separation of roles is clear, it limits the extent to which counties can reach full potential of attracting investors through improved infrastructure. This is similar for the registration of companies, which is still under national structure. However, respondents noted that some national functions are decentralized, key of which are accessed through Huduma Centers.

This “one-stop-shop” concept has innovatively been adopted by some counties. For example, Busia has made efforts to centralize “access to registration services” including National Environment Management Agency (NEMA) approvals and National Construction Authority

(NCA) approvals in one building. The aim of this is to streamline services, rendering them more accessible to the county residents.

#### **4.4.1.2 The role of the constitution and devolution in the business climate**

With respect to ease of doing business, firms generally agree that the constitution has had a positive effect on the business environment. It has, for example, brought about devolution. . . .

*“This system has opened business. Many towns are growing at a fast rate [and there is therefore] need for more housing units hence good business for Real estate companies”  
Narok Business Owner, 1.*

With devolution, firms in Narok indicate:

*“It's now easier to get all the necessary approvals for constructing a building at the County level. Most of the counties now have an operational Huduma Center hence increasing efficiency in service delivery....” Narok Business Owner, 2*

A business owner from Narok agreed with this sentiment, noting:

*“We can now process our licenses, permits and other regulations required for by the law within the County. This has saved us time and resources. The county has brought in a policy to attract more tourists in the County. This has greatly improved on our business”.  
Narok Business Owner, 1*

#### **4.4.1.3 Delays in public funds flows and lack of sufficient resourcing from National Treasury**

County Officials also identified lack of funds as a hinderance, particularly in infrastructure development. The two issues raised relate to insufficiency of funds allocated by the national level to the county, and secondly, the delay in moving funds from the national treasury to the county.

*“With more funds and timely fund disbursement, counties should be able to “improve the road network, develop an online platform for applications of necessary approvals for construction, organize more trade summits, provide loans, Provide cheap or subsidized land for new investors...” Narok County Official, 3*

#### **4.4.1.4 Availability of natural resources and endowments at the county level**

In the case of Narok, home to the Maasai Mara reserve, the opportunities identified largely related to the tourism and hotel industry. The Maasai Mara Game Reserve is one of the most popular tourism destinations in Kenya. Given its annual wildebeest migration, it is recognized worldwide as a wildlife destination site. The tourism opportunities that the Reserve offers confer an advantage to the county, given that hotel and service industry would want to take advantage of the flow of tourists. The county can do much more, as noted in this study, to improve the investment climate in the county, and attract further investment from the hotel and service industry, particularly.

#### **4.4.1.5 Investment conferences: Concerted efforts to attract investors**

The counties have realized the importance of investment and the need to attract potential domestic and regional investors. They have therefore convened investment conferences with a view to bringing together investors and linking them with opportunities in the county. Respondents from Narok county noted the potential, not fully exploited yet, of the investment summits and related trade fairs. One official noted:

*“An investment Summit was held to attract new investment, JICA has helped in expanding the old water system thus water is greatly available, because of that summit.” Busia County Official, 1*

Another interviewee, from the same county, echoed this view by arguing for the need for organizing more trade fairs across the county, and organizing more investment meetings in the county.

## **4.4.2 Busia County**

### **4.4.2.1 The role of the constitution and devolution in the business climate**

The firms in Busia indicated, similarly, that the constitution and the changes that it has brought, particularly devolution, present both challenges and opportunities to the business operation environment. Firms noted that with counties empowered to pass bills at the local level, there are opportunities to create a conducive investment climate.

*“Counties now have the responsibility to enhance infrastructure and security. They can allocate resources to improved roads and electricity, supply, for example. This would be beneficial to firms”. Busia Business Owner, 1*

### **4.4.2.2 Delays in public funds flows and lack of sufficient resourcing from National Treasury**

It is not that there is lack of demand for credit, despite what the Likert scales indicate. It is that counties do not have sufficient public resources to make available to potential investors. While county representatives lamented lack of funds to even run counties as a constraint, they indicated there was demand for credit amongst investors:

*“We ourselves do not have sufficient funds to run their own affairs, let alone provide for private investment. This year, it is April, and have not received 67% of funding budgeted for us. Delays from national level in transferring funds also affects the county ability to build on investment opportunities”. Busia County Official, 1*

A second county official said:

*“The county has no surplus funds to advance to private firms. In fact, numerous county public investment projects have stalled, because of these delays and insufficient funding. How can we consider extending funds to potential investors?” Busia County Official, 2.*

For firm owners, the reference to the delay in public funds may hinder their access to credit facilities, which they identified as a constraining factor in the investment climate.

