IMPACT OF FACTORS OF PRODUCTION ON PRIVATE INVESTMENT IN KITUI COUNTY, KENYA

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A RESEARCH PROJECT REPORT SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF THE DEGREE OF MASTER OF BUSINESS ADMINISTRATION OF SOUTH EASTERN KENYA UNIVERSITY.

2018

DECLARATION

I understand that plagiarism is an offence and I therefore declare that this report is my original work and has not been presented to any other institution for any other award.

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D61/KIT/20476/2014

This report has been submitted for examination with our approval as University Supervisors.

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ACKNOWLEDGEMENT

I thank God Almighty for his grace has been sufficient throughout this very demanding and challenging journey. I sincerely acknowledge and thank my supervisor Dr. Robert Ombati who tirelessly guided and encouraged me throughout the development of this report. He mentored and inspired me to be the excellent researcher I am today. I also acknowledge and thank my family members and friends for their encouragement, understanding and financial support throughout the study period.

God bless you all.

DEDICATION

I dedicate this work to my beloved family; to my parents Mr. John Philip Nzioki and Mrs. Jacinta Nzioki and to my brother Joel Nzioki John and sister June John whose prayers, encouragement, understanding, care and support has brought me this far.

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LIST OF ABBREVIATIONS AND ACRONYMS

GDP   Gross Domestic Product

KNBS   Kenya National Bureau of Statistics

SPSS   Statistical Package for the Social Science

UNCTAD   United Nations Center for Trade and Development

ANOVA   Analysis of Variance

GMM   Generalized Method of Moments

OPERATIONAL DEFINITION OF TERMS

Investment: is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future. In an economic sense, an investment is the purchase of goods that are not consumed today but are used in the future to create wealth. (Barro & Sala-I-Martin, 1995)

Gross Domestic Product (GDP): is the monetary value of all the finished goods and services produced within a country's borders in a specific time period (World Bank , 2005)

Private investments: is investment by businesses and financial institutions rather than by a government. (Rada,2007)

National Government: is the government, or political authority, that controls a nation. (Constitution of Kenya, 2010)

County Government: is the public administration of a county. (Constitution of Kenya, 2010)

Economic Growth is an increase in the amount of goods and services produced per head of the population over a period of time. (Gnansounou,2010)

Factors of production is an economic term that describes the inputs that are used in the production of goods or services in order to make an economic profit. (Paul & William , 2004)

Investment climate: is the economic and financial conditions in a country that affect whether individuals and businesses are willing to lend money and acquire a stake in the businesses operating there. (World Bank, 2005)

Access to land Means the ability to find affordable, sizeable, accessible, easy procedures of acquiring land for the purpose of investment. (World Bank, 2005)

Availability of labor Means the ability to find adequate, affordable, diversified and gender balanced labor for the purpose of investment. (World Bank, 2005)

Access to Capital Means the ability to find affordable, available, flexible terms of credit and ease of getting credit and capital for the purpose of investment. (World Bank, 2005)

Availability of Entrepreneurship Means the presence of business skills among employees and the owners of a business. (World Bank, 2005)

ABSTRACT

Private investment is a powerful tool for maintaining and expanding an economy. Many developed and developing countries have for several decades relied greatly on private investment to solve their economic problems related to growth and development. This research focused on establishing the impact of factors of production on private investment in Kitui County. The Tobin Q theory, acceleration theory and neoclassical theory are just but a few theories that illustrate the different factors that influence private investment. This report has six chapters; the introduction chapter that basically gives the background of the study in a broader perspective, the second chapter gives a clear theoretical and empirical review of the topic including the conceptual frame work, the third chapter gives details of the research methodology, the fourth chapter presents the results, the fifth chapter is basically the discussion of the results while the sixth chapter entails the conclusion and recommendation. The target population of the study was the 2000 people who attended the first Kitui County Investors Conference Forum in 2015.Out of the target population, questionnaires were administered to a sample of 200 respondents which was 10% of the target population. Collected data was analyzed mathematically by use of inferential statistics and multiple regression through the assistance of SPSS Version 20 (statistical package for social scientists). The study found out that access to land, availability of labor, access to capital and availability of entrepreneurship had a positive correlation with private investment. Therefore, the study recommends the enhancement of the four factors of production since they all contribute immensely on private investment.

CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

According to Gnansounou (2010) investment is a vehicle in which funds can be placed with expectation that they will generate positive income and their value will be preserved or increased. Investment is a central issue in any economy. Investment is an asset or item that is purchased with the hope that it will generate income or will appreciate in the future. Factors of production are the inputs that are used in the production of goods or services in order to make an economic profit. Private investment entails production of goods and services and for production to take place factors of production must be involved. Hence the concept for this study.

The theories inspiring this study are; the accelerator theory, which discusses the implication of, levels of output on levels of private investment, the Tobin Q theory that discusses the importance of the market value of a firm on determining the value of investment. The Keynes theory, which discusses the fact that most investors make investment decisions based on gut feeling and the neoliberal theory, which emphasized on the importance of financial deepening for increased levels of investment.

The study of private investment in Kitui is very important and timely. After the promulgation of the new Kenyan Constitution (2010) it was expected that devolution of County Governments would pose a crucial opportunity for growth of private investment in the Counties. However, the expected role of private investment in the Counties following devolution in the year 2013 has not been achieved here in Kitui County KNBS (2017). Moreover, Kitui County is unique calling for a specific study on private investment here in Kitui County.

1.1.1 Factors of Production

Factors of production are inputs that are used in the production of goods or services in order to make an economic profit. Factors of production, are what is used in the production process to produce output that is, finished goods and services. There are four factors of production: land, labor, capital and entrepreneurship.

According to Paul and William (2004), the income that land owners earn in return for land resources is called rent. Inadequate accesses to land is a major problem for expansion of private investment in developing countries. This includes not just land, but anything that comes from the land. Some common land or natural resources are water, oil, copper, natural gas, coal, and forests. Land resources are the raw materials in the production process. These resources can be renewable, such as forests, or nonrenewable such as oil or natural gas.

According to Paul and William (2004), labor is the effort that people contribute to the production of goods and services. Labor resources include the work done by the waiter who brings your food at a local restaurant as well as the engineer who designed the bus that transports you to school. It includes an artist's creation of a painting as well as the work of the pilot flying the airplane overhead. If you have ever   been paid for a job, you have contributed labor resources to the production of goods or services. The income earned by labor resources is called wages and is the largest source of income for most people.

According to Paul and William (2004), capital includes the machinery, tools and buildings humans use to produce goods and services. Some common examples of capital include hammers, forklifts, conveyer belts, computers, and delivery vans. Capital differs based on the worker and the type of work being done. For example, a doctor may use a stethoscope and an examination room to provide medical services. Your teacher may use textbooks, desks, and a whiteboard to produce education services. The income earned by owners of capital resources is interest.

Entrepreneurs combine the other factors of production, land, labor, and capital, to make a profit. Entrepreneurship is a measure of how well an organization can combine factors of

production - land, labor, and capital - to earn a profit. The most successful entrepreneurs are innovators who find new ways produce goods and services or who develop new goods and services to bring to market. Without the entrepreneur combining land, labor, and capital in new ways, many of the innovations we see around us would not exist. According to Pienaar (2014), entrepreneurs are a vital engine of economic growth helping to build some of the largest firms in the world as well as some of the small businesses in your neighborhood. Entrepreneurs thrive in economies where they have the freedom to start businesses and buy resources freely. The payment to entrepreneurship is profit.

1.1.2 Private Investment

Private Investment is investment by businesses and financial institutions rather than by a government (Gnansounou, 2010). Econometric evidence from studies by Tobias and Mambo (2012) indicates that private investment has a stronger, more favorable effect on growth rather than government investment, probably because private investment is more efficient and less closely associated with corruption.

In Kenya, the private investment has made notable economic contributions over the years, as demonstrated by its contributions to GDP, employment and export earnings. Overtime, Kenya has been able to build a strong private sector, which has in turn contributed significantly to the creation of a diversified economy, as evidenced by the broad range of private sector activities that take place under the monetary economy. Various studies on private investment have been contacted in Kenya. For instance, Ronge and Kimuyu (2010) examined the determinants of private sector investment for Kenya using data over the period 1964-1996. The results indicated that both the availability of credit and foreign exchange exerts significantly positive effects on private investment confirming the results in most empirical studies.

1.2 Statement of the Problem

According to Ronge and Kimuyu (2010), Kenya had been studied in cross country studies with regards to private investment. This is due to the fact that counties are relatively new since they came into existence in the year 2013 after the promulgation of the new Kenya constitution in the year 2010. There is hence either little or no information and data on County Governments with regards to private investment and the factors that influence it due to lack of prior studies. The County Governments in Kenya, Kitui County included and development partners have lacked research based evidence to base their development approaches on with regards to boosting levels of private investment. These has led to poor response of the private sector to the investment opportunities created by the government and other stakeholders in Kitui County. Hence the motivation for this research to investigate how factors of production affect private investment here in Kitui County.

