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## COUNTRY REGULATORY ENVIRONMENT, MODERATING COUNTRY BRAND CHOICE FOR FOREIGN DIRECT INVESTMENT IN KENYA

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### Abstract

*Choice to locate business internationally is determined by comparison of various countries. The decision to invest may be based on market size, natural and human resources, financial, physical and technological infrastructure, country openness to foreign investment, institutional frameworks and policies such as fair trade, transparency. Countries are now competing to be a favourable destination for foreign direct investment. This has led to country making changes in policies in order to attract investors. The Kenya investment legislation framework is anchored in Investment Promotion Act (IPA) of 2004. Kenya Investment Authority facilitates both local and foreign investors to obtain licences, permits and certificates. Despite Kenya making changes on regulatory environment in 2014 based on UNCTAD (2013) policy recommendations by establishing a one stop shop at Kenya Investment Authority to market and facilitate both local and foreign investors, investors chose Ethiopia over Kenya and Ethiopia remained the largest recipient of FDI in East Africa. Foreign Direct Investment (FDI) inflows in Kenya declined by 18% in the year 2019, This implied that Kenya was losing its competitiveness in attracting foreign direct investment. This study focused on the Kenya investment policy review recommendations by UNCTAD (2013). It measured the extent to which six policies (tax policy, competition policy, governance policy, environment policy, infrastructure and human capital policy) are moderating the relationship between country marketing mix and country brand choice for FDI. Findings indicated that both country marketing mix and country regulatory environment are statistically significant. The interaction term between country marketing mix and country regulatory environment is significant, with a negative B coefficient. This indicated that unfavourable regulatory environment moderates the effect of marketing negatively. An increase in unfavourable environment will result in the decrease of the likelihood that a country will be chosen of foreign direct investment. The study concluded that an increase in favourable country regulatory environment results in an increase in likelihood*

*that an investor will choose a country for Foreign Direct Investment (FDI). Therefore, the study concluded that there is a statistically significant relationship between country regulatory environment and country brand choice, and that country regulatory environment has a significant moderating effect on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya. Unfavourable regulatory environment moderates the effect of marketing efforts negatively. An increase in unfavourable environment will result in the decrease of the likelihood that a country will be chosen of foreign direct investment.*

**Keywords:** *Country brands, Nation branding, Country policies, country regulatory environment, country brand choice.*

## **INTRODUCTION**

Choice to locate business internationally is determined by comparison of various countries. The decision to invest may be based on market size, natural and human resources, financial, physical and technological infrastructure, country openness to foreign investment, institutional frameworks and policies such as fair trade, transparency. Such decisions are based on whether the multinational is seeking resources, or efficiency, or market or assets (OECD, 2018). The choice of a specific country or location for foreign direct investment can also be determined by factors of production, cost of transport and cost of labour among other factors (Dunning, 2000). Multinational Corporations can choose to manufacture internationally if the host country guarantees them ownership, location and internationalization (OLI) advantages (Dunning, 2010). Multinational Corporations (MNCs) prefer choosing countries with high ambidexterity for investment, which give them a chance to change strategy and adapt to volatility in a host country (Huang & Cantwell, 2017).

OECD refers to regulation as the instruments a government uses as requirements that citizens, other governments and enterprises should meet. These include laws, rules and orders by mandated government institutions and authorities with power to control FDI inflows. Regulation can be economic, to control prices, competition, enterprise entry and exit from the market. It can also be social to protect environment, health, values, social cohesion and safety of general public. Regulation can also focus on administrative issues that guide the procedures, legal and formalization of FDI (UNCTAD, 2002). The OLI framework emphasizes the role of government policy in Investment Development Path or IDP (Dunning, 2010). Policies can either be used to attract FDI, to upgrade FDI or to enhance country relationships (Velde, 2001). Government policies are important in enhancing the impact of FDI. FDI policies are designed based on the role the government want FDI to play in the host country (Sass, 2014). The legal and political conditions prevailing in a foreign country can also hinder the choice of a country for FDI (Saxena, 2012).

There are various policy frameworks that affect Foreign Direct Investment. Core FDI policies involve ownership restrictions, investment promotion and facilitation policy and entry rules. Others include incentives, Special Economic Zones (SEZ), performance requirements, promotion of linkages and spill overs, treatment and protection of investments. Investment-related policies include Tax, competition, environmental, infrastructure policies, labour market regulation, corporate responsibility, PPP framework and socioeconomic policy framework (UNCTAD, 2018). African countries regulate FDI by restricting entry, restricting foreign purchase of domestic shares, restricting remittance of dividends, and restricting the transfer of liquidation proceeds abroad. Other countries apply sectoral restrictions and post entry restrictions like access to subsidies, access to privatization, discriminatory licensing and taxation (OECD & NEPAD, 2005). Different policies affect the choice of countries and FDI inflows, trade policy, human resource policy, infrastructure policy, financial sector policy, competition policy, investment policy, as well as cooperate governance and investment promotion policies (Beebeejaun, 2018).

The Kenya investment legislation framework is anchored in Investment Promotion Act (IPA) of 2004. Kenya Investment Authority facilitates both local and foreign investors to obtain licences, permits and certificates. The Kenya investment policy review recommended that the government modernizes its general regulatory framework in order to improve the investment climate. This report highlights tax policy, competition policy, governance, infrastructure and human capital policy as priorities in attracting FDI (UNCTAD, 2013). Ease of business registration, labour market and employment conditions, contract regulations and judicial procedures, creditor rights and insolvency regulations are some of the indicators of a country regulatory environment affecting FDI inflows (Bussea & Groizardb 2013). Transparency, accountability and consistency are some of the measures of a good regulatory environment that can influence FDI inflows (Kirkpatrick, Parker & Zhang, 2006).