While firm owners did not refer to delayed funds, they did allude to mismanagement and corruption as potential deterrents to the investment space in the counties. A firm owner also referred to corruption and mismanagement, saying:

*“There is still a lot of conflict of interest. Devolution has just devolved corruption from the national level to the counties. Cartels and brokers are preventing the county from delivering on its potential”. Because of these cartels and brokers, opportunities are first awarded to counties for goods and service provisions...” Busia Business owner, 5*

#### **4.4.2.3 Availability of land and streamlined procedures for land ownership**

Rather than streamlined land acquisition procedures, respondents identified the *availability of land* as an incentive. Counties have acquired land which they avail to potential investors (at no cost or at concessionary rates) as an incentive for them to set up shop in the counties. This was particularly true for investments that required land, such as factories or warehouses. In Busia, for example, respondents identified several flagship investors who had established shop:

*“Land has been procured and registered by the county, with the aim of attracting investors. Many companies have technical skills, cash and equipment but don’t have land. Through this initiative, the county made it policy to buy, fence and wait for investors” Busia County Official, 2*

Further, counties had taken advantage of the notion that “devolution is still new”. There was still relative availability of land and costs had not yet become prohibitive. Speculators were also noting this, the respondents stated, and acquiring land. This meant that the status quo would not remain. The prices of land would continue to increase, and therefore counties may consider how best to manage the issue of “land as an investment attractor” going into the coming years.

*“A lot of investors decided to buy land for speculation, it is still relatively cheap compared to some places. No infrastructure as such...no warehouses ready for update, etc. So, there is still a lot of potential for individual investors. When infrastructure does improve, as it will over time, this will not be the case” Busia County Official, 3*

#### 4.4.2.4 Availability of natural resources and endowments at the county

In the perspective of respondents, natural externalities appeared to be a good opportunity for further attracting investors. For both counties, natural resources and potential benefits existed. Counties undertook mapping of these key externalities and communicated them to potential investors. However, the counties themselves had not sufficiently leveraged these natural potential opportunities, by their own accounts. This therefore remains an opportunity for further enhancing opportunities for investors.

Busia lies on an international border. It is the true highway to East and Central Africa. A respondent indicated that:

*“Both Busia and Malaba border crossings are in Busia, providing access to Great Lakes regions and other counties. These counties are rich in Agriculture but not in manufacturing and value addition, so prospectors come to Busia to see what can be done” Busia County Official, 4*

Moreover, the Standard Gauge Railway (SGR), a national flagship program, would be beneficial to the county of Busia. Indeed, the SGR would reach its destination in Busia. Prospectors were then buying land in anticipation of the future need for inland warehouses. Indeed, and related to tourism, one respondent identified a significant cultural historical site in the county. However, it remained inaccessible due to poor road network, and moreover, not enough marketing had been done around it. It is revealing that the county had mapped and identified that as a strategic investment but had not been able to exploit it to the time of study. This could be linked to lack of resources or alternative priorities. Firm owners seemed to agree that there was potential to take advantage of these new developments.

A business owner in Busia noted:

*“The county government has also brought more residents to the area and increased human traffic at the county level. This offers counties a ready domestic market which they can exploit for increased profitability” Busia Business Owner, 4*

#### **4.4.2.5 Investment conferences: Concerted efforts to attract investors**

The respondents almost unanimously raised the importance of county investment conferences and forums, as well as County Integrated Development Plans (CIDPs) as key in shaping directions for future investment and in revealing potential to likely investors.

