

Sustainable tourism industry development in Africa: Employment and knowledge transfer by foreign hotels

Abstract

Foreign investment in the tourism industry is often considered important in stimulating sustainable development in developing countries. However, evidence concerning the development consequences of FDI for host countries continues to be ambiguous, and it is not clear what kinds of FDI contribute most to a sustainable tourism industry. This paper addresses the host country consequences of foreign investment in hotels, focusing on the social (employment) dimension of sustainability. Combining qualitative and quantitative analysis using data from interviews with managers of 124 foreign and locally-owned hotels in Mozambique, Tanzania, and Ethiopia, we explore how ownership mode, hotel class and the use of expat managers influence the employment consequences of foreign investment.

Keywords: International hotel industry; foreign direct investment; employment; knowledge transfer; sustainable development; services; pro-poor tourism; Africa

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1. INTRODUCTION

Foreign direct investment (FDI) in the tourism industry is increasingly considered to be an important stimulus for social and economic development – both vital for sustainable development - in developing and least developed countries (UNCTAD, 2007). By bringing in capital, knowledge and other resources, foreign firms can help build up and expand the local tourist industry. In particular tourist accommodations – i.e. hotels - could help to generate additional foreign exchange and – most importantly – jobs, including employment for women and marginalized groups (De Kadt, 1979; Cukier, 2002, ILO, 2002). It is primarily this effect for employment that induced the United Nations (UN) to identify tourism as a means in the ‘war on poverty’, and to give the sector in a key role in achieving the Millennium Development Goals (UNWTO, 2005).

Yet the impact of FDI in the hotel industry on employment in host countries is sometimes questioned. Employment may be seasonal and involve menial rather than skilled jobs, and wages are low (Young, 1973; Farver, 1984; Baum, 1993). Moreover, the international hotels in developing countries are usually managed by expatriates, which would strengthen foreign dominance in the tourist sector, and reproduce rather than change existing power relations and

inequality (Mowford and Munt, 2003). Overall, empirical evidence concerning the consequences of FDI in the hotel industry is both scant and ambiguous (UNCTAD, 2007).

The uncertainty about effects of the international hotel business in developing countries reflects the broader academic debate concerning the social and economic development consequences of FDI for host countries. Literature reviews by e.g. Caves (1996) and Meyer (2004) indicate that despite the extensive research in this area, conclusive answers on the extent to which foreign direct investment benefits economic growth and employment in host countries have not yet been given. The consequences of FDI appear to be dependent on host country conditions (cf. Rodrik, 1999; Alfaro et al., 2004; Balasubramanyam et al., 1996; Borensztein et al., 1998), and recent research suggest that also firm characteristics influence the consequence of FDI (Kearns and Ruane, 2001; Egelhoff et al., 2000; Takii, 2004; Fortanier, 2007), although the exact way in which such characteristics influence, among other things, employment and knowledge transfer still requires more systematic study.

This paper aims to contribute to our understanding of how FDI affects employment in host countries. We focus on the countries where the problems of development are strongest: those in Sub-Saharan Africa. These countries have received relatively little attention in research on the consequences of FDI compared to for example the emerging markets in Asia and Latin America, but FDI/GDP ratio's in many of the Sub-Saharan African countries are higher than the global average (UNCTAD, 2008). Much of this foreign investment is still oriented towards extractive industries, but tourism plays an increasingly larger role (UNCTAD, 2007). We use detailed interview data for 123 hotels in three sub-Saharan African countries: Mozambique, Tanzania, and Ethiopia. The use of interview data and the focus on an individual service sector (i.e. hotels) will allow us to explore in detail the workings and employment consequences of international business in services. With respect to the foreign firm characteristics, we focus on hotel class (low

versus high-end); the mode of operation (including non-equity modes, and ‘stand-alone’ foreign firms set up and operated by emigrated foreigners); and the use of expat managers. Similarly, the employment consequences of foreign investment go beyond direct employment creation, and also include human capital building via training, and labour migration, through which firm-specific knowledge may be transferred to other (local) firms. The interview data further allow us to explore reasons behind certain decisions and strategies, while the number of observations is substantial enough for some basic quantitative analysis.