According to OECD, out of the 10-policy framework for investment (public governance, Tax, human resource development, trade, responsible business conduct, investment policy, corporate governance, investment promotion and facilitation, competition policy, , infrastructure and financial sector development), regulatory and legal capacity, promotion and facilitation, investment in infrastructure, trade, responsible business conduct are the five policy areas that are key to sustainable development (Biau & Pfister 2014). This study focused on the Kenya investment policy review recommendations by UNCTAD (2013). It measured the extent to which six policies (tax policy, competition policy, governance policy, environment policy, infrastructure and human capital policy) are moderating the relationship between country marketing mix and country brand choice for FDI.

Customer repurchase intention is the consideration to buy again, which depends on brand preference, this preference is either favourable or unfavourable. A positive brand preference signifies strong repurchase intention and is influenced by customer satisfaction and customer loyalty (Hellier *et al.*, 2003). Brand choice can be modelled to include preference, or no preference, and evaluating the choices through country regulatory environment variables, hence the importance of studying the variables that are leading to no preference (Chib, Seetharaman & Strijnev, 2004). This study adopted the prior purchase model to evaluate the investors country brand choice by evaluating the investors country brand preference based on post investment experience. The study evaluated their preference which signified a strong intention either to re-invest or not to re-invest in Kenya, these can predict future country brand choices as well as level of investor retention.

### **Problem Statement**

In December 2014, Kenya made critical regulatory environment changes based on UNCTAD (2013) policy recommendations by establishing a one stop shop at Kenya Investment Authority to market and facilitate both local and foreign investors. Despite these changes, investors chose Ethiopia over Kenya and Ethiopia remained the largest recipient of FDI in East Africa, while Uganda increased FDI by 67% (UNCTAD, 2018). Foreign Direct Investment (FDI) inflows in Kenya declined by 18% in the year 2019, in the same year, Uganda increased FDI inflows by 20%. This implied that Kenya was losing its competitiveness in attracting FDI (UNCTAD, 2020). Kenya was still not attracting as much FDI in the region, in 2020, investors preferred Egypt, Nigeria, Republic of Congo and Ethiopia. In East Africa, Ethiopia accounted for more than a third of the FDI inflows, (UNCTAD, 2021). Kenya has not marketed and promoted itself efficiently, it suffers inadequate visibility, lacked presence in international investor source markets (Keninvest Authority, 2018). There is a gap on how IPAs can change investment facilitation strategies and the government had been focusing on investment promotion 80% by setting up IPAs, incentives and special economic zones more than facilitation and this is not sufficient (UNCTAD, 2017). Studies on brand choice in relation to marketing mix, brand equity have focused on consumer goods and not country marketing and country branding (Chattopadhyay, Shivani & Krishnan (2010), Gómez *et al.*( 2019), Njuguna *et al.* (2014) Taleghani and Almasi (2012) focused on the service industry, specifically insurance companies. Different studies on country marketing mix and country branding had led to contradicting findings, FutureBrand (2019)

conducted a study on country brand index and found quality of life and political stability to influence the decision to invest, to visit and to live in a country. The findings contradicted Papadopoulos *et al.* (2018) who found political instability not significant in FDI inflows. The regulatory environment has been tested by various studies as an independent variable and as a moderator in business performance, but has not been tested as a moderator between country marketing mix and country brand choice.

### **Objective of the Study**

To assess the moderating effect of the country's regulatory framework on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya

### **Hypothesis**

H<sub>0</sub>: Country regulatory environment has no significant moderating effect on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya.

### **Eclectic Theory of International Production**

The eclectic theory of international production, currently known as the eclectic paradigm was first put forward by Dunning (1976). The theory states that, the decision to produce internationally is determined by three perceived advantages, namely Ownership, Location and Internationalization Advantages (OLI advantages). This theory is also referred to as the OLI framework (Dunning, 2010). Ownership advantages are either competitive or monopolistic advantages that a firm will enjoy and are sufficient enough to compensate the cost of Foreign Direct Investment (FDI). These advantages are either ownership of income generating assets (property, rights, patents, brands, copyrights and trademarks), geographical diversification or transactional cost advantages. The choice of a specific country or location for foreign direct investment is determined by unique location factor endowment like factors of production, cost of transport or cost of labour. Government imposed restrictions creating market imperfections also determine location choice (Dunning, 1987). Based on the ownership advantage and the location advantages, the firm will make the decision to engage in FDI in manufacturing if internationalization advantage outweighs inter-firm non-equity agreements, franchise agreements, integration or mere patent rights. The decisions will be made in consideration of the host country's political and economic features (Dunning, 2000).

This theory has been extended to incorporate the Investment Development Path (IDP), acquiring a competitive advantage through non-equity alliances, patterns of trade, portfolio investment, e-commerce and relational assets. According to Dunning (1975, 1981, 1988, 1993), the IDP explains the changing attractiveness of a country based on its development curve. The First stage of pre-industrialization is where host country is not attractive enough for FDI. Depending on a country's strategy and policy to attract FDI, the host country location attractiveness increases with changes in FDI policies, legal system, infrastructure, transport, communication and business culture. The second stage is when the host country develops, local companies sprout with equal competitiveness, resources are constrained, labour is no longer affordable, and the market attractiveness to resource seeking FDI reduces. The third stage refers to the host country's economic maturity stage, where OLI advantages change, host country companies can now engage in outward FDI more than host country attracting inward FDI. This too depends on a host country's policies that make it attractive to both domestic investment and FDI. At the end stage of host country development, the inward and outward FDI fluctuates. Firms engage in FDI to explore complementarity (Dunning, 2010).