One respondent stated:

*“We held an investor conference in February 2014. It was the 1<sup>st</sup> International Conference and attracted potential national and international investors. However, it did not lead to solid outcomes. Nonetheless, it did showcase the county and the related opportunities, and can be a good building block to encourage investment” Busia County Official, 1*

Related to the investment conferences, respondents noted that establishment of counties led to systematic mapping of opportunities and constraints for potential investors. In Busia, one respondent said:

*“Through this mapping, we developed a county investment strategy. From this, I believe two new hotels came up, and many retail shops. Also, there was the establishment of a Liquid Fertilizer company and the West Kenya Sugar processing company. This did a lot in terms of highlighting the potential in the county” Busia County Official, 3*

#### **4.4.2.6 Leadership and individual commitment**

While the various counties articulated the numerous challenges they were facing, they still pointed out some areas of success. Despite hurdles around lack of funding or delayed funding, for example, counties also found innovative ways to address their immediate plans. This points to the notion that leadership and individual commitment can drive reform, even with existing constraints. In Busia for example, respondents suggested that some individual officials drove through innovative policies and programs, such as the establishment of a Busia County Cooperative Development Fund. This Bill became an Act, providing a budget every year of KSh.

50-100 million for cooperatives. The fund was successful, functioning as a revolving credit fund for value-addition, support in cultivation and onward lending to other small holder farmers

Similarly, a county official led the establishment of the Busia Small Traders Board, targeting individual Small and Medium Enterprises (SMEs) with turnover of approximately KSh. 15-20 million a year. This was particularly useful initiative, as it was targeting SME's around the cross-border trade agenda. While the success of the initiatives identified here were not well documented, they do demonstrate that individual leadership and innovation can move counties beyond the constraints they currently face, to build stronger investment spaces for potential entrants in their markets.

#### **4.5 Conclusion**

When looking at the findings from both Narok and Busia counties, one observes a general consistency in the issues that are viewed as important determinants of investment climate in both counties. Firm owners and county officials in both counties recognize the importance of the new constitution to the growth of the business sector. Through devolution, respondents noted, more services are brought closer to communities, and county governments have increased mandate around some investment climate factors. Both counties take advantage of investor conferences to link potential investors to opportunities in the county, and recognize the potential offered by the different natural resources their counties hold. In Busia, there was a strong emphasis on the role of the leadership and individual drive of county government officials to establish supportive policies, programs and services.

The preceding shows that there is a general convergence in the perspectives of county and firm respondents on the importance of devolution as a "pull factor". There is consistency with the model of investment climate, in which the attractiveness of the business environment influences strategic decisions that firms make. Counties, the findings show, recognize the importance of investment time and resources in building this conducive investment environment. In the short period they have been in existence, counties have made efforts to redouble investments in infrastructure, process efficiencies, electricity and access to land, for example. However, there remain constraints, and these have been identified in the study. Firms, similarly, agreed on the

importance of these factors, and the data shows the relative importance they placed on some of the investment climate factors.

Moving beyond the investment climate factors define *a priori* for this study, respondents identified other external areas that they scan. They indicated that they also consider technological changes, environmental factors and macro level economic shifts. Companies identified the issue of terrorism and insecurity as key concerns, particularly in the services industry, which further leads them to consider strategic shifts to respond to such changes. Similarly, unforeseen events such as increases in inflation or poor shilling exchange rates occasioned some firms to reconsider their strategies. Finally, natural disasters, such as flooding and drought, have affected some decision-making processes. This is particularly relevant in the case of the Masai Mara hotel industry, for example, given the cycles of flooding that destroy infrastructure.

## **CHAPTER 5: DISCUSSION, CONCLUSION AND RECOMMENDATIONS**

### **5.1 Introduction**

This chapter presents the discussion, conclusion and recommendations arising from the data collected and analyzed. The chapter reviews the research questions and objectives, considering the analyzed data. The chapter also presents limitations of the study and recommendations arising from the discussion. The concluding discussion and contributions to new knowledge about the topic under review are presented, as well as strategies to address and resolve the problem, and areas for further research.

### **5.2 Discussion**

#### **5.2.1 Strategic decision factors for the firms**

Several factors recur as key considerations in attracting firms, key amongst these being infrastructure. The respondents and data show that the quality of roads and infrastructure around electricity and water are important considerations in their choices to invest in the county. The counties, similarly, recognize the role infrastructure plays in attracting investment. The findings here are consistent with previous literature around investment climate. As indicated earlier Deyhaupt et al (2012) argued the importance of national investment climate (laws, regulations and political institutions) as important determinants of likelihood of investment. Lahimar (2007) similarly presented a strong case for the role of infrastructure in attracting or retaining businesses, at the macro level. While the current study focused on county level, the centrality of the climate offered by counties remains important for firms.

