

## **Profiling Tour Operator Firms and their Economic Performance in the Coast Tourism Region of Kenya**

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### **Abstract**

Tour operator (TO) firms play a critical role in the tourism sector. Their profile and economic performance contribute this role. This paper attempts to profile TO firms and their performance using data collected from a survey of 70 firms operating in the Kenya Coast tourism region and are members of the Mombasa and Coast Tourism Association (MCTA). Data was collected using a structured questionnaire and analyzed using both descriptive and inferential statistics. The profile of the TO firms, their economic performance and the association between the two is elaborately presented and recommendations made.

**Keywords:** Tour Operators, Economic Performance, Kenya Coast Tourism Region

### **1. Introduction**

Generally, the profile of the business-related organizations participating in tour operations in the Kenya Coast tourism destination has not been well researched. A study by Yahya (1998) took an historical perspective and attempted to bring out who the true owners of the Kenya Coast are. However, the study provides insightful information on the existing natural and historical attraction existing in the coast destination with no much attention given to tourism related business set-ups. Also, although Kibicho's (2004) research setting was the Kenya Coast, with a focus on community involvement in tourism activities. Unlike this study that concentrated on profiling TO firms' and their economic performance, Kibicho (2004) only unveils the extent to which communities at the coast benefit from tourism activities. Some evidence of the nature of TO firms could be traced in Honey and Krantz (2007) who surveyed on the global trends of coastal tourism. However, the study concentrated on tourism destinations in various coasts of the world giving a general view of tourism development and concerns for eco tourism for sustainability. Hence, this paper present build on the general view given by Honey and Krantz (2007), and provides more specific information that can be used to profile TO firms, particularly in the Kenya coast tourism region.

The paper is organized as follows: Review of the Role of TO firms in the Tourism Industry; Methodology; Presentation of results; Discussion of Results; Conclusion and Recommendations; and, References

### **1.1 Role of Tour Operator Firms in the Tourism Industry**

In the organization and structure of the tourism industry, TO firms are a central link between tourists and their holiday destinations and hence have the power to influence both sides: the demand (tourists) and the supply (service providers) according to their interests. Their role, whether as a broker who buys bulk to sell to clients (directly or through a travel agency), or as a producer who buys individual products (plane seats or hotel rooms) in bulk and combines them in a newly “manufactured” product “the package holiday”, is that of a “middleman”. This study considers TO firms as intermediaries or wholesalers of tourism products and services provided by other business (Holloway, 1998).

TO firms are classified as wholesalers, although they sell both to travel agents and directly to the tourists. Out bound TO firms are those that send tourists abroad and may sell their own exclusive package tours and or resell packages put together by tour operators in the host countries. They package the trips, oversee the creation of itineraries, select and contract with inbound tour operators in the host countries, arrange airline tickets, and arrange travel and liability insurance. They sell tour packages to the general public (potential tourists) through travel agents or special interest organizations such as environmental groups, alumni associations, and museums. Some operators market directly through magazine or newspaper advertisements or catalogs, brochures, videotapes, CD-ROMs, and the internet. Tour operators charge a markup of 15% to 40%, depending on how customized the tour is. Since competition is very stiff, many tour operators try to entice travel agents to carry their packages by offering higher commissions, incentive programs, glossy advertising, news articles, contests, and free or reduced-rate trips (Higgins, 1996).

Inbound TO firms are the essential link making “upstream connections with industrialized countries” and downstream economic ties with the “local” businesses within a particular country. They are normally located in the key urban centers, usually the capital city or the gateway towns to the main tourism attractions. They are private-owned ranging from multinational companies that also own lodges and vehicles, to low-budget small firms with little more than desk, telephone and a couple of employees. Inbound TO firms are often contracted by out-bound operators and non-profit organizations and hence are important components in ensuring high-quality sustainable tourism. They are responsible for arranging all details of the trip, including assembling networks of lodges close to or within the nature-viewing areas (Honey and Krantz, 2007). They are privately owned in most countries but government-owned in others like Cuba. They range from multinational companies, such as Abercrombie and Kent, The Accor Group, and First Choice Holidays, that also own lodges and vehicles, to low-budget firms.