In the remainder of this paper, we first give a brief overview of the particularities of international hotel industry, including its (potential) role in sustainable development. Subsequently, we review the literature on the employment effects of multinationals, and develop a number of hypotheses on how hotel characteristics including extent of foreign ownership, size, class, ownership mode, and use of expatriate managers may influence the consequences of these hotels for employment. The methodological section explains the data collection and research design, whereas the findings are discussed in section six. The final section concludes.

2. HOTELS, SUSTAINABLE DEVELOPMENT, AND FDI

2.1 Tourism and sustainable development

Tourism is often promoted as a job machine (Cukier, 2002; ILO, 2001; Görg, 2000). According to the ILO, the direct employment in (primarily) hotels and restaurants accounted for around three per cent of total employment worldwide. This share is higher in rural areas with little alternative employment opportunities (e.g. in remote wildlife areas), or in small island economies, such as Mauritius and Barbados, where direct employment in the hospitality sector accounts for approximately 10 per cent of total employment (ILO, 2001, p. 48). At the same time,

the quality of jobs and their contribution to economic development is often disputed because of their seasonality, and their servile and low-skilled nature. Also the wages that are paid to especially the lower-ranked employees are sometimes questioned. For example, the ILO established that wages at hotel chains are on average 20 percent below those in other economic sectors (ILO, 2001, p. 121).

Yet advocates of “pro-poor tourism” emphasize that in the context of poverty alleviation, tourism is more relevant than other economic sectors, because it can be labour-intensive, inclusive to marginalized people (e.g. women) and suitable for rural areas with few alternative options for economic development. Even when the numbers of people employed in the sector are relatively low and involve primarily the more skilled persons, the collective income and other livelihood benefits throughout communities can make tourism significant to local poverty reduction (Ashley and Roe, 2002). Other jobs (agriculture, fishing) often pay worse and are physically more demanding, while seasonal or part-time jobs are also attractive in economies where multiple employments prevails (Cukier, 2002). This would explain why almost all employment opportunities associated with tourism in developing countries are highly prized by local residents (Sinclair, 1998, p. 31).

2.2 FDI in the tourism sector

FDI in the hotel sector towards developing countries has increased substantially in the past decades, reflecting the rising importance of services in total international investments (see e.g. Dunning and Kundu, 1995; UNCTAD, 2007). But despite its substantial international growth, the major hotel chains remain relatively modest in size and their degree of internationalization is also low compared to other industry sectors (Endo, 2006). For example, none of the major hotel

multinationals is included in the top 100 of non-financial MNEs, and most employment in the hotel sector is still created at domestically-owned accommodations: foreign-owned firms account for only 10 per cent of worldwide employment in the hotel and restaurants sector in the 1990s – a low proportion compared to most other industry sectors (UNCTAD, 2007).

However, the limited proportion of hotel FDI is slightly misleading since hotels primarily internationalize through non-equity modes, particularly in developing countries (Endo, 2006). The most popular non-equity mode is the management service agreement, under which the business is controlled and managed by a foreign firm, who is not the owner. Management contracts offer a hotel MNE *de facto* control and supervision over day-to-day operations, and secure reasonable proceeds, while avoiding the financial and political risks associated with the sunk costs of ownership. The alternative non-equity mode is the franchising agreement, which awards a local firm the right to do business in a prescribed manner under an existing brand name. This is a less common mode in least developed countries, because of the limited skills and experiences available in these countries (UNCTAD, 2007: pp. 38-39).

3. MNEs AND SUSTAINABLE DEVELOPMENT: THE EFFECTS OF FOREIGN HOTEL FIRMS ON THE QUALITY AND QUANTITY OF EMPLOYMENT

The combination of the potential of the hotel industry in least developed countries to contribute to sustainable development, and the growth of international investment in that sector (that due to the non-equity entry modes very likely underestimates the role of foreign hotels), begs the question to what extent FDI in the hotel sector could contribute to sustainable development in developing countries. More specifically, given that in particular the benefits for employment are

highlighted, to what extent FDI in the hotel sector could contribute to employment, both qualitatively (e.g. training) and quantitatively (number of people employed).