However, county respondents make a strong distinction between roles and responsibilities for which the national government, rather than the county government, may hold responsibility. Moreover, counties indicated that even for functions for which they were responsible, there were delays experienced in funds flows from the national level to the county, and even then, funds were often less than what was requested. This is supported by previous studies. For example, a Transparency International (2016) county survey showed that county executives identified lack of financial resources as their biggest challenge in building successful counties.

Moreover, Waweru and Nduru (2015) presented a strong case consistent with this view. In reviewing financing constraints in Nakuru county, they highlight significant delays in flows and funds and how these delays, of necessity affect the operations of the county. Their study recommended that counties should prudently manage the funds they received from the national level. While this is important, it falls short of addressing the root causes of delays and insufficiency of funds. The present study, on the other hand, shows that counties do have the potential to attract and benefit from local investment, which in turn could potentially increase their financial reserves.

Additionally, access to land and issues related to ownership of such land are important considerations. This is particularly noteworthy in cases in which the investments are around warehousing, farming and other initiatives that require large spaces of land. For firms, the availability, cost and ownership of such land is an important consideration. Allocation of land and issues related to ownership of land, however, have always been a challenge in Kenya. Kibugi, Mwathane, and Makathimo (2016), in a review of land reform in Kenya, noted the importance of county land allocation as a driver of investment, as does this study. They however argued for the need for such land allocations to be defined by a clear set of rules of engagement that are beneficial to communities and prevent cartelism and rent-seeking. Boone et al (2018) similarly viewed the land reform process, at national and county level, as dysfunctional. Counties need to take these concerns into account as they consider how this factor can be used to attract investment.

Streamlined administrative processes were also identified as an important factor: Few respondents made explicit reference to corruption, rent-seeking or use of public funds for private purposes. The role of streamlined administrative processes around business registration, ownership of property, tax payments, and so on, could be understood to mean the need for more transparent and efficient processes. The study findings are consistent with previous studies on the expectations of decentralization and devolution, and on transparency and good governance at the county level (Hope 2014; Mwikali & Wafula 2015; Tsofa et al. 2017). It is noteworthy that Transparency International (2016) found that most people perceive the biggest success of devolution as improved access to services and improved service delivery.

### **5.2.2 Perceptions of firms on the ideal investment climate at the county level**

Relatedly, the research instruments were designed to explore the relative importance of the identified county investment indicators. The data emerging shows that the identified initiatives are consistent with what the firms consider as important drivers of the counties to attract firms. Those that are considered most important are (i) dealing with construction permits (ii) registering property (iii) enforcing contracts and (iv) resolving conflicts. These findings are consistent with literature on investment climate (see for example Escribano & Guasch, 2008).

The study also shows the importance, as do proponents of the market-based theories such as Sciarelli (2008), Akio (2005) and Srivastava and Fahey (2001) of the external climate in firm decision-making. Where the study moves beyond previous work, is that it identifies some level of prioritization on which factors carry more weight for firms. Processes of prioritization should help counties define which areas to focus most on, or to invest most in. In this case, the study finds that while all the factors are important, construction permits and registration of property, and access to electricity, are important to firms.

The factors identified by firms, as above, are also considered important areas from the perspective of the county officials. They identify, for example, land as a key issue, but from the perspective of the providing land for investors. These examples were given in both Narok and in Busia. Previous studies, notably Kibugi et al. (2016) and Chatham House (2016) reviewed land acquisition for investment in Kenya. Their conclusions support the finding of this study that access to land or access to concessionary land rates are good incentives for investment. They argued however the need for transparency, community participation and clear rules of play, as far as land as an investment opportunity is concerned.

Boone et al (2018) have chronicled the land reforms envisaged in the Constitution, including at devolved levels. They concluded that the process has not worked well and has been subject to mismanagement. This study pulls the argument forward by raising the issue of sustainability. The more land counties buy, the more prices are likely to be pushed up, making it a constraining factor to both counties (who will find it more and more difficult to afford the land) and potential

investors. There is therefore a case for counties to diversify their menu of options to attract firms, and to consider more sustainable approaches to building strong investment climates.