According to Dunning (1995), firms will engage in FDI to acquire competitive advantage like technological and marketing synergies from host country, its foreign competitors, suppliers or customers. This accounts for the rise in non-equity alliances for complementarity, hence strategic asset seeking FDI. Non-equity alliances focus on sub-contracting agreements, franchising agreements rather than acquisition or mergers. Dunning & Dillard, (1999), explains patterns of trade and portfolio investment as the decision to export goods, or to go and manufacture locally. E-commerce, relational assets- network, interconnectedness,

social capital, lack of terrorism, lack of crime, corruption and bribery are now important in choosing FDI location (Dunning, 2010).

This theory has been applied to various studies: Factors Determining Location Choice for Foreign Direct Investment in China by Yulong (2009), theory of foreign direct investment and corruption by Abotsi (2016), and important factors behind country choice by Marcus, Fjordgren, and Palmqvist (2008). This theory informs the current study. The OLI framework was utilized in choosing the key elements of a country marketing mix, the moderators and the mediator. "Ownership" in eclectic paradigm of international production can be likened to brand assets in marketing i.e. patents, rights, and trademarks which influence the brand equity of a product. These aspects influence the 'made in' aspects of a country brand, hence influencing Country Brand Equity. The location choice aspects comprise of natural resource endowment, infrastructure, labour costs, transport costs and any other cost benefit considerations (Dunning, 2010). These aspects can be likened to the physical evidence in marketing and country prices. The extension of the theory has emphasized on Investment Development Path (IDP) and the role of country strategy and policy in attracting FDI. This extension informs the role of FDI policies as key contributors to a country's regulatory environment.

### **Country Regulatory Environment and Country Brand Choice**

Government FDI policies create a market imperfection, policy can create unfavourable transaction costs. governments can impose trade barriers, quotas, tariffs leading to market imperfections hence discourage export market seeking FDI. Besides creating market imperfections, host country FDI policies are key determinants of country choice for FDI (Brewer, 1993). Brands operate in an external environment, likely to be affected by culture, and economic conditions. Economic, legal and political conditions are therefore likely to affect decision making. Elements of economic policies aimed at minimizing risks and cutting down on costs and non-discrimination is one of the ways of attracting FDI (Katalin, 2011).

Banga, (2003), conducted a quantitative study based on secondary data analysis of FDI inflows for the period 1980-2000 in South, East and South East Asia. A random effects model sampled 15 developing countries where findings indicated that tariff rates have a negative but significant effect on FDI. An increase in tariffs decreases FDI inflows, hence high tariff rates disadvantage countries. Although incentives have a positive effect on FDI inflows, this effect is not significant. The relaxation of entry restrictions and access ownerships has a positive significant effect on FDI inflows to host countries. Bilateral Investment Treaties (BITs) have a positive significant effect on FDI inflows in developed countries but the effects are insignificant in developing countries. The current study departs from this study by employing a cross-sectional survey research design. The study targets foreign investors in the manufacturing sector in Kenya. Country regulatory information is tested as a moderating variable.

Arbatli (2011) conducted a study on trade liberalization utilized secondary data from 1990-2008 using panel logistic regression analysis by dynamic partial adjustment model. The study found that an increase in tariff rates affects FDI inflows negatively, while a decrease in tariffs can result to an increase of FDI to GDP ratio. Fixed exchange rates were found to increase equilibrium of FDI inflows. Similarly, a floating exchange rate had a negative impact on FDI inflows but not statistically significant. The study concluded that stable exchange rate, lower tariffs and lower corporate income tax are statistically significant in attracting FDI, and that trade liberalization is one of the ways countries can attract FDI. This is achieved through trade policies that impose tariffs on manufactured goods. The current study adopted a cross-sectional survey research design. This study included other policies beyond trade, corporate income tax and exchange rates as indicators of the country's regulatory environment. The previous study was conducted in the Middle East, while the current study was conducted in Kenya, located in the East African region.

Kurul and Yalta (2017) conducted a study focusing on the relationship between institutional factors and FDI inflows among 113 developing countries. This study was a quantitative research, based on secondary data from 2002-2012 using dynamic panel estimation methodology. The ratio of FDI to GDP formed the dependent

variable, and institutional indicators composite index was the independent variable. The study findings indicated that Foreign Direct Investment (FDI) inflows depend on the type of institutional indicator. When a government effectively controls corruption, the rate of FDI inflows increases, which implies a positive significant effect. Supportive government policies are positively correlated with FDI inflows, while enhanced accountability and advocacy have a positive significant correlation with FDI inflows. The study concluded that an increase in transparency, accountability, reduction of corruption, enhanced political systems, and improved effectiveness through reduction of bureaucracy can lead to improved FDI inflows in developing countries. The current study adopts cross-sectional survey research design. The study targets foreign investors in Kenya. The country's regulatory environment is tested as a moderator.

Alhnaity, Almuala and Elmasri (2018) conducted a study on the role of government as a moderating variable in business performance. The study targeted 2571 small businesses located in Jordan region. The study used a questionnaire with 5-point Likert scale. Data was analysed through structural equation modelling. Findings indicated that the relationship between entrepreneurial networks and small business owners decreased with increase in government intervention. This association was insignificant, which ruled out the moderation effect of government interventions (Alhnaity et al., 2018)(Alhnaity et al., 2018)(Alhnaity *et al.*, 2018). Among the studies reviewed, there are none that have tested the moderating effect of country regulatory environment on the relationship between country marketing mix and country brand choice. The current study makes a contribution to research by testing country regulatory environment as a moderator.