To some extent, TO firms may be viewed as producers since they combine different parts of a tourism product to create a new, more complex product. In the process of developing a “package holiday”, they assume some degree of risk. They buy in bulk, take the burden of selling from the producer, and by selling product and service at a lower price due to bulk discounts, clients receive a lower price and are thus satisfied. Success of TO firms depends on their ability to buy separate products and services at a low price and to combine them in a profitable manner to benefit both the clients and themselves. To enhance competitiveness, tour operators also try to differentiate their

products and services from those of others by providing additional services such as insurance, visa services, travel newspapers, guides, travel consultants among others, to their package (Holloway, 1998). Cost savings and hence efficiency is attained by the TO firms through integration strategies that involve making alliances with companies with similar or complimentary activities. Tour operators have to find tourists willing to use tourism facilities during the off-season in order to cover for at least part of the expenses incurred during that period.

Tourism currently can be seen to be polarizing around a few dozen global and large international operators on the one hand and millions of SMEs on the other hand. What is provided on the ground that makes up the primary tourism experiences at the destination, is mostly in the hands of unbranded SMEs such as pubs, cafes, restaurants, tour vans (taxis), local attractions tourist guides, guesthouses and farmhouses among others. Ultimately and ironically, the long-run future of international tour operators in mature markets is heavily dependent on the service delivery capabilities of SMEs together with their ability to pursue sustainable tourism and hence protecting the long-term interests of destinations (Middleton, 2004). Through linkages, the SMEs sometimes supply their products and services to the larger and international tour operators.

In Kenya, TO firms are registered and licensed through the Ministry of Tourism. The operating license is renewed on yearly basis. The companies currently registered to offer tour operations as their primary service with valid licenses are 609 (Ministry of Tourism, 2008). Licensed TO firms are illegible to membership of tourisms associations such as the Kenya Association of Tour Operators (KATO) and the Eco-Tourism of Kenya among others. Additionally TO firms are expected to register with the regional tour operations associations such as the Mombasa and Coast Tourism Association (MCTA) to undertake their operations in the region. This paper was drawn from a survey of 70 TO firm operating in the Kenya Coast Region tourism destination and is members of the MCTA.

## **2. Methodology**

This paper is drawn from an explanatory survey of TO firms in the Kenya Coast tourism region. The survey took a census of 90 firms registered and licensed under Class A1 membership of MCTA. However, a response rate of 70 firms was realized. Managers of the selected TO firms who were the key respondents of the study provided information on the profiles of the firms and their economic performance. Data was collected using a structured questionnaire and analyzed using both descriptive and inferential statistics were used. The analyzed data is presented in prose, tables, bar graphs and pie charts.

## **3. Results**

This paper analyzes six demographic variables to gain insight into the profile of TO firms. The variables included: length of tour operations in years; ownership and nature of TO firms; preferred type of tour package; preferred country of origin of tourists; preferred tourism-related association affiliated; and, operational capacity of TO firms. Results of each variable are presented in the proceeding section.

### **3.1 Length of Operation of Tour Operator Firms**

Results of reveal that TO firm differ significantly on the length of business operation ( $\chi^2 = 10.1, df = 4, p = 0.03$ ), with most of them having been in operation for over 10 years (61%).

### 3.2 Ownership and Nature of Tour Operator Firms

Tour operator firms do not significantly differ ( $\chi^2 = 0.2, df = 1, p = 0.63$ ) in ownership of their firms by both local citizens (47%) and foreigners (53%) (Table 1). However, the firms differ with regard to the nature of tour operations ( $\chi^2 = 22.5, df = 2, p = 0.001$ ); with most of them operating as both local (inbound) and international (outbound) (55%) operators, while others operate only local (36%) or international (9%) tours.

Table 1

### 3.3 Preference for Tour Packages by the Tour Operator Firms

Tour operator firms significantly differ in their preference of tour packages ( $\chi^2 = 40.8, df = 2, p = 0.001$ ). A majority (67%) of them operate both scheduled (all-inclusive) and specialized (individualized) tour packages, while the rest either prefer scheduled ( $n = 19$ ; 27%) or specialized ( $n = 4$ ; 9%) tour packages.

### 3.4 Preference for Origin of Tourists by the Tour Operator Firms

Furthermore, TO firms significantly differ ( $\chi^2 = 22.3, df = 7, p = 0.02$ ) in their preference for country of origin of tourists they serve. Tourists from Britain (20%), France (19%), United States of America (18%), Italy (16%) and Germany (15%) are among those most preferred.