Overall, the firms indicated that they welcome the opportunities presented by the new constitution, but these opportunities are not only limited to devolution and the creation of the county structures. The findings show that firms also acknowledge, for example, the rule of law and institutions created to implement these laws, as important contributions of the constitution to a desired investment climate.

### **5.2.3 Relevance of investment climate factors relevant in shaping firm strategic decision-making processes**

The findings show that firms consider the investment climate as important in their strategic decision-making processes. The Sub-National Doing Business Report of 2016 (World Bank, 2016) formed an important methodological basis for the study. The findings of this first sub-national report were used to interrogate the relevance of the investment climate to strategic decisions regarding whether to start a firm and where to start it. The findings of the present study show that the factors identified as important to an attractive investment climate are indeed key consideration for the respondents of the study.

The challenge is that the firms have only been in existence since 2013, and as the data suggests, work with two to three-year cycles of reconsidering their strategies, primarily through scanning the environment for changes that require a shift in strategy. The findings, as noted above, are consistent with broad investment climate narratives, that firms need to review their external environments as they plan and make decisions. Indeed, Herring (1993) and Grant (2011) argued that environmental scanning of opportunities and threats, and aligning strategy to that external environment, is important for firms' success.

Mapping and identification of opportunities for investment is a critical leverage for firms in their decisions about how better to engage with the county and its resources. Both counties identified here have undertaken two processes of county integrated development plans. These are consultative processes that help map possible areas of entry for firms. Related to this is county investment conferences and forums, which further open opportunities. A key gap has been the

availability of centralized information and data that firms can easily access and use to support their market intelligence. This was identified by a key informant in Busia as a gap that the county has been considering how to redress, and that it will involve links with other agencies and statistical bodies such as the Kenya National Bureau of Statistics (KNBS).

One of the anticipated outcomes of devolution, according to authors such as Hope (2014), Tsofa et al. (2017), was that it would build stronger community participation in governance and decision-making. Reviews on governance and management at county level, however, suggest that this vision has not been realized. Indeed, some authors have argued, as respondents in this study did, that devolution has led to a “decentralization” of the ills of a centralized structure. D’Arcy and Cornell (2016, p 271), in their study find that, “decentralization has removed neither rent seeking nor ethnic patronage politics from Kenyan politics. However, it has changed who has access to public resources...rent seeking and patronage have been brought down to the county level.” In similar vein, Transparency International (2016) found that six out of ten of their respondents described the level of corruption in their counties as “high”.

## **5.2 Conclusion**

There was a dearth of research on how firms use the county investment climate to shape their own decision making. This study presented this as a gap, suggesting that there was need to consider what factors drive firm’s strategy and planning decisions. The findings of the study point to the fact that firms are indeed considering county performance across various metrics, and how these factors relate to their own planning and decision-making processes.

The study identified some gaps in (i) which factors are considered important by firms as opposed to counties and (ii) which factors are considered as priorities by firms, as opposed to counties. Further, there is some information asymmetry in the relationship between firms and counties. Firms are not fully aware of the constraints facing counties, and counties are not fully apprised of the factors that are of importance and of priority to firms. The study indeed recommends that firms and counties should engage more intentionally, to bridge this information asymmetry. This should lead to a more conducive investment climate. The use of County Integrated Development Plans (CIDP) and Investor Forums are a good platform to strengthen these links.

### **5.3 Recommendations**

Based on the findings and conclusions of the study, several recommendations are proposed, as below.

#### **5.3.1 Counties should create “forward-looking” County Integrated Development Plans**

The study found that these plans have proved a good starting point for dialogue and linkages between the private and public sector. They have provided an opportunity for counties to systematically map opportunities and resources available to private sector in the counties. Similarly, the county investment forums have provided space for the two to dialogue about what opportunities are available and what firms require to succeed. These investment strategies should be more forward looking, providing opportunities now, but also projecting potential growth areas (geographical and in terms of productivity). The gap analyses need to be for current opportunities but also importantly consider future opportunities.