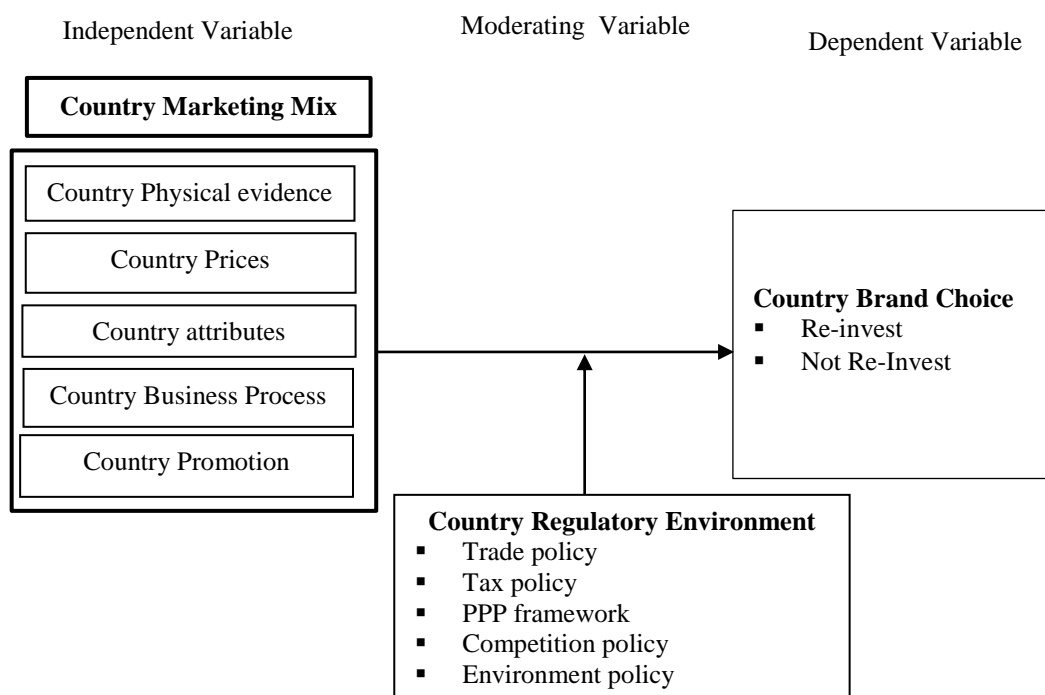
Boly, Coulibaly and Kéré (2019) conducted a study on corporate income tax and FDI. This study applied a quantitative research method based on secondary data from 1995-2012, sampled 19 countries, and used Dynamic Spatial Durbin Model (DSDM) to conduct spatial autocorrelation. Findings indicated that between 1990-2012, most countries reduced their corporate income tax rate, which increased FDI inflows. The study also indicated that an increase in FDI in one country created attractiveness for neighbouring countries, while a decrease in corporate income tax, increased FDI to GDP ratio in the host country both in the long run and short run. The study concludes that FDI inflows to Africa increase with decrease in corporate income tax rates. Findings support the use of tax incentives in attracting FDI. These findings are consistent with IMF (2014), which indicated that there is a strong correlation expressed between statutory, corporate income tax, effective tax rate and special tax regime. The study concluded that attracting FDI is a key policy mandate in developing countries, which manipulate their policies to attract FDI inflows. This study is limited because it uses corporate income tax alone as an indicator of tax policies, yet countries have different tax regimes beyond corporate income tax. The current study adopted a cross-sectional survey design, using stratified random sampling. The regulatory environment was tested as a moderator with tax as one of the indicators.

Baiashvili and Gattini (2020) conducted a study on institutional quality and FDI inflows. The study was a quantitative comparative study based on secondary data from 2000-2007 and 2008-2014 conducted in the Middle East. The study tested institutional quality as a mediator. Findings indicated that stable quality institutions, good laws, financial systems, government stability, and public private partnership policies, can play a key role in attracting FDI. However, country growth and development depend on the quality of institutions as opposed to FDI inflows. Analysis indicates that institutional quality mediates the relationship between FDI inflows and growth. Country income levels also affect institutional quality. There is a strong positive correlation between income levels and institutional quality, where the quality of institution is measured by levels of corruption, adherence to rule of laws, the quality of regulations, and the effectiveness of government. The study concludes that stronger rule of law, effective government, controlling corruption, regulatory quality, have a positive mediating effect on FDI, hence strong institutions attract FDI. The current study adopts a cross-sectional survey research design, in which primary data was collected using questionnaires. The study was conducted in Kenya.

Foreign Direct Investment (FDI) is now a policy concern, with countries striving to attract FDI due to its capital formation and potential to fill a country’s financial gap (Wekesa *et al.*, 2016). Legal and political conditions prevailing in a foreign market can hinder business. Laws governing advertising content, product, promotion, and distribution are different in every country (Saxena, 2012). Policies can either be used to attract FDI or to upgrade FDI or to enhance relationships. These policies are either industrial or macroeconomic policies, and policy strategies are either open door, partial open door, strategic targeted or restrictive (Velde, 2001). Different policies affect the FDI inflows. The trade policy, human resource policy, infrastructure policy, financial sector policy, competition policy, investment policy, cooperate governance and investment promotion policy of a country have an effect on FDI inflows (Beebeejaun, 2018). The introduction of privately-owned industries policy in Kenya led to an increase in FDI inflows in the manufacturing sector by 0.09%, even though this was insignificant on economic growth. The country needs to improve the policies that hinder FDI, and strive to improve political will and fight corruption in order to attract more FDI and build foreign investor confidence (Gachunga, 2019).