1.3 Research Objectives

1.3.1 General Objective

The general objective was to find out the impact of factors of production on private investment in Kitui County.

1.3.2 Specific Objectives

i.   To find out the influence of access to land on private investments in Kitui County.
ii. To examine the effect of availability of labor on private investments in Kitui County
iii. To determine the influence of access to capital on private investments in Kitui County.
iv. To establish the influence of entrepreneurship skills on private investments in Kitui County.

1.4 Research Questions

    i.   What is the effect of access to   land on private investment in Kitui County

    ii.   How does availability of labor affect private investment in Kitui County?

    iii.   What is the effect of access to capital on private investment in Kitui County?

    iv.   How does entrepreneurship affect private investment in Kitui County?

1.5 Justification

The findings of the study would be of great benefit to the people of Kitui County since many may embrace the benefit of private investment in raising their standards of living through increased employment opportunities and wealth creation.

The County and National Government will use the information to critically examine their private investment laws and policies. The County Government, National Government and development partners may use the findings and recommendations to improve their programs and services that boost private investments in the County. Development agencies may make use of the findings of the study to facilitate the transfer of information and experience to guide reforms for growth of private investment.

The study may be important for academic scholars who wish to further their research in this topic and also its important addition to the existing literature on the determinants of private investment.

1.6 Scope of the study

The study sought to establish the determinants of private investment in Kitui County. The key period loosely translates to the period between 2013 and 2017 where the county government has been in effect and where county government policies designed by the current regimes can affect private investments. The study also focuses on potential investors in the county with a bias on the attendees of the first Kitui County Investors Conference.

CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter examines previous literatures and empirical studies on private investment. The subtopics that are covered in this chapter include; sec 2.2 shall deal with theoretical review of literature, while sec. 2.3 shall focus on the practical (empirical) evidence of the existing literature. Sec 2.4 shall summarize the chapter. This study focused on determinants of domestic private investments in Kenya.

2.2. Theoretical Review

Different economists came up with various theories of investment over different time periods. This section endeavors to unearth some of the very prominent theoretical literature on private investment. This section discusses the theories of private investment. More specifically, the Accelerator theory, the Tobin Q theory, Keynes theory, the Neoliberal theory and the factors of production theory will all be reviewed

2.2.1 Accelerator Theory

The accelerator model asserts that investment spending is directly proportional to the change in output and is not affected by the cost of capital. This theory was advanced by Clark in 1917. The simple, also termed as naïve accelerator, model was based on the view that firms install new capital when they need to produce more. Consequently, organizations would invest if output was expected to change, but they would not otherwise undertake net investment. The simple accelerator model presented a reasonable job of amplifying the financial information but was regarded as inadequate since it failed to take the costs of investing into the mix. In summary, the accelerator theory also suggests that as demand or income increases in an economy, so does the investment made by firms. Furthermore, when demand levels result in an excess in demand, firms increase investment to match demand.

In context of this study, and according to accelerator model, increase in market demand results to increase in private investment. Off course no production can take place without the factors of production although this theory doesn't mention that. This implies increase in output will lead to increased private investment and hence increase in factors of production.

The gap in the theory is that, the theory excludes cost of capital and hence capital as one of the determinants of investment. This calls for further studies to confirm this; the fact that all factors of production come at a cost, completely knocks off all the other factors of production from being determinants of private investment which is far from the truth since no investment can take place without factors of production.

2.2.2 Tobin Q Theory

Tobin Q was the theory promulgated by James Tobin in 1969. Tobin Q explains the ratio of market worth of an organization to substitute cost of capital invested. When the ratio is more than one, the organization might want to invest more resources to enable repayment of the investments. A ratio equal to one indicates that the firms would be indifferent on investing more based on the either possible outcomes of the returns. If the Tobin Q ratio is below one, then the organization would be better off disposing the current assets other than acquiring others. Tobin Q is criticized for its difficulty in measuring or even quantifying replacement costs. For experimental consideration, the average Q is often used instead of the marginal Q as it is hard to measure. Average Q is defined as the ratio of the market value of the current stock of capital to its replacement costs.

In the context of this study, the theory brings out the importance of cost of capital as a determinant of private investment. Meaning, if the cost of capital is high, the firm will invest more in order to cover up all the cost of capital. Off course, to invest more, the factors of production must be involved. This implies that the higher the interest rate the higher the level of factors of production used.

There are gaps in this theory; the theory is silent on the impact of the rest of factors of production on private investment. The application of Tobin Q's theory to developing countries like Kenya could be limited in the sense that it makes oversimplifying assumptions such as perfect flow of information, perfect capital markets, as well as slight or no public investment.

2.2.3 Keynes Theory

Another theory that helps in identifying determinants of investments is the Keynes theory as proposed in 1936 that was based on 'animal spirits'. This theory describes the way people and businesses sometimes make decisions based on their 'gut feeling', rather than using rational analysis. Keynes (1936) observations were that despite the fact that investment and savings ought to be identical exposit, investment and savings decisions were generally influenced by diverse decision-makers thus there was no reason why ex post savings would equal ex ante investments.

Keynes devised an investment function in the form of $I = I0 + i(r)$, where I represented investment, I0 as the autonomous investment while i(r) represented interest rates. Investments are inversely proportional to the interest rates and thus the higher the interest rate, the less likely the organization would wish to commence an investment scheme. Internal Rate of Return (IRR) is the most wanted result for any investment as opined by Keynes (1939). Organizations also rank various investment projects depending on the potential of marginal efficiency of investment. Focusing on a certain rate of interest, organizations would opt for projects whose IRR exceeded the rate of interest.

In the context of this study, Keynesian theory brings out capital as an important determinant of private investment and as a factor of production. The theory is silent on the impact of the other factors of production on private investment. The theory has some criticism that includes the ranking of investments depending on expected interest rates.

2.2.4 Neoliberal Theory

The neoliberal theory as proposed by McKinnon and Shaw (1973) emphasized on the importance of financial deepening as well as high interest rates needed to stimulate economic growth. The authors further argued that developing economies endure financial repression; including controlling of interest rates through a downward direction, which further hurt the private investments in any country. Economies having financial repressions need freedom to do business to allow resources circulating thus promoting investments as well as income. This is an indication that positive relationship between investments and interest rates exist and thus the driving force between private investment and the government is the enabling environment.

An increase in interest rates leads to increased trading volumes and also encourages savings through financial intermediaries in that way raising funds for both public and private investments. This approach and the effect of interest rates and investments was described as the conduit effect as described by Mckinnon (1973). There are perceptions and support that an increase in the interest rates reduces demand for new investments. Private investments increase due to increase in financial muscles. Demand and supply of services make stable investments that can then enable economic growth.

In context of this study, capital influences private investment decision. The theory is silent on the impact of the other factors of production on private investment. The challenge is that these theory was analyzed in the context of developed economies. Application of most of these models in developing countries is limited by mostly data unavailability or by the unique nature of economies in the developing world.

2.3 Empirical Literature

This section provides a pairwise discussion on other studies which have been done relating the influence of the independent variables for this study (Access to land, Availability of Labor, Access to Capital and Availability of Entrepreneurship) on the dependent Variable

(Private Investment). The section also summarizes the empirical studies with a view of identifying research gaps.

2.3.1 Land and Private Investment

Lack of clearly defined property rights has been used to explain low private investment in developing countries, especially in agriculture (Galiani and Schargrodsky, 2010; Goldstein et al., 2015). Zuleta (2008) conducted an empirical study on factor shares. The study found out that land has a positive significant effect on total output hence private investment.

Harandez-Cata (2005) conducted a study on determining macro and micro factors on private investment by using Tobit model. His findings at micro level showed that education, access to land, access to credit, infrastructure facilities, investment incentives, corruption and bureaucratic red tape were the most important determinants of private investments in this study area.

According Ouattara (2005), although many authors showed determinants of private investment decision like political, and macroeconomic instability, availability of natural resources and market size insignificant, a lot of new factors are emerged that inhabit the expansion of private investment at micro level.

According to Nelson (1999), the production factor land is not a factor of economic concern for non-agricultural firms. This thought, however, does not seem odd when confronted with data that show that land costs are fairly little. In the Netherlands for instance which its high density of economic activities, land costs are only around two percent of total fixed capital investments. So, with respect to costs, there is no compelling need for firms to economize on the amount of land they use.

2.3.2 Labor and Private Investment

Mbaye (2014) conducted a study to investigate the determinants of domestic private investment in Kenya between 1970 and 2010. OLS regression analysis was used based on co-integration and error correction model (ECM) of Engle and Granger (1987). He found

out that Human Capital formation i.e development of skilled labor force through quality education was critical in enhancing domestic private investment. Zeynep (2009) in his study of investigating the effect of labor on profitability found that increasing the supply of labor is associated with an increase in profit margins hence increased private investment.

According to Hamermesh (2014), higher labor costs (higher wage rates and employee benefits) make workers better off, but they can reduce companies' profits, the number of jobs, and the hours each person works. Overtime pay, hiring subsidies, the minimum wage, and payroll taxes are just a few of the policies that affect labor costs. Policies that increase labor costs can substantially affect both employment and hours, in individual companies as well as private investment and the overall economy.