### 3.5 Preference for Tourism-Related Association of Affiliation by the Tour Operator Firms

Tour operator firms also significantly differ ( $\chi^2 = 56.5, df = 3, p = 0.001$ ) in their preference for tourism-related associations for membership and or affiliation. A majority (61%) of TO firms are members of the Kenya Association of Tour Operators (KATO) while some of them (23%), are affiliated to the International Air Travel Association (IATA), the ECO Tourism of Kenya (7%); and other tourism-related associations (9%)

### 3.6 Operational Capacity of the Tour Operator Firms

To carry out their operations, TO firms either rent or own tour operation facilities such as accommodation, entertainment, aero equipment and air, road and sea transportation among others. However, the firms differ in the extent to which they rent or own these facilities.

Figure 2

### 3.7 Economic Performance of Tour Operator Firms

The Economic Performance of TO firms was measured by the average number of employees, average number of tourists served and average gross income earned over three years between 2005 and 2008. The average number of employees held per year significantly differed ( $\chi^2 = 65.7, df = 4, p = 0.001$ ) among the TO firms, with most of them having between 200 and 300 employees (69%) (Table 2 (a)). Similarly, the average number of tourist served per year differed ( $\chi^2 = 31.7, df = 4, p = 0.001$ ) among TO firms with most serving between more than 6000 (68%) tourist. Further, a

majority (56%) of the TO firms reported an annual average income of over Kshs.80 million with a significant difference ( $\chi^2 = 21.1, df = 4, p = 0.001$ ) among them.

Table 2 (a)

### 3.8 Correlation between the Economic Performance Factors of Tour Operator Firms

The Pearson Product Moment correlation analysis revealed significant associations between the three economic performance indicators (Table 2 (b)). Whereas the average number of employees significantly correlated with the average number of tourists served ( $r = 0.87, p = 0.001$ ) and income earned ( $r = 0.57, p = 0.001$ ), there is equally significant association between the average number of tourists served and the average income earned ( $r = 0.76, p = 0.001$ ) by firms.

Table 2 (b)

### 3.9 Relationship between Economic Performance Factors and Profile Characteristics of Tour Operator Firms

Significant relationships exist between the economic performance factors and some profile characteristics of the TO firms. Cross-tabulation using Pearson Chi-square indicated that the average number of tourists was related with ownership ( $\chi^2 = 9.6, df = 4, p = 0.05$ ), nature of tour operations ( $\chi^2 = 21.7, df = 4, p = 0.01$ ), and type of tour package ( $\chi^2 = 31.7, df = 8, p = 0.001$ ) of TO firms. Similarly, the average number of employees was related with ownership ( $\chi^2 = 9.5, df = 4, p = 0.05$ ) of TO firms (Table 3).

Table 3

## 4. Discussion of Results

### 4.1 Demographic Profiles of Tour Operator Firms

The study revealed that TO firms are well established business set ups that have been in operation at the Kenya Coast for varying number of years with majority of them indicating periods of between 11 and 15 years (Table 1). This implies that the firms have been in operation long enough to wither the challenges of business survival and using intrapreneurial strategies to compete in the tourism market. However, the length of operation period of the firms does not influence their economic performance significantly. This implies that other factors, such as organizational factors may influence the economic performance of the firm.

Furthermore, results indicate that the Kenya Coast tourism market offers almost equal opportunities for both local and foreign-owned TO firms to participate in tourism activities. This was indicated by ownership of the TO firms by both local and foreign individuals (Table 1). Additionally, a majority of the TO firms focus on both local and international operations seemingly in a bid to enhance their market share and at the same time avert consequences of seasonality associated with tourism activities. Also, the firms differ in the type of tour packages they operate with a majority of them offering both scheduled (all-inclusive) and specialized (individualized) packages (Table 1). Their choice of type of tour package significantly influence the average number of tourists they serve (Table 3). This implies that the firms that choose to offer only one type of tour package, serve fewer tourists and this affects their sales turnover and hence income (Table 3).