### Conceptual Framework

Figure 1 is a framework developed from various constructs in country marketing mix, country regulatory environment and country brand choice. Country marketing mix is the independent composite variable, it comprises of 5 elements (country business processes, country attributes, country physical evidence, country prices and country promotion). The country marketing mix composite variable can also influence the country brand choice. Besides the direct relationship, In hypothesis 7, the model indicates that the relationship between country marketing mix and country brand choice can be moderated directly by external factors referred to as country regulatory environment.



**Figure 1: Conceptual Framework Source: Author (2022)**

### METHODOLOGY

This study was guided by positivism research philosophy. Positivism is independent of the observer’s views. The study focused on observable measurable facts, finding causal relationships, creating theories, laws and generalizations about country marketing mix and country brand choice which can be used to predict the future choice of countries for foreign direct investment. It involved the use of existing theories and models of marketing mix, brand equity and brand choice and development of hypothesis and testing. Where theories

don't exist, researcher can still gather facts and the researcher remains neutral (Saunders, Lewis & Thornhill, 2009). This study adapted both descriptive and explanatory research design. The explanatory design was utilized in testing for the relationship between country marketing mix and country brand choice, the explanatory design explains causal relationships between country marketing mix variables and country brand choice. This design was chosen because it allows quantitative data analysis and relationships between variables are tested through hypothesis (Saunders *et al.*, 2009). Quantitative approach involved hypotheses testing and factor analysis (Kothari, 2004).

**Empirical Model**

Country brand choice is binary in nature with two options either prefer or not prefer to reinvest in Kenya or to recommend Kenya. The study adapts the general equation for multinomial logistic regression.

$$\hat{p} = \frac{\exp(b_0 + b_1X_1 + b_2X_2 + \dots + b_pX_p)}{1 + \exp(b_0 + b_1X_1 + b_2X_2 + \dots + b_pX_p)} \dots\dots\dots 1$$

- Where P = the expected probability of the outcome
- X<sub>1</sub>-X<sub>p</sub> = the dependent variables
- b<sub>0</sub>= constant
- b<sub>1</sub>-b<sub>p</sub> = logistic regression coefficients.

The probability of an outcome is calculated by calculating the probability of the event happening divided by the probability of the event not happening. Therefore

$$\ln\left(\frac{\hat{p}}{(1-\hat{p})}\right) = b_0 + b_1X_1 + b_2X_2 + \dots + b_pX_p \dots\dots\dots 2$$

Country Brand Choice is a dependent Dummy variable denoted by 1 meaning preferring to re-invest in Kenya and 0 meaning not preferring to re-invest in Kenya. This implies that the analysis followed the Multinomial Logit Model. The odds ratio was used to calculate the probability of investors choosing Kenya over other countries as  $\frac{CBCi}{1-CBCi}$ . i.e probability of re-investing in Kenya divide by probability of not re-investing in Kenya is denoted by Ki thus the direct equation.

Country brand equity is hypothesized to mediate the relationship between the composite variable country marketing mix and country brand choice. The composite variable of country marketing mix elements (P<sub>1</sub>-P<sub>5</sub>) is be computed by weighted mean formula (Gupta 2008).

Where the Country Marketing Mix (CMM) is given by 3

$$\bar{x}_w = \frac{\sum_{i=1}^n (w_i x_i)}{\sum_{i=1}^n (w_i)} \dots\dots\dots 3$$

- $\bar{X}_w$  is the weighted mean variable
- w<sub>i</sub> is the allocated weighted value
- x<sub>i</sub> is the observed value

- CMM= Composite variable Country marketing mix weights based on indicators per variable
- P<sub>1</sub>= 6
- P<sub>2</sub>= 9
- P<sub>3</sub>= 8
- P<sub>4</sub>= 5
- P<sub>5</sub>= 6



**Moderation**

Moderation was presumed to take place at different points. The study tests the direct effect moderation where the relationship between country marketing mix and country brand choice is directly moderated by country regulatory environment.

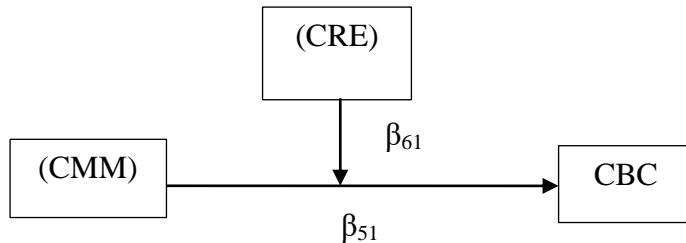


Figure 2: Test for Moderation

Source: Author (2021)

Test for direct moderating effect of Country Regulatory Environment on the relationship between country marketing mix and country brand choice.

$$\ln \left( \frac{Ki}{1-Ki} \right) = \text{pr} (\text{CBC}_i = \beta_{50} + \beta_{51}\text{CMM} + \varepsilon \dots\dots\dots 4$$

$$\ln \left( \frac{Ki}{1-Ki} \right) = \text{pr} (\text{CBC}_i = \beta_{60} + \beta_{61}\text{CMM} + \beta_{62}\text{CRE} + \beta_{63}\text{CMM}.\text{CRE} + \varepsilon \dots\dots\dots 5$$

Where

CRE= Country regulatory environment

CMM.CRE = the interaction term between country marketing mix and country regulatory environment.