A recent study by Fisher et al. (2006) showed that more labor at a store is associated with substantially higher sales, however some retail executives who claim that they often have insufficient store labor because they see it more as a cost than as a profit-driver. Indeed, some scholars suggest that when the costs of increasing labor are obvious and easy to measure and the benefits are indirect and not immediately felt, managers may pay too much heed to the costs and staff their stores at sub-optimal levels.

2.3.3 Capital and Private Investment

Kurokawa K., Tembo F. and Velde D. (2008) in their research to investigate donor support to private sector in Sub-Saharan Africa found that the major impediments to private sector investments are access to finance and finance costs, access to electricity, corruption, tax administration, skill levels and transport. Many of these constraints are due to market and government failures.

Hafeez-ur-Rehman, Khan , & Khan (2009) in their study on determinants of private investment in Pakistan found that there is negligible impact in long run as well as in short run of real interest rate on private investment showing the non-responsiveness of private investment to interest rate. These results are supportive to view that poor quality institutions are responsible for low investment in Pakistan.Nurul & Langenberg (2004) in

their study on factors affecting business success of SMEs in Indonesia found that access to capital had a significant relationship with private investment.

Gnansounou (2010) analyzed the determinants of private investment using data from a panel of 123 firms in Benin and covering the 1997-2003 period using the generalized method of Moments (GMM) with instrumental variables. The findings showed that the investment behavior of the firms strongly hinges on the cost of capital utilization i.e. when this cost is high, it weighs negatively on the purchase and installation of new production infrastructure. The magnitude of the effect of this cost of capital utilization and of the demand uncertainty which investment firms face depends on the nature of their activities.

Hosamane and Niranjan (2010) used the neoclassical theory of investment to explore the determinants of private investment using fifteen years (1991-2005) panel data set comprising of ten manufacturing industries at an aggregate level in India. The study makes use of panel estimation models along with the IPS panel unit root test (Im, Pesaran and Shin, 2003). The results of model indicate that output, profits, capital stock, and cost of capital are important variables in determining private investment behavior.

Kerr & Nanda (2009) conducted an empirical study on financing constraints and entrepreneurship. They found out that access to finance is one of the biggest constraints impacting private investment. Surveys of current and potential entrepreneurs suggest that obtaining adequate access to capital is one of the biggest hurdles to starting and growing a new business. Capital access affect the business success in a positive way significantly.

2.3.4 Entrepreneurship and Private Investment

The big importance of entrepreneurship for economic growth in modern 'entrepreneurial' economies is related to the increased importance of knowledge in the economic process. In the old, 'managed' economies, land, labor and capital were the main factors of production. However, globalization and the telecommunications and computer revolutions have drastically reduced the cost of shifting not just capital but also information out of the high-cost locations of Europe and into lower-cost locations around the world. This means that

economic activity in high-cost locations is no longer compatible with routinized tasks. Rather, globalization has shifted the comparative advantage of high-cost locations to knowledge-based activities, and in particular search activities, which cannot be costlessly transferred around the globe. Knowledge as an input into economic activity is inherently different from land, labor and capital. It is characterized by high uncertainty, high asymmetries across people and is costly to transact.

According to Rada (2007) entrepreneurship 'trigger' private investment. Nelson and Pack (1999) assigns a key role to the 'effectiveness of entrepreneurial ability' which they see as a vital determinant of the rate of assimilation of technology (1999:420) – as in Michelacci (2003) where entrepreneurial ability is vital for R&D. In Nelson and Pack (1999) a 'rapid' expansion of skilled labor can only be absorbed if entrepreneurial ability is high, and that without entrepreneurial ability the returns to physical and human capital is low.

Nurul & Langenberg (2004) in their study on factors affecting business success of SMEs in Indonesia found that education of the entrepreneurs had a significant relationship with private investment .Hafeez-ur-Rehman, Khan , & Khan (2009) in their study on determinants of private investment in Pakistan found that though entrepreneurship impacts private investment, there exists productive entrepreneurial activities and unproductive forms of entrepreneurial behavior.

Van Praag & Versloot (2007) conducted a study that reviewed the current research to investigate the value of entrepreneurship. The findings of their study included conclusion that entrepreneurship has a positive impact on private investment since it leads to increased creation of new businesses. Another important aspect of entrepreneurial activity is the effect of new firm creation on the employment creation of incumbents. The evidence suggests rather convincingly that there is a positive long-term effect of more entrepreneurial activity on labor demand.

Empirical studies on determinants of domestic private investments in developing countries have opted to modify the existing traditional theories to fit the realities of developing economies. Most of these studies are further confined to the limitation of the theories

highlighting mostly the macroeconomic determinants of private investment i.e interest rate, inflation rate, exchange rate, public investment and money supply. The main gap is that very few studies have deviated away from macro factors to find out other factors that affect private. Also few studies have been contextualized to fit developing economies instead the studies emulate similar studies in developed world. This could provide misleading results since the two economies are two different worlds.

2.4 Conceptual Framework

Guba & Lincoln (1989) defined a conceptual framework as a research tool intended to assist a researcher to develop awareness and understanding of the situation under scrutiny and to communicate the findings. The conceptual framework explains the relationship between the dependent and independent variables. In this study, the dependent variable was private investment and the independent variables were identified as land, labor, capital, and entrepreneurship. The conceptual framework expounds on the connection that the independent variables had on the private investments, which was the dependent variable.

Access to Land

Measured by; Market price, rent, and rates

Availability of Labor

Measured by; Salary, wages

Access to Capital

Measured by; Interest rates

Availability of Entrepreneurship

Measured by; profit

Private Investment

Measured by; the value of private business establishments in Kitui County

Independent Variables

Dependent Variable
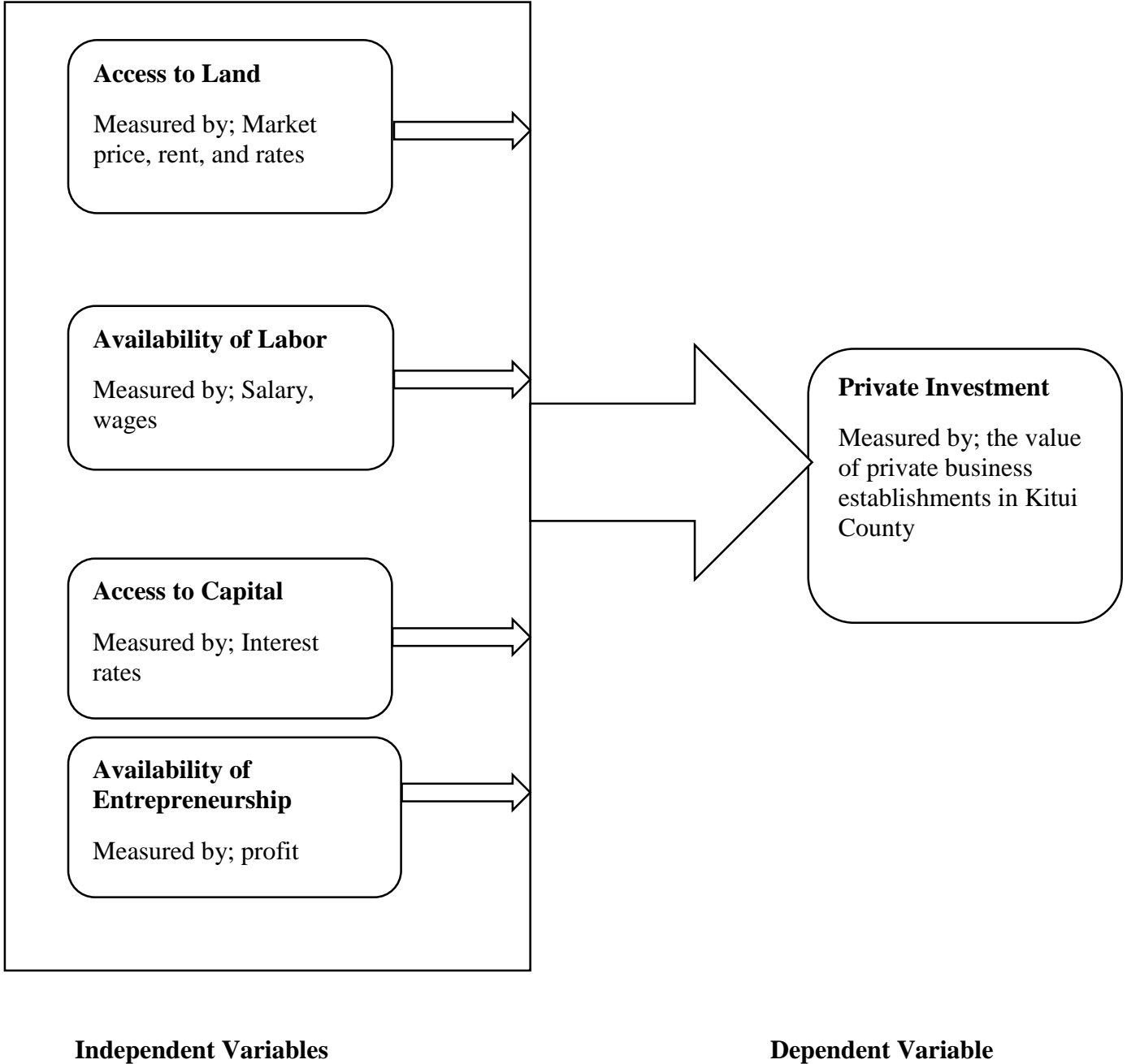
Figure 2.1: Conceptual Framework

Source Author (2017)

CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

This chapter discusses the methodology that was used in this research. It is presented in the following sub topics; research design, research population, sample size, research instruments, instrument reliability and validity, data analysis and ethical considerations. According to Kothari (2004) a research methodology is a systematic way of carrying out a study or solving a research problem and provides the various methods or procedures employed by a researcher in studying the research problem with reasoning behind them. This chapter is organized into; the research design to be used in this study, the target population of the study, sampling frame and technique to be used, methods for data collection, validity and reliability and data analysis and presentation are key issues discussed in this chapter.