#### **5.3.2 On their part, firms should be more proactive in their engagement with county authorities**

If firms consider how best to “package” their investment as an opportunity to the county and its residents, counties are likely to incentivize them further. For example, a fruit processing plant may make a case for how many people it will employ from the county (addressing the issue of job creation, especially youth employment). How many youths from the county will be absorbed into gainful employment? Further, they can make a case for tax (revenue to county) for example after a “grace period” and finally, provide value chain opportunities to the residents.

In Busia for example, how many small-holder farmers will have access to provide their produce to a ready market? In some places, “contract farming” has proved to be a successful spur to growth, benefitting county in its growth and revenue collection objectives, providing market to farmers and providing profits to firms, especially in the manufacturing or agriculture and processing value chain.

### **5.3.4 Firms should take advantage of the “first-mover advantage” given that the competitive space is reducing, as counties increasingly implement their investment climate**

Given that counties are still comparatively new constitutional structures, the current opportunities open to firms may not always hold, especially as more investors come into the same spaces, competition for market, customers and resources availed by the county likely to become scarce resources. It is therefore in the best interests of firms or those considering investing in counties with attractive investment opportunities, to do so as “first movers”.

## **5.4 Research Limitations**

The study was limited to two counties, given that the research approach was qualitative. This allowed the generation of rich data, particularly through the in-depth interviews with firm owners and county officials. However, expanding the scope of the number of counties may provide more insight into the intersection between investment climate and firm decision-making.

The study design planned for more firms in each county. Due to time limitations, the full number was not achieved and moreover, there was an imbalance between the two selected sectors, that is, hotel and services industry, rather than construction and real estate sector. It may therefore be more informative to have more firms in the sample, and to expand the sectors represented.

## **5.5 Areas of further research**

Several areas usefully lend themselves for further research. Future research may consider an analysis of how firms in different sectors of the economy perceive investment climate. Are there differences in the investment climate attractiveness, based on different sectors? Conversely, do counties need to consider different strategies for attracting firms in different sectors of the economy? Similarly, future studies may consider how to correlate profitability of firms with their views on investment climate. Theoretically, this would advance the understanding of the role of the Market Based View and investment climate.

Further research would also be useful in undertaking an examination of how different size firm-sizes interact with investment climate and with counties. That is, are there differences in

perceptions and investment climate? Such studies would explore whether smaller firms, as opposed to larger firms, have differing perspectives on the investment potential offered by counties. Theoretically, this would advance the understanding of internal (Resource Based View) considerations, as opposed to the market-based perspective this study adopted.

Finally, future reviews may consider evaluating differences in counties and the type/level of investment climate. This would involve conceptualizing commonalities and differences in county resources, opportunities, constraints in relation to investment climate and how firms engage with them. As will be recalled from Chapter Four, the rate of development of counties appears, in part, to be related to the leadership and individual initiative at county level and on the resources (natural or otherwise) that counties have at their disposal. A future study may usefully consider (i) designing a survey, based on the present study findings, on a larger number of counties, and (ii) developing a more in-depth qualitative study of a fewer counties, with a view to further unearthing the factors that shape investment climate at county level, and firms' perceptions of the same.

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## APPENDIX 1: PERCEPTIONS OF COUNTY INVESTMENT CLIMATE

### (Interview of firms in Similar Sector)

*Note: The relevance of the questions below to the objectives of the study and to the conceptual framework are identified in the last column as Investment Climate (IC), Perceptions on Investment Climate (PIC), and Drivers of Firm Decisions (DFD).*

#### **Instructions**

We would like to thank you for accepting to participate in this exercise. Please note that you are free to refrain from answering any question that you do not want to. You may stop participating in this interview at any point. We would like to confirm that the information provided will be treated as confidential and will use the data collected for academic purposes only. You are free to indicate your name/the company name but are under no obligation to do so. We will respect your privacy and that of your company. We would like, however, to note the industry in which your business operates, as this is critical to the object of the study.

	QUESTION
1.	How do you see the constitution as impacting business in Kenya generally?
2.	How do you see the constitution as impacting your company's operations specifically?
3.	Does the county structure and its policies affect your business, and if so, how?
4.	What opportunities do you see for your business in the devolved structure?
5.	What constraints do you see to the operation of your business in the devolved structure?
6.	Has there been a formal analysis of these opportunities and threats in your company?
7.	Do you think the county structure is important for your business? How?
8.	What opportunities do you see it providing?
9.	What threats/constraints is it likely to cause?
10.	What other factors do you think the county can improve to make the business environment more attractive for your firms/industry?