$\beta_{50}$  and  $\beta_{60}$  = regression intercepts

$\beta_{261}, \beta_{62}, \beta_{63}$  = regression coefficients

CMM= Country Marketing Mix composite index

$\varepsilon$  = County regulatory environment error term

**Target Population**

The study targeted a total of 1,038 investors in foreign companies registered in Kenya between 2015 and 2020. This was the period of critical regulatory environment changes after UNCTAD (2013) policy recommendation and period after December 2014 launch of the one stop shop at Kenya Investment Authority to facilitate investors. Investors who invested in Kenya before 2015 and those after 2020 were not considered. The period after 2021 was the peak of Covid-19 pandemic and was not considered for study. United Kingdom, Netherlands, United States, France, Germany were the main countries contributing to FDI inflows to Kenya. Other sources of FDI were India, south Africa and China (IFC, 2019).

**Table 1: Target Population**

Year of Registration	No, of companies
2020	182
2019	145
2018	171
2017	182
2016	146
2015	212
Total	1,038

Source: BRS (2020)

### Sample Size and Sampling Technique

The sample was obtained based on Cochran’s sample size formula for categorical data (Bartlett II et al., 2001) (Using the formula

$$n_o = \frac{t^2 * (p)(q)}{d^2}$$

$$= \frac{(1.96)^2(0.5)(0.5)}{(0.05)^2} = \frac{(3.8416)(0.25)}{(0.05)^2} = 384.16$$

Where  $t$  = Margin of error alpha .025 in each tail = 1.96

Where  $n_o$  = required return sample size.

Where  $p$  = maximum possible proportion = 50% = 0.5

Where  $q$  = 1- maximum possible proportion (1-p)

Where  $d$  = acceptable margin of error for categorical data =0.05

Substituting the formula

This sample exceeded the minimum required sample size of 5% of the population. The sample was then adjusted using the formula

$$n_i = \frac{n_o}{1 + n_o / \text{population}} = \frac{384}{1 + 384/753} = 254.3$$

where  $n_i$  is the adjusted sample size = 254

The study adopted stratified sampling. Stratified sampling is used where there is great variation in population (Taherdoost, 2016). In this case, the period of coming to Kenya and the number of years an investor has stayed in Kenya was likely to influence their perception and choices over time. To achieve a homogeneous sample, the year of entry into Kenya forms a stratum. The years 2015, 2016, 2017, 2018, 2019, 2020 were considered. The sample proportion per year was determined by dividing the number of companies per year by the total number of companies multiplied by the calculated sample size  $S$ . Using the formula  $S_i = Pt * S$ .

Pt (Proportion) = Number of companies per year divided by total number of companies

**Table 2: Distribution of Sample Size**

Year	No. of registered companies	Proportion (Pt)	Sample Size ( $S_i$ )
2020	182	17.5%	44
2019	145	13.9%	35
2018	171	16.4%	42
2017	182	17.5%	45
2016	146	14%	36
2015	212	20.4%	52
<b>Total</b>	<b>1,038</b>	<b>100%</b>	<b>254</b>

Source Author (2021)

## Data Collection Method

The study focused mainly on primary data targeting company directors and equivalent representatives within the country. The data was collected using closed ended questionnaire. This method of data collection allowed the researcher to reach many respondents, collect more reliable information within a short period of time. The data collected was real time and independent of researchers influence in responses. Data was collected using a structured pre-coded questionnaire. The questionnaire was administered personally by the researcher. Due to covid-19 restrictions, some respondents who were not reachable physically, were emailed the questionnaire. An email reminder was sent to them to fill the questionnaire and send back to the researcher. The data was collected in February 2022.

## Data Analysis and Presentation

Both inferential and descriptive statistics were analysed using Statistical Packages for Social Sciences (SPSS) version 26. The descriptive statistics was used to determine the frequency of distributions, measure the central tendencies, and dispersion. The inferential statistics analysed the causal relationships between variables. Country Brand Choice is a binary variable, logistic regression was utilized. Country marketing mix was regressed against country brand choice, the odds ratio was used to calculate the probability of investors choosing to re-invest in Kenya over other countries as  $= \frac{CBCi}{1-CBCi} = Ki$  hence every element of the country marketing mix had a different effect on investors choice. The Ex ( $\beta$ ) coefficients of every element of the country marketing mix were obtained and interpreted. The Ex ( $\beta$ ) maximises the likelihood that an investor would either choose to re-invest in Kenya or other. The Nagelkerke 's  $R^2$  was used to explain the extent to which country marketing mix improved the predictability of country brand choice and the model specification. Country Brand Choice (CBC) is either directly related to County Marketing Mix or partially related. Barron and Kenny (1986) recommend a step-by-step analysis for moderation. Different steps were explored, the intercepts, the slopes, the direct and indirect effects were obtained.

## FINDINGS AND DISCUSSIONS

### Country Regulatory Environment

The study sought to determine the effect of country regulatory environment on the choice of a country for investment. The respondents were asked to rate specific regulatory indicators ranging from trade policy, tax policy, public, private partnership frameworks, competition policy, environment and investment protection policies. The respondents rated from a scale of 1-5, where 1 indicated not at all, 2- to a small extent, 3- moderate extent, 4- large extent, while 5 indicated a very large extent. The responses were analysed using the means and standard deviations as presented in Table 3.