3.2 Research Design

A descriptive research design was deemed the most appropriate for the analysis of the determinants of private investment for it allows quantifying the influence that each independent variable has on private investment (dependent variable). A quantitative approach of data collection was employed for this study. Ronge and Kinyumu (2010) asserted that, quantitative methods are ideal where a phenomenon can be quantified, measured and expressed numerically. This is the case with variables under study such as economic growth, interest rates and inflation among others which are quantifiable.

3.3 Target Population

Population has been defined by Mugenda and Mugenda (2003) as an entire group of individuals, events or objects having observable characteristics. According to Cooper and Schindler (2008), a population is a total collection of elements where by reference have to be made. Target population is a portion or a section of the entire population that the

researcher targets to access for the purpose of collecting information and on which the researcher intends to generalize the results of the study from. In this study, the target population comprised of all those who attended the Kitui County Investors Conference Forum, 2015. The forum was attended by two thousand (2000) people (Investors Conference Report 2015).

3.4 Sample Size and Sampling Technique

Sample size determines the reflection of the population and it guides in attracting the right participants in giving informative pieces on private investments. Stratified random sampling design best fits this study to ensure that the sample is representative of the actual population. The process entailed stratification of the target population into two strata based on if the person has an existing business or not. 500 out of 2000 have existing businesses while 1500 out of 2000 don't have existing businesses in Kitui County (Investors Conference Report 2015). 10% each strata translates to 50 people with existing businesses and 150 people without existing businesses totaling 200.

The 200 was arrived at by allocating each name of the members of each strata a numerical number i.e (1-500) for those with existing businesses and (1-1500) for those without existing businesses, then writing each numerical number on a piece of paper. The papers are folded separately, then mixed vigorously in an empty container for each strata.50 and 150 pieces of paper was picked from each container representing the different strata respectively, then opened and the numerals written down. Each numeral represented a name in each strata category hence forming the sample. According to Mugenda and Mugenda (2003), 10% to 30% of the population is adequate sample for this study and is a good representation of the population.

Table 3.1:   Questionnaire Sample size of the study

Attendees of the first Kitui County investors conference 2015				
	No. of Conference Attendees	Sample frame	Sample Percentage	Sample Size
Attendees of the Conference with existing businesses(Strata 1)	500	500	10%	50
Attendees of the Conference without existing businesses(Strata 2)	1500	1500	10%	150
TOTAL				200

3.5 Research Instrument

Questionnaires are economical, ensure anonymity, and permit use of standard questions, have uniform procedures, provide time for respondents to think and are easy to secure. The questionnaires were composed of closed ended questions that sought to establish how factors of production affect private investments. It was divided into sections with questions categorized into the four factors of production and responses part which was based on a 5-point Likert scale ranging from 1 (Strongly disagree) to 5 (Strongly agree). The questionnaire is set out in **Appendix 3.**Questionaires were distributed through hand delivery or via email for those far away.

3.6 Instrument Reliability

According to Cooper and Schindler (2011) instrument reliability is defined as its level of internal consistency or stability over time. A reliable instrument is one that constantly produces the expected results when used more than once to collect data from two samples randomly drawn from the same population. The questionnaire was pretested in a pilot study to ensure its reliability. The pilot study was administered to respondents who were part of

the study population but not part of research sample. The pilot study entailed the use of split half technique which requires only one testing session. The items were split into two halves (odd and even) which was then administered to two separate groups of respondents at the same time and scored accordingly. The scores of the two tests were computed by Pearson's Product moment correlation coefficient to determine an estimate of reliability coefficient of the whole inventory. According to Mugenda and Mugenda (2003), a value of 0.7 has been considered as the cut off for acceptance and unacceptable reliability.

3.7 Instrument Validity

Cooper and Schindler (2011) define validity is the extent to which an instrument measures what it is supposed to measure and performs as it is designed to perform. In order to ensure validity and reliability, the questionnaire was carefully constructed to avoid ambiguity. To test the validity of the research instrument, a pilot study was carried out to identify any questions in the research instrument that were ambiguous. This involved distributing a few samples of the questionnaires to the a few respondents picked from the population but not included in the sample of study, after which the response and understanding of the questions was analyzed. The respondents were also requested to comment on the clarity of the questions presented to them. Questions that were found to be ambiguous and irrelevant were modified for validity purpose.

3.8 Data Analysis

Collected data was thoroughly examined and checked for completeness and comprehensibility. The qualitative and quantitative data was then be summarized, coded and tabulated. The data was analyzed mathematically by use of inferential statistics and descriptive statistics through the assistance of SPSS Version 20 (statistical package for social scientists).The following was the multiple regression models for factors of production and private investment;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where **Y** is Private Investment

X₁	Land	**β₁**	Coefficient of Land
X₂	Labor	**β₂**	Coefficient of Labor
X₃	Capital	**β₃**	Coefficient of Capital
X₄	Entrepreneurship	**β₄**	Coefficient of Entrepreneurship
ε	Error term	$\boldsymbol{\beta_0}$	Constant

The resulting information was presented in form of frequency tables, percentages and charts. It was interpreted to make the conclusion about the study topic of determinants of private investment in Kitui County.

3.9 Ethical Considerations

Data was collected from respondents who are also the attendees of the investor's conference 2015 after obtaining consent from the County Government of Kitui. This was done by an official letter from South Eastern Kenya University and an introductory letter from the researcher. All information obtained was kept private and treated with confidentiality it deserves, used for academic purpose and only findings were published and not the raw data. Privacy and confidentiality was achieved by ensuring that the name of the respondent did not appear anywhere on the questionare or the collected information from the interviews.

CHAPTER FOUR

4.0 RESULTS

4.1 Introduction

The content of chapter four is the results of the research study. Data was collected using questionnaires as the main research instrument. The questionnaires were administered to 200 respondents who were also the attendees of the first investors conference in Kitui County in the year 2015. Questionnaires were analyzed by grouping of similar respondents and the tally system was used to generate frequency distribution tables, mean values,percentages and explanations of the findings in between the frequency tables. The data was analyzed mathematically by use of inferential statistics and descriptive statistics through the assistance of SPSS Version 20 (statistical package for social scientists). Description of the findings was given to clarify the results.

4.2 Questionnaire Return Rate

Questionnaire return rate is the proportion of the sample that participated in the survey as intended in all research procedures. The questionnaires return rate was 97.5 per cent. This means that 195 respondents gave back their questionnaires. This therefore gave the researcher a good ground to get a representative data .

4.3 Reliability Test

According to Nachmias and Nachmias (2011), a Cronbach Alpha test confirms the reliability and consistency of a data collection instrument. A Cronbach alpha value of over 0.7 qualifies an instrument as reliable and consistent in data collection (Kothari, 2004). The reliability test for the study is shown in Table 4.1 below;

Table 4.1: Reliability Test

Variables	Number of Items	Cronbach's Alpha
All Variables	24	0.812
Private Investment	5	0.834
Access to land	6	0.801
Availability of labor	4	0.742
Access to Capital	4	0.789
Availability of Entrepreneurship	5	0.809

The overall Cronbach alpha as shown in Table 4.1above is 0.812 and therefore, the research questionnaire passed the reliability test.

4.4 Background Information of the Respondents

4.4.1 Age and gender of the Respondents

The respondents were asked to indicate their age.This was aimed at establishing the age bracket of both prospective and existing investors in Kitui County. Table 4.2 shows the summary of responses.