The existing literature identifies both quantitative and qualitative effects of FDI for employment. First of all, by setting up affiliates in host countries and hiring workers, MNEs directly influence employment, wages, and the labour conditions of their employees in these countries. Empirically, the studies on the effects of inward investment have generally indicated that foreign firms indeed create additional employment (see e.g. Driffield, 1999; Fu and Balasubramanyam, 2005; Görg, 2000; Radosevic *et al.*, 2003).

The positive effect of FDI for local employment is not merely a scale effect. There are indications that in the hotel sector, FDI has a higher potential to create employment than domestic firms, given that they often offer higher service levels (that require more staff per room. Research in six developing countries found that foreign accommodations had a staff to guest ratio of 8:1, which was far higher than, the 1:1 and 1:2 ratio reported for domestically owned accommodations. This difference appears particularly prominent in least developed and emerging tourism countries (UNCTAD, 2007, p. 66). Given that we study hotels in Tanzania, Mozambique and Ethiopia, we hypothesize:

H1a. Foreign hotels offer relatively more direct employment opportunities than locally-owned hotels.

Knowledge and training

In addition to these quantitative effects, MNEs are often also considered to offer higher quality jobs, given their size (and associated need for managerial capacity) and level of technology (Markusen, 1995; Smarzynska, 1999; Fortanier, 2008). This implies that MNEs on average pay higher wages (Lipseý and Sjöholm, 2004; Feenstra and Hanson, 1997; Aitken *et al.*, 1996) and

invest substantially more in training than local firms, hereby building human capital in developing countries. In the hotel industry, it is not so much the ‘hard’ technologies that are important, but rather the ‘soft’ technologies (Grosse, 1996) including management knowledge and know-how, knowledge of the industry and market, and service skills. Skilled staff is critical at all levels of the tourism chain. This implies that even jobs that are commonly labelled as ‘low-skilled’, such as cleaning and waiting, actually require high personal service standards, which are more difficult to meet if there is a wide gap between foreign hotel standards and local custom in least developed countries. Hence, we expect that knowledge and skills transfer is relevant for FDI in the hotel industry in developing countries. Hotel MNEs may serve as a source of up-standards tourism knowledge and skills that are transferred to local employees. UNCTAD (2007, p. 71) reports that although there are few studies in the hotel sector on this topic, the ‘general impression’ is that foreign hotels give training a higher priority and spend more on it than locally-owned hotels. We therefore expect:

H2a. Foreign hotels offer more opportunities for knowledge and skills transfer via training than locally-owned hotels.

Turnover

While bringing in new knowledge and training for their employees, and paying relatively high wages, MNEs can contribute to development in the host country. The higher-quality jobs that MNEs have to offer implies at the same time, however, that they seek to employ the most highly-skilled employees, often at the expense of locally-owned firms, effectively crowding out local firms from the labour market (Barry et al., 2005). In Tanzania for example, local hoteliers complained about the rapid turnover of staff whereas foreign hotels did not. This could be

explained by the policies of foreign hotels to attract local staff with higher salaries or additional benefits (UNCTAD, 2007, p. 68).

At the same time, turnover of employees is an important means through which managerial skills, and expertise on products or processes from MNEs can spread – intentionally or unintentionally – to host-country firms (Blomström et al., 1999). MNEs often try to prevent such labour migration that effectively dilutes their competitive edge over locally owned firms (Bloom, 1992; Pack, 1997; UNCTAD, 1999; Fosfuri *et al.*, 2001). Field studies in various developing countries have indicated that in the past, the presence of international hotels has assisted the development of an indigenous international hotel sector via knowledge and technology transfer (Dunning and McQueen, 1982, p. 88). It has been suggested that the higher wages paid by MNEs therefore not only reflect productivity differentials but also aim to prevent labour migration (Caves, 1996; Globerman et al., 1994)

Given the potentially active hiring practices of MNEs in combination with their interest to keep their own labour migration low, we expect:

H1c. Employee turnover in foreign hotels is lower than that at local hotels.