**Table 3: Country Regulatory Environment**

Description	n	Mean	Std. Deviation
	Statistic	Statistic	Statistic
Kenya has a good trade policy	250	3.200	0.914
Kenya has a good tax policy	250	3.108	1.112
Kenya has good Public Private Partnership framework	250	3.312	1.041
Kenya has good competition policy	250	3.352	0.938
Kenya has good environment policy	250	3.396	0.896
Kenya has good policy on Treatment of investments	250	3.472	0.962
Kenya has good protection policy of investments	250	3.460	1.026
Aggregate mean score		3.329	0.984

**Source: Survey Data (2022)**

Findings from Table 3 indicated that all regulatory environment indicators were rated to be moderate. Ranging from trade policy 3.200, tax policy 3.108, public, private partnership frameworks 3.312, competition

policy 3.352, environment policy 3.396, treatment of investment 3.472, and investment protection policies 3.460 mean, all are rated moderate. Overall, country regulatory environment was rated to be moderate with an aggregate mean of 3.329, and a standard deviation of 0.984. The aggregate mean of 3.329, which is approximately 3 (moderate) on the adopted 5-point Likert scale, implies that respondents rated moderately the goodness of Kenya's regulatory environment. An overall standard deviation of 0.984 is within the acceptable range of +/-2 variability from the mean (Hassani *et al.*, 2010). This implies there was low variability of responses and respondents agree that Kenyans regulatory environment is moderate. All regulatory environment dimensions were rated to be moderate. Ranging from trade policy, tax policy, public, private partnership frameworks, competition policy, environment and investment protection policies. Overall, country regulatory environment is rated to be moderate

**Effect of Country Regulatory Environment on the relationship between Country Marketing Mix, and Country Brand Choice**

The objective was to assess the moderating effect of the country's regulatory framework on the relationship between country marketing mix and Country Brand Choice for foreign direct investment in Kenya. The corresponding null hypothesis stated that:

***H<sub>0</sub>; Country regulatory environment has no significant moderating effect on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya.***

This test follows step by step test by Baron and Kenny (1986). The relationship between composite variable country marketing mix and the relationship between country marketing mix, country regulatory environment, the and the relationship between country regulatory environment, the interaction term and country brand choice is assessed through 2 steps.

***Step 1: Relationship between Country Marketing Mix and Country Brand Choice***

This step tests the relationship between country marketing mix and country brand choice, before testing for moderation effect. The accuracy by chance classification table indicated that the overall percentage accuracy of the expected model is 94.4%. An omnibus test was conducted to test the overall significance of all the variables. Findings indicated that the probability of the model Chi-square was 27.225, with a p-value less than 0.001, which is less than 0.05 significance level. Hence the variables are statistically significant. This finding indicates that there is a relationship between country marketing mix composite variable and country brand choice. The overall model is statistically significant  $X^2(1) = 27.225, p \leq 0.05$ . A model summary presents the Cox and Snell R<sup>2</sup> and Nagelkerke's R<sup>2</sup> for country marketing mix and country brand choice as indicated in Table 4.

**Table 4: H<sub>0</sub> Country Marketing mix and Brand Choice Model Summary**

Step	Model Summary		
	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	80.683 <sup>a</sup>	.103	.294

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

**Source: Survey Data (2022)**

Table 4, indicated that based on Nagelkerke R Square findings, of 0.294 which is less than 1, with a smaller -2likelihood value of 80.683<sup>a</sup> which indicates that the model is a good fit. The models also indicate a 29.4% improvement in the model likelihood of country marketing mix predicting country brand choice for foreign direct investment in Kenya over the null model. Hosmer and Lemeshow test findings indicate a p-value of 0.103 which is greater than 0.05 significance level. This implies that the model is a good fit. An actual accuracy classification table was computed, the accuracy increased to 96.4%, with 100% specificity and 35.7% sensitivity. The model predicts country brand choice correctly by 96.4%.

The probabilities of Wald statistic were computed to determine the logistic equation Beta coefficients of each variable and statistical significance the variable country marketing mix in relation to country brand choice. A p-value of less than 0.05 indicates a significant direct relationship based on Table 5 and equation 6.

$$\ln \left( \frac{Ki}{1-Ki} \right) = \text{pr} (\text{CBC}_i = \beta_{10} + \beta_{11} \text{CMM} + \varepsilon \dots\dots\dots 6$$

**Table 5: H<sub>06</sub> Variables in the Equation-Step 1 mediation**

		Variables in the Equation						
		B	S.E.	Wald	df	Sig.	Exp(B)	
Step	Country Marketing Mix	2.163		0.468	21.365	1	0.000	8.701
1 <sup>a</sup>	Constant	-3.859		1.340	8.290	1	0.004	0.021

a. Variable(s) entered on step 1: Country Marketing Mix.

**Source: Survey Data (2022)**

Findings in Table 5 indicated that country marketing mix is a significant independent predictor of country brand choice with  $\beta=2.163$ ,  $SE=0.468$ ,  $p= 0.000<0.05$  level of significance. The standard error  $SE=0.468$ , is less than 2, indicating no case of multicollinearity. The Exp (B) 8.701 indicates that the probability of an investor choosing Kenya is equal to 1 and it is eight times (8.701) likely to happen if the country improves its country marketing mix by one unit. The standard errors indicate no multicollinearity with all independent variables having SE less than 2. Therefore, the study concludes that there is a statistically significant relationship between country marketing mix and country brand choice, and that country marketing mix has a significant effect on country brand choice for foreign direct investment in Kenya. The study concludes that country marketing mix has a significant effect on country brand choice for foreign direct investment in Kenya.

$$\ln \left( \frac{Ki}{1-Ki} \right) = \text{pr} (\text{CBC}_i = -3.859_{\beta_{10}} + 2.163_{\beta_{11}} \text{CMM} + \varepsilon \quad \text{p-value } 0.000. \leq 0.05.$$

**Step 2: Relationship between Country Marketing Mix and Country Regulatory Environment and Country Branchoice**

This step tests for moderating effect of country regulatory environment on the relationship between country marketing mix and country brand choice. The accuracy by chance classification table indicates that the overall percentage accuracy of the expected model is 94.4% . An omnibus test was conducted to test the overall significance of all the variables in the model. Findings indicate that the probability of the model Chi-square is 39.554, with a p-value less than 0.001, which is less 0.05 significance level. Hence the model is statistically significant. This finding indicates that there is a relationship between country marketing mix, country regulatory environment, the interaction term and country brand choice. The overall model is statistically significant represented as  $X^2(3) = 39.554, P \leq 0.05$ .