The findings support Honey and Krantz, (2007) who revealed that TO firms are categorized as inbound and outbound operators and that a firm may undertake tour operations that make it fall in the two categories and the same time offer diversity in their packages to suit the equally diverse expectations of the tourists. This shows that TO firms may receive tourists to the local tourism market as inbound operators, or source for them directly abroad as outbound operators. Through this, the firms get opportunities to engage in new combinations as they design, develop and operate tours to meet the expectations of the targeted tourists. The findings also echoes WBCSD (2002) who suggests that, open, competitive, international markets that encourage innovation, efficiency, and wealth creation are fundamental aspects of sustainable development.

More revelations indicated that significant relationships exist between the nature of operations and type of tour packages; and, the average number of tourists served (Table 3).

Additionally, a majority of TO firms prefer to serve tourists from European countries such as Britain, France, Italy and Germany. This revelation concurs with the assertion by Honey and Krantz, (2007) that the Kenya Coast is predominated by large package tours catering mostly Europeans (British, Germany, Italian) tourists. This implies that the TO firms design tour packages comprising the 'sun-and-safari' as the coast tourism region is richly endowed with diverse attractions that are natural, historic and man-made in nature. Hence, the firms' tour packages are mostly scheduled tours comprising itineraries with diverse combination of the attractions to meet their perceived expectation of the tourists. This argument is corroborated with the revelation (Table 1) that, whereas the TO firms operated both scheduled and specialized tours, the former was more preferred than the latter. Scheduled tours are often associated with budget tourists who desire to minimize their expenditure at tourists' destination. Hence, they travel in large numbers (large package tourists) and thus are associated with mass tourism that is linked to degeneration of tourists' attractions due to their potential to exceed the carrying capacity (Jackson, 1978; Whelan, 1991).

Comparatively, specialized (individualized) tour packages are tailor-made for specific tourists and are often designed with close consultation with the respective tourists (Holloway, 1998). This type of tour package is linked to eco-tourism products which Honey and Krantz (2007) assert that they still remain far behind the inland tourism market, yet they are a means towards sustainable tourism. This was confirmed by the revelation by this study that only 7% of the TO firms were affiliated to ECO Tourism of Kenya that sets minimum compliance requirements for sustainable tour operations from its members. This revelation was further confirmed by the key informants who intimated that a majority of TO firms were not affiliated to the ECO Tourism of Kenya because of its' stringent requirement for them to operate sustainably. This revelation supports Holloway (1998) views that TO firms play a central link in the tourism structures and are important components in ensuring high-quality sustainable tourism (Honey and Krantz, 2007). However, from the foregoing discussion, this study has revealed that TO firms are still far from meeting this expectation as their choices of tour packages still engender tour operations that have little positive contribution to sustainability.

The Kenya Coast being one of the nature-based tourism locations in Africa, has limited ecological, aesthetic, and social carrying capacities as suggested by Jackson, (1978). Hence, successful management of tourism resources is the cornerstone of sustainable development. It is especially important to nature-based tourism which completely relies on an ecological resource and is in turn



depended upon by the entire economy of the host community as a common good (Nicholson-Lord, 2002). Yet when successfully managed by users (tourists) and providers of tourist services (suppliers contracted by TO firms), it is perceived to be beneficial as it generates employment opportunities and contributes to a rise in local incomes and at the same time increase the opportunities for intercultural exchanges between different communities and countries (Welford *et al*, 2000; WTO, 2004).

In the case TO firms studied, attempts to balance provision of scheduled and specialized tour packages (Table 1) would reduce the large number of tourists supplied by the large tour packages (scheduled) and compensate the firms economically through fewer, but highly priced tour operations associated with specialized (individualized) tour packages (Holloway, 1998; Honey and Krantz, 2007). In this way, positive relationships between tour operations, socio-economic development and the environment would be achieved, as the long-term interests of various tourists destinations in the coast region are protected (Middleton, 2004).