4. THE ROLE OF FIRM CHARACTERISTICS

The extent to which positive or negative employment effects from FDI actually occur is very likely not uniform across all contexts. In the study of the economic effects of FDI, the relevance of host country attributes is now firmly established (cf. Alfaro *et al.*, 2001; Görg and Strobl 2001; Borensztein *et al.*, 1998). The exact characteristics of the investments made have only recently been given empirical attention. A wide range of foreign investment characteristics that could potentially influence its employment effects has been identified (see e.g. Dunning, 1993; Lall, 1995). This section develops a number of detailed propositions regarding how three

characteristics of foreign hotels can affect the employment consequences of FDI: 1) hotel category (high versus low end); 2) ownership mode; and 3) human resource policy (use of expatriate management).

Hotel category

Hotels come in a variety of ranges, from low budget to high-end accommodation. High-end hotels have been shown to create more jobs than lower class hotels because they offer more services to their customers, such as a restaurant, fitness centre, pools, shops, guarded parking, and therefore have a higher staff to room ratio (cf. Cukier, 2002, pp. 170-171; Polo *et al*, 2006). Because of their higher service standards, high-end hotels would also require higher-skilled employees, which they attract with higher wages.

In terms of knowledge transfer and training, it can be expected that higher service standards of hotels offer more learning opportunities for employees than those of lower-class hotels. The effects may even be wider. For example, the Sheraton and Hilton hotels in Turkey were recognized as practical training institutions for the Turkish hotel industry until adequate hotel educational institutions were founded in the country (Kusluvan and Karamustafa, 2001, p. 182). Employees also prefer to work for a well-known hotel themselves, as that would improve their opportunities for future employment. UNCTAD (2007, p. 69) found that staff employed by higher end hotels in more mature tourism countries, such as Kenya and Sri Lanka, were demand by hotels in the Middle East, especially Dubai, while an other study reported that the senior management positions of the most popular holiday villages and five-star hotels are occupied by Turkish hoteliers who used to work for the Sheraton and Hilton hotels in Turkey (Kusluvan and Karamustafa, 2001, p. 182). We hypothesize:

H2a. Foreign investment in high-end accommodation creates more direct employment than investment in low-end accommodation.

H2b. Foreign investment in high-end accommodation generates more knowledge and skills spillovers than investment in low-end accommodation.

Ownership mode

Foreign hotels generally operate in host countries through one of the following four ownership modes: (a) wholly owned subsidiary; (b) joint venture, (c) management contract, and (d) franchising agreement. These four entry modes vary widely with respect to the degree of control exerted by the parent company, ranging from strong control (wholly-owned subsidiary) to control limited, codified strategic assets (franchise) (Contractor and Kundu, 1998). In addition, there are a large number of accommodations in developing countries that are owned by individual foreigners. Although strictly speaking, investment in such what we will from now on call ‘foreign stand alone’ hotels cannot be considered FDI if the owners also reside in the host country (UNCTAD, 2007, p. 15), it is a common and therefore relevant distinct ownership mode with a high level of foreign control, which also brings the foreign knowledge and (management) skills that are often associated with FDI.

When foreign hotels operate under a management or franchise agreement, local investors have more control over daily management and quality control compared to equity-based modes (Contractor and Kundu, 1998). We expect that such a larger local control will also show in the degree of local staff, due to better local networks. With respect to knowledge transfer, previous research suggests that joint ventures and licensing contracts tend to generate more spillovers than wholly owned subsidiaries (Dunning and McQueen, 1982; Takii, 2004), as the latter form is often intended as means to *prevent* dissipation of technological advantages (Markusen, 2001; Saggi,

1996) (although Grosse (1996), in one of the few studies on technology transfer in the services sector including hotels, found the opposite result). The effects of technology transfer via management contracts are likely to be small, due to the relatively limited amount of knowledge brought into such a contract (compared to other modes). Small spillovers may also be expected from foreign, freestanding accommodations on the ground that these are small enterprises with one owner/manager, who has few incentives to codify and transfer his/her knowledge. We hypothesise:

H3a. Foreign hotels, operating through management or franchising agreements create more direct employment than wholly owned subsidiaries, or stand-alone foreign accommodations.