## APPENDIX 2: RELEVANCE OF INVESTMENT CLIMATE

### (Perceptions of Firm Owners)

#### Instructions

We would like to thank you for accepting to participate in this survey exercise. Please note that you are free to refrain from answering any question that you do not want to. You may stop completing the survey at any point whether you feel you would like to. We would like to confirm that we will treat the information provided will be treated as confidential and will be used the data collected for academic purposes only. You are free to indicate your name/the company name, but are under no obligation to do so. We will respect your privacy and that of your company.

- a) To what extent Are these factors important to you as you consider how to start or expand your firm?<sup>3</sup> Give reasons for your answer

Indicator set	What is measured	Likert Scale				
		Strongly Agree	Agree	Neutral	Disagree	Strongly Disagree
<b>Starting a business</b>	Procedures, time, cost and paid-in minimum capital to start a limited liability company					
<b>Dealing with construction permits</b>	Procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system					
<b>Getting electricity</b>	Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the cost of electricity consumption					

<sup>3</sup> A separate Likert Scale Sheet will be provided for each of these three questions

<b>Registering property</b>	Procedures, time and cost to transfer a property and the quality of the land administration system					
<b>Getting credit</b>	Movable collateral laws and credit information systems, Protecting minority investors Minority shareholders' rights in related-party transactions and in corporate governance					
<b>Paying taxes</b>	Payments, time and total tax rate for a firm to comply with all tax regulations					
<b>Trading across borders</b>	Time and cost to export the product of comparative advantage and import auto parts					
<b>Enforcing contracts</b>	Time and cost to resolve a commercial dispute and the quality of judicial processes					
<b>Resolving insolvency</b>	Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency					
<b>Labor market regulation</b>	Flexibility in employment regulation and aspects of job quality					

*Adopted from World Bank (2016): Sub national doing business survey*

## APPENDIX 3: EXISTING INVESTMENT CLIMATE AND IMPROVEMENTS

(County Government Officials and FIRM Managers/Staff)

### QUESTIONNAIRE

#### Instructions

We would like to thank you for accepting to participate in this exercise. Please note that you are free to refrain from answering any question that you do not want to. You may stop participating in this interview at any point. We would like to confirm that the information provided will be treated as confidential and will use the data collected for academic purposes only. You are free to indicate your name/the company name, but are under no obligation to do so. We will respect your privacy and that of your company. We would like, however, to note the industry in which your business operates, as this is critical to the object of the study.

Question	Yes	No	When (Year)	Brief explanation
Since 2013, has there been establishment or improvement in the procedures, time, cost and paid-in minimum capital to start a limited liability company ( <b>Starting a business</b> )				
Since 2013, has there been an improvement in procedures, time and cost to complete all formalities to build a warehouse and the quality control and safety mechanisms in the construction permitting system ( <b>Dealing with construction permits</b> )				
Since 2013, has there been an improvement Procedures, time and cost to get connected to the electrical grid, the reliability of the electricity supply and the cost of electricity consumption ( <b>Getting electricity</b> )				
Procedures, time and cost to transfer a property and the quality of the land administration system ( <b>Registering property</b> )				
Movable collateral laws and credit information systems, protecting minority investors Minority shareholders' rights in related-party transactions and in corporate governance ( <b>Getting Credit</b> )				

Payments, time and total tax rate for a firm to comply with all tax regulations ( <b>Paying taxes</b> )				
Time and cost to export the product of comparative advantage and import auto parts ( <b>Trading across borders</b> )				
Time and cost to resolve a commercial dispute and the quality of judicial processes ( <b>Enforcing contracts</b> )				
Time, cost, outcome and recovery rate for a commercial insolvency and the strength of the legal framework for insolvency ( <b>Resolving insolvency</b> )				
Flexibility in employment regulation and aspects of job quality ( <b>Labor Market Regulation</b> )				

1	What other measure has the county put in place to attract new firms (roads, governance, technical assistance to firms, professional association meetings, water, trade fairs?)		
1	What other measures has the county put in place to support existing firms		
1	What plans, if any, do you have to strengthen the business environment in the country?		
1	Do you have a county investment plan or strategy?		Period covered?
1	Do you regularly meet potential investors/is there a forum for investors or potential investors?		If yes, what kind of issues are discussed?