Table 4.2: Age of the Respondents

Age of Respondents	Frequency	Percentage
18-25	69	35.4%
26-35	49	25.1%
36-45	38	19.5%
46-55	20	10.3%
56-65	14	7.2%
66 and More	5	2.6%
TOTAL	**195**	**100%**

As indicated by Table 4.2, the research showed that 35.4% of the respondents were aged between 18 and 25 years therefore being the age group with the highest number of both prospective and existing investors. The age bracket 26-35 and 36-45 followed with a percentage of 25.1% and 19.5% respectively . Age bracket 56-65 was second last with 7.2%. 66 and above years registered the least number of prospective and existing investors with only 2.6% . The findings of the study were a clear indication that as the years advance the number of investors also decline. Most people may become more risk averse as they grow older with regards to investment. From the research findings we have more male investors at 54.9% as compared to female investors who stand at 41.5% .

4.4.2 Employment Status

Table 4.3: Employment status

Employment Status	Frequency	Percentage
Permanent full-time job	41	24.1%
Self-employed	24	43.6%
part-time	89	13.3 %
Student/Unemployed/Retired	41	19.0%
TOTAL	**195**	**100%**

The highest number of people are selfemployed at 43.6% while the least are employed on parttime basis as shown in table 4.2.Those with parmanent fulltime jobs are 24.1% while students/unemployed/retired stands at 19%.

4.4.3 Income per Month

Table 4.4 : Income per month

Income per Month	Frequency	Percentage

50,000 or Less	138	70.8%
50,001-100,000	14	7.2%
100,001-200,000	18	9.2%
200,001-500,000	7	3.6%
500,001-1000,000	11	5.6%
More than 1,000,000	7	3.6%
TOTAL	195	100%

According to the research and as shown in table 4.4, the highest number of respondents earn less than Ksh 55,000 a month at 70.8%.With the least number of investors earning more than 1,000,000 standing at 3.6%.

4.4.4 Education Level

Table 4.5 : Education Level

Education level	Frequency	Percentage
Less than high school	10	5.1%
Diploma/High Diploma	34	17.4%
Graduate degree	35	17.9%
High school or equivalent	54	27.7%
College/Bachelor	62	31.8%
TOTAL	**195**	**100%**

According to the research and as shown in table 4.5, the highest number of respondents have college education standing at 31.8%.With the least number of people have less than

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highschool education and standing at 5.1%.Those with diploma and higher diploma are 17.4%. High school education and gaduate degree are 27.7% and 17.9%.

4.4.5 Existing and prospective investors

Table 4.6 : Existing and prospective investors

Existing and prospective investors	Frequency	Percentage
Existing Investors	126	64.6%
Prospective Investors	69	35.4%
TOTAL	**195**	**100%**

According to the research and as shown in table 4.6, the highest number of respondents are existing investors at 64.6% while the prospective investors stand at 35.4%.

4.4.6 Sector of Investment in Kitui County

Table 4.7 : Areas of investment in Kitui County for existing investors

Area of Investment	Frequency	Percentage
Hotel and Hospitality	28	14.4%
Wholesale	40	20.5%
Retail	27	13.8%
Transport	26	13.3%
Service	25	12.8%
Agriculture	15	7.7%

Textile	8	4.1%
Other	26	13.3%
TOTAL	**195**	**100%**

According to the research and as shown in table 4.7, the highest number of respondents have invested in wholesale business 20.5% followed by hotel and hospitality at 14.4%, retail at 13.8%, transport at 13.3%. Service, agriculture and textile are at 12.8%, 7.7% and 4.1% respectively. Other areas of investment have 13.3%.

4.4.7 Value of investment for the existing investors

Table 4.8: Value of investment for existing investors

Value of Investment	Frequency	Percentage
100,000 or less	53	27.2%
100,001-500,000	64	32.8%
500,001-1,000,000	56	28.7%
1,000,001-5,000,000	13	6.7%
5,000,001-10,000,000	9	4.6%
TOTAL	**195**	**100%**

The highest value of investment among existing investors is between 100,001-500,000 at 32.8% followed by 500,000 to 1,000,000 at 28.7%. Investment of 100,000 or less is at 27.2%. 1000,000 to 5000,000 is 6.7% while 5000000 to 10,000,000 is 4.6%.

4.4.8 Ranking of factors by investors based on their importance in decision making

As indicated in **Appendix 1**, most respondents ranked availability of land first among eighteen other factors implying that they considered it the most important in investment

decision making. Most respondents ranked cheap land the second while location of land was ranked third. Employee business skills was ranked last by most respondents.

4.5 Descriptive Statistics

The researcher sought to establish the mean and standard deviation under for each of the questions on the questionnaire and based on the Likert scale responses. The aim was to realize the mean response from all the respondents.

Table 4. 9 Descriptive Statistics

Factor	N	Minimum	Maximum	Mean	Std. Deviation
What is the effect of access to land on private investment in Kitui County?					
The cost of land in Kitui County is very high	195	1	5	3.82	1.017
There is no appropriate size of Land for investment in Kitui County	195	1	5	1.58	1.004
The location of available land is not appropriate	195	1	5	2.54	1.056
Land is not available for investors in Kitui County	195	1	5	2.08	1.071
The procedures of acquisition of land by investors in Kitui County is not investor friendly.	195	1	5	3.94	1.111
How does availability of labor affect private investment in Kitui County?					
Kitui County has adequate supply of labor	195	1	5	3.50	.971

The level of wages is too high	195	1	5	2.65	.898
There is gender balance in supply of labor in Kitui County	195	1	5	3.32	.833
There is ethnic diversity in supply of labor in Kitui County	195	1	5	3.38	1.030

What is the effect of access to capital on private investment in Kitui County?

The interest rates are too high for investors in Kitui County	195	1	5	3.65	1.094
Financial institutions are not willingness to lend to investors in Kitui County	195	1	5	2.81	1.000
Terms of lending to investors in Kitui County are not friendly	195	1	5	3.94	.937
I do not have the kind of collateral demanded by lenders	195	1	5	4.14	.977

How does entrepreneurship affect private investment in Kitui County?

I have attended trainings on how to successfully run a business	195	1	5	2.14	1.138
I have appropriate experience running a business in Kitui County	195	1	5	2.37	.972
I have appropriate experience running a business in another part of the country	195	1	5	2.23	1.055
My present/prospective employees have attended relevant training on running a business	195	1	5	3.14	.988
Measure of private investment in Kitui County	195	1	5	1.31	1.107

Cost of land has a mean of 3.82 meaning most respondents agree that the cost of land in Kitui is very high. Supply of labor has a mean of 3.50 meaning that most respondents agree that the supply of labor in Kitui is adequate. Most respondents agree that they lack the kind of collateral demanded by lenders with a mean of 4.14. Most respondents lack entrepreneurship training and experience with a mean of 2.23.Most respondents believe that there is appropriate size of land for investors in Kitui as indicated in the table with a mean of 1.58.

4.6 Pearson's Correlation Analysis

The researcher used Pearson's correlation coefficient, to establish whether there is any relationship among the factors of production and with private investment that is access to land, availability of labor, access to capital, availability of entrepreneurship and private investment. The use of Likert scale in the questionnaire made it possible to obtain quantitative data hence the Pearson Correlation Coefficient was deemed appropriate for analysis. The sign of r represents the strength and direction respectively of the association between the private investment and the explanatory variables (Zeltkevic;1998). The fitting of the regression model allowed for the quantification of the effect of each independent variable on private investment. Pearson's coefficient of correlation can have a value anywhere between -1 and 1. The larger the r, ignoring the sign, the stronger the association between the private investment and any independent variable, and the more accurately the prediction of private investment from the knowledge of explanatory variables.

Table 4.10:   Pearson's Correlation among factors of production and private investment

	Correlations				
	Private Investme nt	Access to land	Availabi lity of labor	Access to Capital	Availabilit y of Entreprene urship

	Private Investment	1.000	.722	.552	.923	.344
	Access to land	.722	1.000	.019	.057	.074
Pearson Correlation	Availability of labor	.552	.019	1.000	.053	.087
	Access to Capital	.923	.057	.053	1.000	.211
	Availability of Entrepreneurship	.344	.074	.087	.211	1.000
Sig. (1-tailed)		0.001	0.001	0.000	0.001	0.001
N		195	195	195	195	195

Pearson's correlation, which ranges between -1 and +1, reflects the degree of linear relationships between two variables. Using Pearson correlation coefficient (r) and p-value analysis, a correlation is considered significant when the probability value is below 0.05 (p-value ≤ 0.05). From Table 4.10 above, the level of significance is high with correlation coefficients for access to land, availability of labor, access to capital and availability of entrepreneurship being 0.722, 0.552, 0.923 and 0.344 respectively. It is clear that all the factors of production and private investment are positively correlated to private investment.

4.7 Regression Analysis

To establish the relationship between dependent and independent variables multi variate linear regression analysis was used.

The multiple regression model,

$$y = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$$

was fitted on the data where X_1, X_2, X_3 And X_4 represented access to land, availability of labor, access to capital and availability of entrepreneurship.

4.7.1 Coefficient of Determination

Coefficient of determination is a statistical measure of how well the regression line approximates the real data points. The values of R2 range from zero (0) to one (1) where 1 indicates that the regression line perfectly fits the data. However according to Theil (1961) R2 increases as the number of independent variables in the model increase, adjusted R2 which is always less than R2 was also used (Glantz & Slinker, 1990). The results are presented in table 4.11 below. Both the coefficient of determination R^2 and adjusted coefficient of determination $\bar{R}^2$ statistics generated by SPSS Version 20 were used to determine the goodness of fit of a model.