H3b. Foreign hotels, operating through franchising agreements, generate more knowledge transfer than wholly owned subsidiaries or stand-alone foreign accommodations.

HR policy – expatriate use

The use of expatriates in higher management, usually the general manager and chef, is commonplace in foreign hotels in developing countries (Cukier, 2002; UNCTAD, 2007), and has often been disputed in the context of income leakage, foreign domination, and limited skills transfer (Ankomah, 1991; Farver, 1984; Dieke, 1991; Kusluvan and Karamustafa, 2001). In least developed, and emerging tourism countries, such as Tanzania, the share of expatriates is higher than in more mature tourism countries, such as Kenya (UNCTAD, 2007). This finding confirms the observation that in developing countries, the employment of expats has decreased over time

as these countries have followed policies of indigenization. In Kenya, local residents now fill almost all of the top positions in tourism (Sinclair, 1998, p.31).

Expatriates are predominantly used in hotel chains for knowledge transfer and subsidiary control (Shay and Baack, 2004), and have been used as a measure for the extent of knowledge exchange from the foreign MNE parent to a subsidiary (Grosse, 1996). By definition, the use of expat managers reduces the number of local employees in managerial positions, thereby negatively affecting (high quality) employment creation. At the same time, the presence of expatriates increases the stock of knowledge and managerial expertise at the foreign hotel, thus increasing the potential for knowledge transfer to local firms. We propose:

H4a. Foreign hotels that use a high share of expatriate managers create less direct employment among locals than hotels that use a low share of expatriate managers.

H4b. Foreign hotels that use a high share of expatriate managers transfer more knowledge than hotels that use a low share of expatriate managers.

4. METHODS AND DATA

4.1 Data collection

Our hypotheses are tested using data from a sample of 123 hotels in three Sub-Saharan African countries: Mozambique, Tanzania, and Ethiopia. All these countries are classified as Low Income Countries (GNI per capita of US\$ 825 or less) (Worldbank, 2005), where investment in tourism accommodations could potentially have a high impact on employment.

The absence of a history in the tourism services industry is reflected in the limited number of multinational hotel chains that has a presence in this part of East Africa, particularly in Ethiopia.

In order to efficiently include a substantial number of foreign-owned or foreign managed hotels, our sampling strategy targeted hotels that (a) had international involvement, or (b) served the higher market segment, and (c) were located in or nearby the country's capital or another major city. This resulted in a sample of 35 hotels in Mozambique (near Maputo, Inhambane and Vilanculos), 60 in Tanzania (near Dar es Salaam and Arusha), and 28 in Ethiopia (near Addis Ababa and Awassa).

Interviews were conducted in the period from July 2006 to December 2007. The interviews included a mix of semi-structured, open-ended questions and closed questions, and on average took 2 hours. Most interviews were conducted with the hotel's general manager. Both the hotel selection and interviewing were supported by local tourism advisors of *SNV-Netherlands Development Organization*, and in Tanzania also by the *Hotel Association of Tanzania* (HAT). Closed-ended questions were filled out on the interview form during the interview (like in a face-to-face administered questionnaire). Interviews were not recorded, but transcriptions of the interview including additional notes and comments by the interviewer were generally made on the same day of the interview, so that as much information was maintained for the open-ended questions further analysis. The open-ended questions were coded by the two researchers by first jointly identifying the key answer categories (variables) from the interview transcripts. The qualitative answers were subsequently coded by one of the researchers, and then checked by the second.

4.2 Dependent variables: employment effects

Direct employment

The direct employment impact of foreign hotel firms was measured by two different variables. First, the total number of staff hired by the hotel, and second, the staff per bed ratio (dividing the

number of staff by the total number of beds in the hotel). The information for these variables was obtained in the interviews via closed questions.