Honey and Krantz (2007) revealed that inbound TO firms are more often privately-owned and range from multinational companies that also own lodges and vehicles, to low-budget small firms with little more than desk, telephone and a couple of employees. On the other hand, out bound TO firms are those that send tourists abroad and may sell their own exclusive package tours and or resell packages put together by TO firms in the host countries. They package the trips, oversee the creation of itineraries, select and contract with inbound TO firms in the host countries, arrange airline tickets, and arrange travel and liability insurance. They sell tour packages to the general public or market directly through magazine or newspaper advertisements or through catalogs, brochures, videotapes, CD-ROMs, and the Internet. Also, Holloway (1998) asserts that TO firms may be viewed as producers since they combine different parts of a tourism product to create a new, more complex product. In the process they combine their own resource and rent from others to a tour package (package holiday) and hence assume some degree of risk. Their success often depends on their ability to buy separate products and services at a low price and to combine them in a profitable manner to benefit both the clients and themselves. These revelations are echoed by the results indicated in Figure 4 which show that tour operation capacity comprised diverse facilities both owned and rented to different degrees.

While a majority of the TO firms studied were endowed with operational facilities such as those related to road, sea and sports, the firms rented others such as accommodation, entertainment, aero and airline (Figure 4). This finding concurs with Kaspar's (1991) suggestion that a tourism product is typically a bundle of services provided by different suppliers and that success in tourism requires local infrastructure and a local population that have positive thinking about tourism. This implies that the local industry acts as a supplier for tourism businesses (Bieger, 2002); the tourist destination acts as a stage; and, the different tourism companies are actors on this stage. The TO firms act as "middlemen" to combine resources from the various tourism companies with the aim of delivering a satisfying experience to tourists.

#### **4.2 Economic Performance of Tour Operator Firms**

For a long time, very little work existed on the key indicators of a firm's economic performance except through calculation of financial profits and later economic profits. However, some studies provide guidelines on this. According to Slater (2004), financial indicators focus primarily on the profitability of a firm for the purpose of informing its management and shareholders. The focus of economic performance measurement is on how the economic status of the stakeholder changes as a

consequence of the firm's activities, rather than on changes in the financial condition of the firm itself. These interactions often expand outside of the economic sphere, and lie in the social and environmental aspects.

Guided by GRI (2002) and EVA (Slater, 2004) propositions, three indicators, namely: number of employees, numbers of tourists served and income earned, revealed the economic performance of TO firms. The study showed that the economic performance of TO firms in the Kenya Coast differ significantly as indicated by the average number of employees, average number of tourists served and the average incomes for the periods between 2005 and 2008 (Table 2 (a)). Furthermore, the three economic performance indicators were found to be significantly associated with the profile characteristics of the TO firms (Table 2 (b)). The average number of employees was also seen to be significantly related with ownership of the TO firms. This implies that the number of employees differ across local or foreign-owned TO firms with the former having more employees than the latter. This revelation may be attributed to adoption of e-tourism by most foreign-owned TO firms. This emergent practice is associated with new skills in tourism management such as new information services which required less human labour (Hubner, 2002) and is linked to innovation of tour processes.

Furthermore, results revealed that the average number of tourists served by TO firms differ across the nature of the firms and the type of tour packages they offered (Table 3). Based on the strong correlation that exist between average number of tourists served and average income (Table, 2 (b)), the TO firms that are both local (inbound) and international (outbound) focused in their operations tend to serve more tourists than those who focus on each of them separately. Similarly, the firms that offer both scheduled and specialized tour packages indicate a higher number of tourists served than those who offer each of them separately. Also, the average income earned significantly differ across the TO firms with a majority of them earning over Kshs.80 million per year (Table 2 (a)).

This revelation shows that diversification of operations enhance opportunities for the firms to capture a bigger market share to enhance value for their shareholders (owners). It also means that as the TO firms diversify their operations to new markets; they must equally diversity their products and hence offer both scheduled and specialized tour packages. These combinations consequently enhanced income for the firms. These findings support Stewart (1991) and Shil (2009) who assert that the basis of EVA are the choices made by the management as means to create value for the shareholders. This shows that TO firms enhance their market shares and hence income through the new combinations they created in their operations And thus manage to survival, grow and be profitable (Antoncic and Hisrich 2003; Khandwalla, 2003; 2006; and Sawhney, Wolcott and Arroniz 2006).