Table 4.11 R and R^2 of the Model

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1.	.842a	.709	.703	.006

This research found that the model fitted the data well since for both the R^2 and adjusted R^2 were close to 1.This means that the model can explain upto 70.9% of the variations.

4.7.2 Regression Coefficients

In regression, the size of the coefficient for each independent variable gives you size of the effect that the variable has on the dependent variable, and the sign of the coefficient (positive or negative) gives you the direction of the effect. The researcher further sought to establish the actual values of the coefficients of the independent variables and the values in table 4.12.

Table 4.12 Regression model coefficient and the t statistic value

Model	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.0328	.671	3.468	.001
Access to land	.542		.969	.001
Availability of labour	.365		.783	.001
Access to Capital	.755		.847	.001
Availability of Entrepreneurship	.106		.789	.001

All the factors of production have positive contribution to private investment.

It is now easy to detect the variables which had the greatest influence on private investment over the study period. The constant of this model is 0.0328, essentially, when all the four variables are equated to zero. This means that there will little private investment without the four factors of production. Access to land has a coefficient of 0.542 which is the second highest among all coefficients. It means that land has a big influence on private investment among the other variables. This means that that for every 1 unit increase in access to land there is 0.542 increase in private investment.

Availability of labor has a coefficient of 0.365. This means that that for every 1 unit increase in availability of labor there is 0.365 increase in private investment. Access to capital has the highest coefficient of 0.755. This means that for every 1 unit increase in access to capital there is 0.755 increase in private investment. Availability of entrepreneurship has a coefficient of 0.106. This means that that for every 1 unit increase in availability of entrepreneurship there is 0.106 increase in private investment. The value of the error term is 0.671.

the regression models can be expressed as;

Y= 0.0328+0.542X$_1$+0.365X$_2$+0.755X$_3$+ 0.106X$_4$ + 0.671

4.7.3 ANOVA

In trying to test the significance of the model, the study used ANOVA. The ANOVA test was done in order to investigate whether the variation in the independent variables explain the observed variance in the outcome.

Table 4.13 ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1.64	4	.41	26.56	.0.0001[b]
	Residual	2.1769	191	.0174		
	Total	3.8169	195			

a. Dependent Variable: Private Investment

b. Predictors: (Constant), Access to land, Availability of labor, Access to capital, Availability of entrepreneurship

From Table 4.13 above, the f-value for regression is 26.56, which is significant at p value 0.0001. The regression model is therefore significant at 95% confidence level and is useful in predicting the relationship between the dependent variable and independent variables.

CHAPTER FIVE

5.0 DISCUSSION

5.1 Introduction

This chapter comprises of discussion of the results. The purpose of this study was to investigate the impact of factors of production on private investment in Kitui County, Kenya. The objectives of the study were; to find out the influence of access to land on private investments in Kitui County; to examine the effect of availability of labor on private investments in Kitui County; to determine the influence of access to capital on private investments in Kitui County; to establish the influence of entrepreneurship skills on private investments in Kitui County. There is a gap in that the expected role of devolution in Kitui County with regard to growth of private investment has not been fully realized. Interventions by government and development partners has proved inadequate due to lack of research based evidence .This research was therefore driven by the fact that if the impact of factors of production was checked and acted upon, private investment will highly be boosted here in Kitui County.

5.2 Access to land and Private Investment in Kitui County

This objective sought to determine the extent to which access to land affects private investment in Kitui County. From this research and as shown in table 4.9, existing and prospective investors agree that the cost of land in Kitui County is high. From the research, both existing and prospective investors strongly agree that there is adequate proportion of land for investment in Kitui. They are also neutral about the effect of location of land for investment in Kitui. Existing and prospective investors disagree that land is not available for investment in Kitui County. They also agree that land acquisition procedures are not investor friendly.

Pearson correlation analysis and regression analysis revealed that access to land has a positive correlation and the second highest impact on private investment. This concurs with findings by Harandez-Cata (2005), where he concluded that land is a very important

determinant of private investment. This study did not give any guidance on impact of land rights on private investment. However, studies by Galiani and Schargrodsky (2010) & Goldstein et al.(2015) found that land rights affected private investment. The study did not specify on influence of agricultural firms and nonagricultural firms on lands' influence on private investment. However, Nelson (1999) found that the production factor land is not a factor of economic concern for non-agricultural firms.

Most theories including the neoclassical and neoliberal theory have ignored land as a factor that influences private investment. Most of previous theories have concentrated on economic factors as the major drivers of private investment, however this study has proved that factors other than economic factors including land majorly influence private investment. Further studies should be conducted to find out the influence of land rights on private investment. Also investigation should be done to determine if land is a factor of concern for nonagricultural firms with regards to private investment.

5.3 Availability of labor and Private Investment in Kitui County

This objective sought to determine the extent to which availability of labor affects private investment in Kitui County. From this research and as shown in table 4.9, existing and prospective investors agree that Kitui County has adequate supply of labor. From the research, both existing and prospective investors are neutral about the impact of wage rate on private investment. They also disagree that there is gender balance in supply of labor in Kitui County. Existing and prospective investors disagree that there is ethnic diversity in supply of labor in Kitui County.

Pearson correlation analysis and regression analysis results revealed that availability of labor is third among factors of production with a positive correlation on private investment with the third highest beta. This study found that supply of labor affects private investment. This is in agreement with Zeynep (2009) who found that increasing the supply of labor is associated with an increase in profit margins hence increased private investment. However Mbaye (2014) study found out that Human Capital formation i.e development of skilled

labor force through quality education was critical in enhancing domestic private investment. This study does not specify the implication of educated workforce on private investment. The study is in agreement with Hamermesh (2014), who showed that more labor at a store is associated with substantially higher sales and hence an increase in level of private investment. However, according to Fisher et al. (2006), labor has both positive and negative impact on private investment increasing the level of output and also increasing the cost of production.

None of investment theories has recognized labor as an important factor affecting private investment. Most theories focused on the economic factors affecting private investment. However from the findings of this study, it is clear that labor is an important factor affecting private investment. Further studies should be conducted to examine the impact of educated workforce on private investment. It is clear from the findings of this research and those of other studies that there may be both a positive and negative influence of labor on private investment.

5.4 Access to Capital and Private Investment in Kitui County

This objective sought to determine the extent to which access to capital affects private investment. From this research and as shown in table 4.9, existing and prospective investors agree that interest rates in Kitui County are too high. From the research, both existing and prospective investors are neutral on whether financial institutions are willing to lend to investors in Kitui County. They also agree that the terms of lending are not investor friendly. Existing and prospective investors agree that they do not have collateral required by financial investors.

Pearson correlation analysis and regression analysis revealed that access to capital is first among factors of production with a positive correlation on private investment with the highest beta. This findings are in agreement with findings by Kurokawa et al. (2008), Nurul & Langenberg (2004), Gnansounou (2010), Hosamane and Niranjan (2010) and Kerr & Nanda (2009) who found that access to capital had an impact on private investment. However, Hafeez-

ur-Rehman et al (2009) in their study on determinants of private investment in Pakistan found that there is negligible impact in long run as well as in short run of real interest rate on private investment showing the non-responsiveness of private investment to interest rate.

The findings of this study also contradict the findings of Clark (1917), who asserted that investment spending is directly proportional to the change in output and is not affected by the cost of capital in the accelerator model. However the findings are in agreement with the Tobin Q theory promulgated by James Tobin in 1969 which asserts that cost of capital is a major determinant of the levels of private investment in a firm. It is clear that there are contradicting findings with regards to influence of interests on private investment with some studies supporting a relationship between the two while others observed no relationship at all.

5.5 Availability of entrepreneurship and Private Investment in Kitui County

This objective sought to determine the extent to which availability of entrepreneurship affects private investment. From this research and as shown in table 4.9 , existing and prospective investors disagree that they have attended any training on business. From the research, both existing and prospective investors disagree that they have appropriate experience running business in Kitui County. They also disagree that they have appropriate experience running business in other parts of the Country. Existing and prospective investors are neutral about their prospective and existing employees having relevant training on running a business.

Pearson correlation analysis and regression analysis revealed that also key to successful growth of private investment coming fourth among factors of production and with positive correlation to private investment is entrepreneurship. This findings concur with Rada (2007) findings that entrepreneurship 'trigger' private investment. The big importance of entrepreneurship for economic growth in modern 'entrepreneurial' economies is related to the increased importance of knowledge in the economic process. Nurul & Langenberg

(2004), Hafeez-ur-Rehman et al (2009) and Van Praag et al (2007)   findings agrees with the findings of this study that entrepreneurship affects private investment. However Narul et al (2004) study found that education of the entrepreneurs had a significant relationship with private investment.