In addition, we asked for the barriers perceived by hotels for hiring local people in an open-ended question. After reading through all the answers in the interview transcript, the two main researchers jointly identified three key answer categories that were commonly mentioned: a) lack of skills, b) lack of knowledge of the English language, and c) improper work attitude (e.g., slacking, coming late for work).

Knowledge transfer: training

In the interviews we asked general managers about the training they provide to both new and current employees using open ended questions that were recoded following the process described above into two binary variables. First of all, *on the job training*, often internally provided on a regular basis by the manager or supervisor, and involving basic skills. Second, a substantial number of hotels also provided more *advanced training*, on e.g. particular topics or involving external experts.

Knowledge transfer: turnover

Employee turnover was measured by the average number of staff (excluding supervisors and managers) left each year in the past 3 years, divided by the total number of staff (ex supervisors and managers). This was measured using a closed question in the interview that required no additional coding from the researchers.

Employee turnover does not automatically imply knowledge transfer. For example, in our sample it proved quite common for employees to leave their jobs to get married, to attend to their families, or for other reasons that would not result in knowledge spilling over to locally-owned

hotels. The hotel managers were asked in an open question for the main reasons of employee turnover. Recoding resulted in four binary variables indicating any of the following was a reason for employee turnover at their hotel: (1) being fired; (2) move to another job (most interesting in the context of knowledge transfer), (3) other reasons of free will (e.g., marriage), and d) other circumstances (commonly, because sickness of themselves or family members).

4.2 Independent variables: hotel characteristics

The variables measuring the hotel characteristics (main effects and interaction effects) have been operationalized as follows:

The *foreignness* of hotels was measured as a binary variable based on the nationality of the firm in control of the management of the hotel, which, in the case of management and franchise contracts, is not the owner.

Information on *ownership modes* was classified in four different categories and included in the analysis as a set of dummy variables: (1) stand-alone foreign hotels (accommodations that are not part of an international enterprise or a chain of hotels, but did have a foreign owner); (2) foreign owned hotels (including wholly foreign owned subsidiaries from foreign hotel chains and the 6 joint venture between a foreign hotel chain and a local firm in our sample); (3) non-equity modes (including hotels that are operated via a management service agreement or as franchise); (4) locally owned hotels (hotels that were owned by local citizens).

Hotel class was determined by the rack rate of a standard double room, converted in US dollars.

The variable *Expat ratio* is measured as the ratio between the number of managers from outside the country to the total number of managers.

Finally, we used two control variables, including first, a set of dummy variables to control for the *country* in which the hotel was located (Mozambique, Ethiopia or Tanzania) and second, *hotel size*, measured by the number of beds.

Information on each of these variables was obtained from the interviews by using closed questions.

4.4 Model specification

Given the qualitative nature of the data, and the limited number of observations in our sample, we analyse this information first via some simple bivariate statistics (including correlation coefficients, t-tests), before moving on to the regression analysis. Our basic regression model is specified as follows:

$$Y_{ij} = \beta_{0j} + \beta_1 HotelSize_{ij} + \beta_2 Ownership_{ij} + \beta_3 HotelClass_{ij} + \beta_4 ExpatRatio_{ij} + \beta_5 INT_{ij} + \varepsilon_{ij}$$

where Y_{ij} can be any one of our employment measures, β_{0j} represents country-specific intercepts, and INT_{ij} represents varying interaction terms between foreign ownership and hotel class, expat ratio, and mode of ownership, respectfully.