## 5. Conclusion

This paper has revealed the demographic profile of TO firms, their economic performance and the extent to which the two are associated. It has demonstrated that TO firms are mature business units that have been in operation for varying number of years; with both local and foreign ownership; operating both local and international tours as inbound or outbound operators; and, offering scheduled and specialized tour packages. While the firms are endowed with operation facilities such as those related to road, sea and sports they rented others such as accommodation, entertainment, aero facilities; and, air, land and sea transportation among others. Hence, in the process of their tour operations, they combine their own resource and rent from others to provide a tour package (package holiday). The nature of tour operations and type of packages adapted by the



firms significantly influence the number of tourists served. As the three economic performance indicators namely: average number of employees held, average number of tourists served and average income earned by the TO firms are significantly correlated; a positive effect on one would subsequently effect the rest and hence influence economic performance of the firms.

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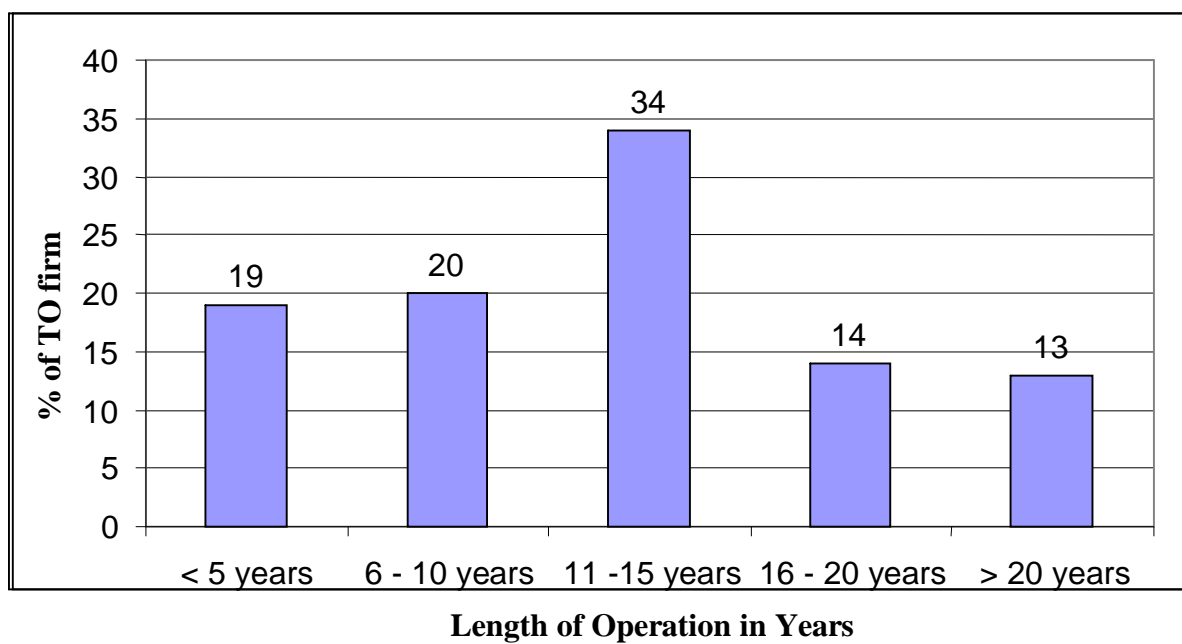


Figure 1: Length of Operation of Tour firms (in Years)

Table 1: Ownership and Nature of Tour Operator Firms

Profile Characteristic		$f$ (n=70)	%	$\chi^2$	$df$	$p$
Ownership of TO firms	Local	33	47	<b>0.2</b>	<b>1</b>	<b>0.630</b>
	Foreign	37	53			
Nature of the TO firms	Local Tour Operator	25	36	<b>22.5</b>	<b>2</b>	<b>0.001</b>
	International Tours Operator	6	9			
	Both Local and International	39	55			