None of the previous theories on investment looked at entrepreneurship as a factor affecting the level of private investment. This research prove otherwise that entrepreneurship is an important driver of private investment and should not be ignored. From the findings of this research and empirical evidence, it is clear that there must be a difference between general education and business education with regards to their impact on private investment.

CHAPTER SIX

6.0 CONCLUSIONS AND RECOMMENDATIONS

6.1 Introduction

The study endeavored to examine the impact of factors of production on private investment in Kitui County. Based on the findings, the study made conclusions and recommendations on the effect of the various factors of production on private investment in Kitui County.

6.2 Conclusion of the Study

From the discussion in chapter five, the study concluded that access to land affects private investment. Land is the second most important factor of production with regards to private investment. The respondents highlighted cost of land, availability of land, location of land, procedures of land acquisition as some of the most important factors affecting their investment decision making. The study therefore concluded that the process of land acquisition should be simplified, incentives to investors targeting reduction of cost of land and proper infrastructure to enable easy physical access of the various locations of land in Kitui County.

The study also concluded that availability of labor has a significant influence on private investment. Most respondents mentioned wage rate, gender inclusivity of work force, ethnic diversity of labor force and labor supply as major factors that influence their investment decisions. The study concludes that gender inclusivity and ethnic diversity of labor force should be enhanced in Kitui County.

The study found that access to capital has the highest impact on private investment. The respondents highlighted; interest rates, availability of collateral, terms of credit and willingness of financial institutions to lend as some of the most important factors affecting their investment decisions. Therefore lower interest rates, simple terms of credit, increased availability of collateral and increased willingness of financial institutions to lend will definitely improve private investment in Kitui County.

This study has found that entrepreneurship is an important factor of production when it comes to private investment. Lack of training for business owners and employees on how to run a business including lack of business experience both outside and within Kitui County for both employees and business owners has posed a big challenge towards its contribution towards private investment growth.

6.3 Recommendations of the Study

6.3.1 Recommendations for Policy

Based on the findings of this study, the National Government and County Government can make informed decisions regarding private investment in Kitui County. The study recommends that policies should be formulated to increase access to land, availability of labor, access to capital and availability of entrepreneurship. Policy makers should therefore make informed interventions, which are not limited to reducing the cost of land, simplifying the procedures of land acquisition, enhancing gender and ethnic inclusivity in labor, lowering interest rates, simplifying terms of credit, increasing business skills of business owners and employees.

6.3.2 Recommendations for Practice

Private Investment has been recognized as an effective vehicle of wealth creation. Past studies have shown that private investment is mostly influenced by macroeconomic factors beyond the investor's control. However, this study has found that all the factors of production have impact on private investment. Luckily an investor has some level of control on this factors of production. An investor can make wise decision on the location of land based on their business, they can choose cheaper land for investment, they can choose a very good gender inclusive and ethnic inclusive workforce, they can choose cheaper sources of capital including financing from family and friends, they can choose to enroll for business training and also enroll their employees for business training among others.

6.3.3 Recommendations to Academia

The study supported the observations and conclusions made by other scholars and provided empirical evidence on the impact of factors of production on private investment in Kitui County. The study provides information about private investment in Kitui County, which is useful in addressing the knowledge gap. The study also focused on private investment in Kitui County. It is therefore, recommended that similar studies be conducted in other counties. From the study it is clear that access to land, availability of labor and access to capital are strongly correlated to private investment. It is therefore recommended that further studies are done to determine if this factors have the same impact in specific businesses classified under private investment. Entrepreneurship has the lowest beta, meaning that it does not have much importance in private investment.

Further studies should be undertaken to determine if private investment can completely survive without entrepreneurship or not. In addition, studies should be done in different businesses under private investment to determine entrepreneurship is also of low importance to them. Further studies should be conducted to evaluate the difference of influence of general education on private investment and business education on private investment. Further studies should be conducted to establish the real influence interest rates have no impact on private investment in the long run. Further studies should be conducted to evaluate the extent of positive and negative influence of labor and private investment. Also from the model with a constant of 0.0328, studies should be done to determine if private investment can do without the factors of production.

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Appendix 1 : Ranking of factors by investors based on their importance in decision making

	X1	X2	X3	X4	X5	X6	X7	X8	X9	X10	X11	X12	X13	X14	X15	X16	X17	X18
1st	20.5	1.5	1.0	1.0	3.6	12.8	4.6	32.3	2.6	2.6	2.6	2.6	.5	2.1	1.5	0	0	0
2nd	20.0	4.1	6.2	2.1	5.1	19.0	12.3	9.7	8.2	0	8.2	1.5	1.5	3.6	1.5	1.5	1.5	1.5
3rd	7.2	8.2	9.2	4.6	4.6	13.8	23.1	5.6	6.2	0	6.2	1.0	3.1	1.5	3.6	1.5	4.6	3.1
4th	15.4	4.6	11.8	2.6	2.1	13.8	10.3	11.3	3.6	1.5	3.6	0	2.6	7.2	2.1	3.6	2.6	1.0
5th	11.3	13.3	10.8	4.1	8.7	9.2	4.1	5.6	7.2	1.5	7.2	2.1	3.6	5.1	2.6	2.1	3.6	6.7
6th	3.1	8.7	9.7	10.8	7.7	2.6	4.6	3.1	11.3	3.1	11.3	8.7	3.1	2.6	4.1	2.6	6.7	.5
7th	3.1	8.2	7.2	7.7	7.7	2.1	6.2	1.5	2.1	5.1	2.1	9.7	6.2	6.2	2.6	4.1	2.6	4.6
8th	1.5	10.8	4.6	2.1	11.3	4.1	2.1	8.7	4.1	5.1	4.1	3.1	3.1	3.6	7.2	2.6	7.2	7.2
9th	2.1	5.6	4.6	1.0	6.2	1.5	2.6	5.6	15.9	6.2	15.9	5.6	10.3	3.6	4.6	7.2	3.6	4.6

10th	1.5	2.1	5.1	8.2	4.1	4.1	9.2	.5	7.2	22.1	7.2	7.7	4.6	3.6	3.1	4.6	4.6	1.0
11th	2.6	5.1	2.1	11.3	3.1	2.6	2.6	3.1	4.6	7.2	4.6	4.6	6.7	3.6	7.2	3.1	6.7	8.2
12th	2.6	5.1	6.2	8.2	3.1	.5	3.6	1.0	4.6	3.1	4.6	21.0	12.8	5.6	4.6	7.2	4.1	4.6
13th	0	5.1	4.1	5.1	6.2	4.1	4.6	1.5	2.6	2.6	2.6	5.1	14.9	5.6	13.3	4.6	3.1	2.6
14th	2.1	3.1	4.1	8.7	8.7	4.1	1.0	1.0	3.6	4.6	3.6	5.6	3.1	16.4	5.6	13.3	8.7	8.7
15th	1.5	3.6	4.6	2.1	6.2	2.1	3.6	3.6	6.2	8.7	6.2	5.1	4.1	6.2	18.5	5.6	9.7	6.2
16th	2.1	2.1	5.6	8.7	5.6	2.1	2.6	.5	4.1	7.7	4.1	3.1	5.1	6.2	3.6	18.5	6.2	21.0
17th	2.1	5.6	1.0	6.7	3.6	.5	1.5	2.6	4.1	8.2	4.1	11.3	6.2	5.1	7.2	3.6	18.5	8.2
18th	1.5	3.1	2.1	5.1	2.6	1.0	1.5	2.6	2.1	11.3	2.1	2.1	8.7	12.3	7.2	7.2	6.2	10.3

Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

KEY

X1   Cheap land

X2   Simple land acquisition procedures

X3   Low Wage Rate

X4   Gender inclusive labor force

X5   Low interest rates

X6   Size of Land

X7   Location of land

X8   Availability of land

X9   Supply of labor

X10   Ethnic diversity of labor supply

X11   Terms of credit

X12   Willingness to lend by financial institutions

X13   Availability of collateral

X14   Business skills of the owner

X15   Experience of running business in Kitui County

X16   Experience of running business in another part of the country

X17   Employees Business skills

X18   Employees Business Experience

Appendix 2: TRANSMITTAL LETTER

Lucy Kitonyi John

P.O. Box 420-90200,

Kitui.

Dear Respondent,

RE: TRANSMITTAL LETTER

I am a final year MBA (Finance) student at South Eastern Kenya University. As part of my course requirements, I am required to conduct a research in my area of study. My research is towards establishing the determinants of private investment in Kitui County, Kenya. I seek to assure you that the information you provide will be used for academic purposes only. All the responses given shall be treated with utmost confidentiality and shall strictly be used for the purpose of this study. I will be very grateful for your cooperation.

Thank you in advance

Yours Faithfully

Lucy Kitonyi John

South Eastern Kenya University.