For the dependent variables related to training, which are binary in nature, we moved to logistic regression models. We model the log of the odds-ratio that a hotel i in country j provides training to its employees as follows:

$$\log\left(\frac{prob(training_{ij})}{1 - prob(training_{ij})}\right) = \beta_{0j} + \beta_1 HotelSize_{ij} + \beta_2 Ownership_{ij} + \beta_3 HotelClass_{ij} + \beta_4 ExpatRatio_{ij} + \beta_5 INT_{ij}$$

Graphical inspection of the residual plots indicated that no heteroskedasticity was present in the variance of the residuals, and that therefore correction of the standard errors of the coefficients was not necessary. However, in most instances, 3 or 4 outliers (different ones for different dependent variables) were detected. The analyses below are for the models where outliers are excluded. In the overall majority of the cases, removing the outliers did not affect the coefficients. Multicollinearity did not pose a problem in any of the results reported below. The VIF statistics among the independent variables are very low (all below 2, except for sets of dummy variables and interaction terms).

5. EMPIRICAL ANALYSIS

Descriptive and bivariate statistics

Our sample of 123 hotels includes 67 foreign owned or operated firms, and 56 local hotels. Significant differences can be identified between the two groups on many of the dependent and independent variables. Tables 1 and 2 show that foreign owned hotels on average provide more on the job training but less advanced training compared to local firms. Turnover per year is higher for local hotels. Foreign hotels are on average larger in terms of number of beds, though not with respect to total staff or employee per bed. They are significantly higher class hotels, and also employ expatriate managers much more frequently than local hotels.

[Table 1 approximately here]

Table 2 shows that some of the independent variables are correlated: for example, larger hotels tend to be of a higher class and also have a higher proportion of expatriates amongst their

managers. None of the correlations displayed in table 2 is high enough to raise important worries regarding multicollinearity; which was confirmed by the VIF statistics.

[Table 2 approximately here]

Regression results: direct employment

The first set of regression results are displayed in table 3 and have the direct employment variables – $\log(\text{staff})$ and the employee per bed ratio – as their dependent variables. The results indicate that on average and controlling for the other variables, hotels in Mozambique are smaller than those in Tanzania or Ethiopia in terms of staff, and that also the employee-per-bed ratio is lower. The coefficient for size is in all regressions strong and significant, as to be expected, but its inclusion makes it possible to interpret the results for the key variables irrespective of size.

Controlling for all other variables in the model, we find do not find a significant differential effect of foreign ownership as compared to local ownership. This means that while foreign firms create employment because they are relatively larger and generally own higher-end hotels compared to local firms, they do not *by nature of their foreignness* have an additional effect on the quantity of employment beyond increasing the scale of the hotel sector. The employee-per-bed ratio is not higher for foreign-owned firms.

Also the inclusion of various interaction effects, that may separate out the MNEs most conducive to creating employment – as hypothesized, these include hotels active in the high-end, with lower expat ratios, and using non-equity modes of operation – did not result in significant findings. Even when allowing for the relatively small sample size, none of the t-values for the coefficients is high enough even to indicate a relationship.

[Table 3 approximately here]

Part of the relative reluctance of foreign hotels to employ relatively more employees than similar local firms (as hypothesized) may be due to the barriers they perceive for hiring local staff. As table 4 shows, foreign firms are significantly more likely than local firms to identify the lack of English and an unfavourable work attitude as barriers for hiring staff, compared to local firms.

[table 4 approximately here]

Regression results: training

Analysing the determinants of the propensity to offer training to their employees, both on the job and more advanced training, table 5 reports the outcomes of the logistic regression analysis. The results show first significant country differences for on the job training (though not for more advanced training), as indicated by the Wald test on the bottom line of the table. Especially in Mozambique, on the job training occurs less often. With respect to hotel size, we found no significant results for on the job training, but did find that larger hotels more often provided more advanced training compared to smaller ones. Though foreign ownership appears to be positively related to on the job training (model 1), this effect is primarily driven by hotel class (models 2-5). Controlling for the other variables in the model, the propensity to give on the job training at foreign hotel does not differ from that received in local firms

The second panel of table 5 shows that foreign owned firms are even *less* likely to provide advanced training, compared to similarly sized firms that are locally owned. Only in those foreign hotels where the expat ratio is high, do we see this effect reversed (model 4): foreign firms with high expat ratio's offer more advanced training, and thereby confirm our hypothesis.