Significance:  $p \leq 0.01$

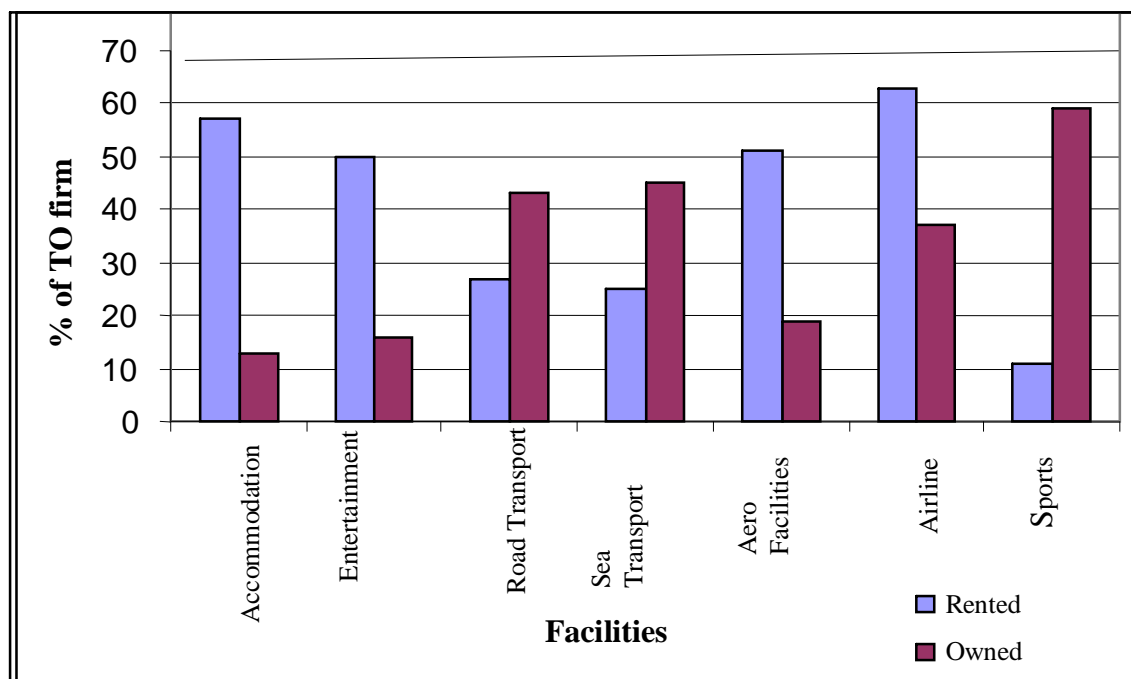


Figure 2: TO firms' Operational Facilities

Table2 (a): Economic Performance of Tour Operator Firms

Variable		<i>f</i> (n =70)	%	$\chi^2$	<i>df</i>	<i>p</i>
Average Number of Employees per Year	≤ 100	22	31	<b>65.7</b>	<b>4</b>	<b>0.001</b>
	101 – 200	12	17			
	201 -300	24	34			
	301 – 400	6	9			
	> 400	6	9			
Average Number of Tourists per Year	≤ 5000	23	32	<b>31.7</b>	<b>4</b>	<b>0.001</b>
	6000 -10000	3	4			
	11000 – 15000	27	39			
	16000 – 20000	11	16			
	>20000	6	9			
Average Income per Year (Ksh. in millions)	≤ 20	8	11	<b>21.1</b>	<b>4</b>	<b>0.001</b>
	21 - 40	17	24			
	41 - 60	5	7			
	61 – 80	1	1			
	> 80	39	56			

Significance:  $p \leq 0.01$

**Table 2 (b): Correlation between Economic Performance of Tour Operator Firms**

Variable	Statistic	Average Number of Employees	Average Number of Tourists	Average Income
Average Number of Employees	<i>r</i>	1	0.87*	0.57*
	<i>p</i>		0.001	0.001
Average Number of Tourists	<i>r</i>		1	0.76*
	<i>p</i>			0.001
Average Income	<i>r</i>			1
	<i>p</i>			

\* Correlation is significant at the 0.01 level (2-tailed)

**Table 3: Relationship between Economic Factors and Profile Characteristics of Tour Operator Firms**

Economic Performance Factor	Ownership of TO firms		
	Local: n = 33	Foreign n = 37	
	$X^2$	<i>df</i>	<i>p</i>
Average Number of Employees	9.5	4	0.05**
Average Number of Tourists Served	9.6	4	0.05**
Average Number of Tourists Served	Nature of TO firm		
	Local: n = 25, International: n = 6 Both: n = 39		
	$X^2$	<i>df</i>	<i>p</i>
Average Number of Tourists Served	21.7	8	0.01*
Average Number of Tourists Served	Type of Tour Package		
	Scheduled n = 4; Specialized n = 19; Both n = 47		
	$X^2$	<i>df</i>	<i>p</i>
Average Number of Tourists Served	31.7	8	0.001*

\* Significant at 0.01 Level

\*\*Significant at 0.05 Level