Appendix 3: PERMISSION LETTER

SOUTH EASTERN KENYA UNIVERSITY
OFFICE OF THE DIRECTOR
BOARD OF POST GRADUATE STUDIES

TEL. 020-4213859 (KITUI)

P.O. BOX 170-90200
KITUI, KENYA
Email: info@seku.ac.ke

Email: directorbps@seku.ac.ke

Our Ref: D61/KIT/20476/2014

DATE: 11th October, 2017

John Kitonyi Lucy
Reg. No. D61/KIT/20476/2014
Masters of Business Economics
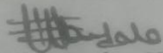C/O Dean, School of Business Economics

Dear Lucy

RE: PERMISSION TO PROCEED FOR DATA COLLECTION

This is to acknowledge receipt of your Masters in Business Administration Proposal document entitled, "*Impact of Factors of Production on Private Investment in Kitui County, Kenya*".

Following a successful presentation of your Master Proposal, the School of Business and Economics in conjunction with the Directorate, Board of Post graduate Studies (BPS) have approved that you proceed on and carry out your Research Data Collection in accordance with your approved proposal.

During your research work, you will be closely supervised by Dr. Jared Ariemba. You should ensure that you liase with your supervisor at all times. In addition, you are required to fill in a Progress Report *(SEKU/ARSA/BPS/F-02)* which can be downloaded from the University Website.

The Board of Postgraduate Studies wishes you well and a successful research data collection as a critical stage in your Master of Business Administration.

Prof. Cornelius Wanjala
Director, Board of Postgraduate Studies

Copy to: Deputy Vice Chancellor, Academic, Research and Students Affairs
            Dean, School of Business and Economics
            Director, Kitui Campus
            Chairman, Department of Business and Entrepreneurship
            Dr. Jared Ariemba
            BPS Office   To file

ARID TO GREEN   TRANSFORMING LIVES

ISO 9001: 2008 CERTIFIED

Appendix 4: QUESTIONNAIRE

This survey is intended to examine the determinants of private investment in Kitui County. Please find few minutes to respond to it. Your specific answers to the questions in the questionnaire will enable me to complete my MBA project. All information will be confidential and you do not need to write your name. We assure you that all information will be strictly for research purposes.

Thank you for your cooperation

Researcher

Lucy Kitonyi John

SECTION A		
Part I: Personal Information		
1. Age:	☐ 18-25 ☐ 36-45 ☐ 56-65	☐ 26- 35 ☐ 46-55 ☐ 66 and more
2. Gender:	☐ Male	☐ Female
3.Employment status:	☐ Permanent full-time job ☐ Self-employed (work on my own business)	☐ Permanent part-time job ☐ Student/ Unemployed/ Retired
4. If you work, what is the company main activity:	☐ Finance / Banking/ Investment	☐ Others
5. Income per month (Ksh):	☐ 50,000 or less ☐ More than 50,001 to 100,000 ☐ More than 100,001 to 200,000 ☐ More than 200,001 to 500,000	☐ More than 500,001 to 1000,000 ☐ More than 1000,000
6. Education Level:	☐ Less than high school ☐ Diploma/High Diploma ☐ Graduate degree (Master's or Ph.D)	☐ High school or equivalent ☐ College/Bachelor

7. Are you an existing investor or a prospective investor?	☐ Yes ☐ No
8. If you are an existing investor, in which sectors have you invested in Kitui County	☐ Hotel and hospitality ☐Wholesale ☐ Retail ☐Transport ☐ Service ☐Agriculture ☐ Textile ☐Other (Specify……………………………………….)
9. If you are an existing investor, what do you consider is the value of your investment? (Ksh)	☐100,000 or less ☐ More than 100,000 to 500,000 ☐ More than 500,000 to 1,000,000 ☐ More than 1,000,000 to 5,000,000 ☐ More than 5,000,000 to 10,000,000 ☐ More than 10,000,000 to 100,000,000 ☐ More than 100,000,000 to 10,000,000,000 ☐ More than 10,000,000,000
10. If you are an existing investor, which other sectors will you want to invest in?	☐ Hotel and hospitality ☐Wholesale ☐ Retail ☐Transport ☐ Service ☐Agriculture ☐ Textile

	□Other (Specify………………………………….)
11. If you are a prospective investor, which other sectors will you want to invest in?	□ Hotel and hospitality □Wholesale □ Retail □Transport □ Service □Agriculture □ Textile □Other (Specify………………………………….)
12. If you are an existing investor, how much more are you willing to commit in investment in the next five years? (Ksh)	□100,000 or less □ More than 100,000 to 500,000 □ More than 500,000 to 1,000,000 □ More than 1,000,000 to 5,000,000 □ More than 5,000,000 to 10,000,000 □ More than 10,000,000 to 100,000,000 □ More than 100,000,000 to 10,000,000,000 □ More than 10,000,000,000
13. If you are a prospective investor, how much are you willing to invest in Kitui county in the next five years?(Ksh)	□100,000 or less □ More than 100,000 to 500,000 □ More than 500,000 to 1,000,000 □ More than 1,000,000 to 5,000,000 □ More than 5,000,000 to 10,000,000 □ More than 10,000,000 to 100,000,000 □ More than 100,000,000 to 10,000,000,000 □ More than 10,000,000,000

14. Whether you are an existing or prospective investor, which of these factors do you consider most important in making the decision on whether to invest in Kitui County or not:

- ☐ Cheap land
- ☐ Simple land acquisition procedures
- ☐ Low wage rates
- ☐ Gender inclusive labor force
- ☐ Low interest rates
- ☐ Size of Land
- ☐ Location of land
- ☐ Availability of land
- ☐ Supply of labor
- ☐ Ethnic diversity of labor supply
- ☐ Terms of credit
- ☐ Willingness to lend by financial institutions
- ☐ Availability of collateral
- ☐ Business skills of the owner
- ☐ Experience of running business in Kitui County
- ☐ Experience of running business in another part of the country
- ☐ Employees Business skills
- ☐ Employees Business Experience

Kindly allocate a numeral between 1 to 18 based on the importance of each of the above factors on your decision on whether to invest in Kitui County or not

SECTION B							
How does Access to Land Affect the Level of Private Investment in Kitui County as a factor of production?							
Part II: Please indicate the extent to which you agree with the following statements							
Strongly disagree Disagree Neutral Agree Strongly agree							
1 2 3 4 5							
No.	*Factor*	Disagree	Strongly Disagree	Disagree	Neutral	Agree	Strongly
1.	The cost of land in Kitui County is very high	1	2	3	4	5	
2.	There is no appropriate size of Land for investment in Kitui County	1	2	3	4	5	
3.	The location of land of available land is not appropriate	1	2	3	4	5	
4.	Land is not available for investors in Kitui County	1	2	3	4	5	
5.	The procedures of acquisition of land by investors in Kitui County is not	1	2	3	4	5	

SECTION C

How does availability of Labor Affect the Level of Private Investment in Kitui County as a factor of production?

Part II: Please indicate the extent to which you agree with the following statements

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5

No.	*Factor*	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	Kitui County has adequate supply of labor	1	2	3	4	5
2.	The level of wages is too high	1	2	3	4	5
3.	There is gender balance in supply of labor in Kitui County	1	2	3	4	5
4.	There is ethnic diversity in supply of labor in Kitui County	1	2	3	4	5

SECTION D

How does Access to Capital Affect the Level of Private Investment in Kitui County as a factor of production?

Part II: Please indicate the extent to which you agree with the following statements

	Strongly disagree	Disagree	Neutral	Agree	Strongly agree
	1	2	3	4	5

No.	*Factor*	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	The interest rates are too high for investors in Kitui County	1	2	3	4	5
2.	Financial institutions are not willingness to lend to investors in	1	2	3	4	5
3.	Terms of lending to investors in Kitui County are not friendly	1	2	3	4	5
4.	I do not have the kind of collateral demanded by lenders	1	2	3	4	5

SECTION E						
How does Availability of Entrepreneurship Skills Affect the Level of Private Investment in Kitui County?						
Part II: Please indicate the extent to which you agree with the following statements						
Strongly disagree 1	**Disagree** 2	**Neutral** 3	**Agree** 4		**Strongly agree** 5	
No.	**Factor**	Strongly Disagree	Disagree	Neutral	Agree	Strongly Agree
1.	I have attended trainings on how to successfully run a business	1	2	3	4	5
2.	I have appropriate experience running a business in Kitui County before	1	2	3	4	5
3.	I have appropriate experience running a business in another part of the country	1	2	3	4	5
4.	My present/prospective employees have attended relevant training on running a business	1	2	3	4	5
5.	My present/prospective employees have relevant experience running a business in Kitui County	1	2	3	4	5
6.	My present/prospective employees have experience running a business in other parts of the county	1	2	3	4	5

Time / Activity	June 2017- July 2017	July 2017	July 2017	August 2017	September 2017	November 2017	December 2017	January 2018
Research proposal writing	███							
Proposal defense		███						
Pre-testing the Questionnaire			███					
Data collection				███				
Data analysis					███			
Chapter 4 writing						███		
Chapter 5 writing							███	
Production of final copies, binding and presentation of the report								███

Appendix 6: BUGDET

ITEM	TOTAL
Binding (spiral/Hard copies)	3,000
Travelling	10,000
Data Collection assistants	10,000
Miscellaneous	5,000
GRAND TOTAL	**28,000**