A model summary presents Cox and Snell R<sup>2</sup> and Nagelkerke's R<sup>2</sup> as 14.6% and 41.7% respectively as indicated in Table 6.

**Table 6: H<sub>07</sub> Count Model Summary-Moderation**

Model Summary			
Step	-2 Log likelihood	Cox & Snell R Square	Nagelkerke R Square
1	68.354 <sup>a</sup>	0.146	0.417

a. Estimation terminated at iteration number 7 because parameter estimates changed by less than .001.

**Source: Survey Data (2022)**

Table 6 indicated Nagelkerke R Square findings, of 0.417 which is less than 1, with a smaller -2likelihood value of 68.354<sup>a</sup> which indicates that the model is a good fit. The models also indicate a 41.7% improvement in the country marketing mix, country regulatory environment model likelihood in predicting country brand choice for foreign direct investment in Kenya over the null model. The Hosmer and Lemeshow test findings indicate a p-value of 0.148 which is greater than p-value 0.05. This implies that the model is a good fit. An actual accuracy classification table was computed, the accuracy increased to 96.4% with 99.6% specificity and 42.9% sensitivity. The model predicts country brand choice correctly by 96.4%.

The probabilities of Wald statistic were computed to determine the logistic equation Beta coefficients and statistical significance of country marketing mix (CMM) country regulatory environment (CRE), interactive term (CMM.CRE) in relation to country brand choice. A p-value of less than 0.05 indicates a significant relationship as indicated in Table 7.

**Table 7: H<sub>0</sub> Variables in the Equation Moderation**

		Variables in the Equation					
		B	S.E.	Wald	df	Sig.	Exp(B)
Step 1 <sup>a</sup>	Country Marketing Mix	3.847	1.408	7.469	1	.006	46.850
	Country Regulatory Environment	6.453	2.186	8.712	1	.003	634.451
	CMM.CRE	-1.414	.550	6.616	1	.010	0.243
	Constant	-	4.581	9.638	1	.002	0.000
		14.221					

a. Variable(s) entered on step 1: Country Marketing Mix, Country Regulatory Environment, CMM.CRE (Country Marketing Mix. Country Regulatory Environment)

**Source: Survey Data (2022)**

Findings in Table 7 indicated that country regulatory environment has a significant relationship with country brand choice with a p-value of 0.003 which is less than 0.05 level of significance with  $\beta=6.453$ ,  $SE=2.186$ ,  $p=.003 < 0.05$  level of significance. The Exp (B) 634.45 indicates that the probability of an investor choosing Kenya is equal to 1 and it is six hundred and thirty-four times (634.451) likely to happen if the country improves its regulatory environment by one unit. Therefore, the study concludes that there is a statistically significant relationship between country regulatory environment and country brand choice, and that country regulatory environment has a significant moderating effect on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya. The study rejects the null hypothesis (H<sub>07</sub>). These findings are consistent with the eclectic theory of international production, currently known as the eclectic paradigm was first put forward by Dunning (1976). The improved theory indicates that, depending on a country's strategy and policy to attract FDI, the host country location attractiveness increases with changes in FDI policies, legal system, infrastructure, transport, communication and business culture. A host country's policies that make it attractive to both domestic investment and FDI. At the end stage of host country development, the inward and outward FDI fluctuates. Firms engage in FDI to explore complementarity (Dunning, 2010).

Both country marketing mix and country regulatory environment are statistically significant with p-value 0.006 and 0.003 respectively, which is less than 0.05 significance level. The interaction term between country marketing mix and country regulatory environment is significant, with p-value 0.01 which is less than 0.05 significance level with a negative B coefficient of (-1.414). This indicates that unfavourable regulatory environment moderates the effect of marketing negatively. An increase in unfavourable environment will result in the decrease of the likelihood that a country will be chosen of foreign direct investment. This finding is consistent with Boly, Coulibaly and Kéré (2019) who concluded that FDI inflows to Africa increase with

decrease in corporate income tax rates. Findings support the use of tax incentives in attracting FDI. These findings are also consistent with IMF (2014), which indicated that there is a strong correlation expressed between statutory, corporate income tax, effective tax rate and special tax regime and FDI inflows. The study concluded that attracting FDI is a key policy mandate in developing countries, which manipulate their policies to attract FDI inflows. These finding contradicts Alhnaity, Almuala and Elmasri (2018) whose findings indicated that the relationship between entrepreneurial networks and small business owners decreased with increase in government intervention. This association was insignificant, which ruled out the moderation effect of government interventions.

## CONCLUSIONS AND RECOMMENDATIONS

The study concluded that an increase in favourable country regulatory environment results in an increase in likelihood that an investor will choose a country for Foreign Direct Investment (FDI). Therefore, the study concludes that there is a statistically significant relationship between country regulatory environment and country brand choice, and that country regulatory environment has a significant moderating effect on the relationship between country marketing mix and country brand choice for foreign direct investment in Kenya. Unfavourable regulatory environment moderates the effect of marketing efforts negatively. An increase in unfavourable environment will result in the decrease of the likelihood that a country will be chosen of foreign direct investment. All regulatory environment dimensions were rated moderate with overall country regulatory environment affecting the choice of Kenya as an investment destination moderately. The policy makers should strive to improve investment policies like trade policy, tax policy, public, private partnership frameworks, competition policy, environment and investment protection policies in order to improve the likelihood that Kenya will be chosen for foreign direct investment among other countries.

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