## APPENDIX 4: STRATEGIC DECISION DRIVERS

### (Individual Interviews with Firms)

#### Instructions

We would like to thank you for accepting to participate in this exercise. Please note that you are free to refrain from answering any question that you do not want to. You may stop participating in this interview at any point. We would like to confirm that the information provided will be treated as confidential and will use the data collected for academic purposes only. You are free to indicate your name/the company name, but are under no obligation to do so. We will respect your privacy and that of your company. We would like, however, to note the industry in which your business operates, as this is critical to the object of the study.

	Question
1.	How often does the company formulate strategy?
2.	What factors trigger the re-formulation of strategy in the company?
3.	What process is used to reformulate strategy?
4.	Since 2013, have you reformulated your strategy?
5.	If so, what triggered the reformulation?
6.	What elements in your strategy were reformulated?
7.	How do you see the constitution as impacting business in Kenya generally?
	Have you developed a strategy specifically in response to these opportunities and threats?
8.	Please describe key elements of that strategy.
9.	How many times have you revised your strategy in the past year?
10.	Where is the company head office?
11.	Do you have branches in other counties?
12.	In which counties, do you operate?
13.	What activities do you perform in those counties?
14.	How long have you operated in those counties?
15.	How large is your presence in each geographical space?
16.	Total number of staff
17.	What is the number of women?
18.	What is the number of men?
19.	What is the age range of employees?

20.	Challenges in each geographical space?
21.	Successes in each geographical space?
22.	Level of assets in each geographical space?

## APPENDIX 5: LETTER OF INTRODUCTION



Strathmore Business School

Monday, 26 February 2018

To whom it may concern,

**RE: FACILITATION OF RESEARCH – MICHAEL MUTEMI MUNAVU**

This is to introduce Mr Michael Mutemi Munavu, who is a Master of Business Administration student at Strathmore Business School, admission number MBA/73334/14. As part of our MBA Program, Michael is expected to do applied research and undertake a project. This is in partial fulfilment of the requirements of the MBA course. To this effect, he would like to request for appropriate data from your organization.

Michael is undertaking a research paper on “**Evaluating the Role of Investment Climate in Shaping Firms’ decisions to enter County Markets**”. The information obtained from your organization shall be treated confidentially and shall be used for academic purposes only. Our MBA seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share our findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

We appreciate your support and shall be willing to provide any further information if required.

Yours sincerely,

Muriithi Njogu.

Director – MBA Programs

## APPENDIX 6: ETHICAL APPROVAL LETTER



**Strathmore**  
UNIVERSITY

8<sup>th</sup> March 2018

SU-IRB 0176/18

**Michael Munavu**  
P.O Box 14036-00800  
Nairobi

Email: [mmunavu@worldbank.org](mailto:mmunavu@worldbank.org)

Dear Michael Munavu,

REF Protocol ID: SU-IRB 0176/18  
Evaluating the role of Investment Climate in shaping firms' decisions to enter County Markets:  
a case study of Busia and Narok Counties

We acknowledge receipt of your application documents to the Strathmore University Institutional Ethics Review Committee (SU-IERC) which includes:

1. Study Proposal dated February 2018
2. Participant Information and consent form dated 1<sup>st</sup> March 2018
3. Study Questionnaire and Interview Guide
4. CV

The committee has reviewed your application, and your study "*Evaluating the role of Investment Climate in shaping firms' decisions to enter County Markets: a case study of Busia and Narok Counties*" has been granted **approval**.

This approval is valid for one year beginning **8<sup>th</sup> March 2018** until **7<sup>th</sup> March 2019**.

In case the study extends beyond one year, you are required to seek an extension of the Ethics approval prior to its expiry. You are required to submit any proposed changes to this proposal to SU-IERC for review and approval prior to implementation of any change.

SU-IERC should be notified when your study is complete.

Thank you

Sincerely,

Amina Salim  
Regulatory Affairs Fellow