Although the effects are not significant (but Wald statistics are reasonably high given the low sample size), the interaction with ownership mode does seem to suggest that compared to WOS, especially non-equity modes provide more advanced training. Both cases (high expat ratio, non-equity ownership modes) may be signs of a foreign firm strategy to train managers and supervisors.

[table 5 approximately here]

Regression results: turnover

Modelling turnover proved quite problematic, as shown in table 6. Very few factors could be found to significantly contribute to turnover. There are some indications (see Wald statistics below the coefficients, which are sometimes nearly significant) that larger firms, foreign owned firms, and firms with high expat ratios may experience lower turnover. Only when interacting ownership with class (model 5) do we find significant results: turnover decreases when firms are high-class and foreign owned, compared to high-class and locally owned.

[table 6 approximately here]

Turnover in itself is driven by many reasons. In our interviews, it was often mentioned that staff left because they were fired, or that people left more or less voluntarily to go back to school, get married, or to take care of relatives. It is especially turnover *to go to other jobs* that may enhance knowledge spillovers from MNEs, or that will show if MNEs are more successful in retaining their employees than local firms. When the reasons for employee turnover are included in the regression model (see table 7) we see first of all that there is a positive correlation between

turnover rate and the mentioning of firing employees and employees moving to other jobs (other free will or circumstances does not seem to increase turnover – this may occur more randomly among high-turnover and low-turnover firms). And in the second model, it becomes apparent that the interaction between ownership and turnover to other jobs is significant: overall shares of labour turnover for reasons of going to other jobs, are much lower for foreign firms than they are for domestic ones, confirming our hypothesis.

This echo's more detailed statements from the interviews. Especially in Mozambique, 'poaching' (or the active recruitment of the best employees of local firms) was frequently reported to take place by newly created (often foreign owned) hotels. The best employees of local hotels would go there as opportunities for employment and career were seen as much better in foreign hotels.

[table 7 approximately here]

6. CONCLUSIONS

This paper set out to explore the employment impact of investments by multinational enterprises in the hotel industry in least developed countries. The hotel sector in general, and its potential for employment in particular, is often considered to be an engine for stimulating sustainable development in developing economies. We considered the particularities of the tourism sector – in particular hotels - as well as the potential role of firm strategy in determining both the direct and indirect (knowledge transfer) employment consequences of FDI. We tested our hypotheses empirically in 123 hotels in three sub-Saharan countries (Tanzania, Mozambique and Ethiopia) in order to explore how MNE heterogeneity influences the effect of FDI on employment.

We decided to address our hypotheses using interview data, since these make it possible to analyse in-depth the specific dimensions of foreign direct investment and how it matters for host countries. We find that the simple scale effects of foreign hotels in the least developed countries we studied are positive: an increase in hotels creates more jobs, and in an environment where unemployment is high, and most of our interviewees reported to be regularly approached by prospective employees who will work for any salary possible, such job opportunities are most welcome. On a grander scale however, the consequences of foreign hotel investment that appeared from our research did not appear overly positive. Instead of employees moving from foreign to local firms, thereby taking with them the knowledge they gained from working for a foreign firm, foreign firms instead roam the labour market and attract (sometimes poach) the best staff from existing local hotels, and are subsequently better able to retain these employees compared to local hotels. The difference in training, where local hotels provide advanced training more often than foreign hotels, further supports this picture – though it may also reflect that training is not necessary for foreign firms anymore (as they have already highly skilled staff).

We expected to find substantial differences in the impact of foreign hotel firms based on their characteristics. While we did indeed find some evidence in that direction, most differences in impact of foreign firms stemmed primarily from composition effects: because foreign firms are different – i.e. larger, or more high-end – they have different effect for employment, but within the group of foreign firms, differences appear to be small: we found only limited evidence that e.g. foreign firms that use high shares of expat management provide more training

Of course, any study based on interview data is limited in sample size and context specific. Hence our results could be potentially more difficult to generalize than the results from studies using larger datasets. Further research may expand the scope of this paper by using the same interview protocol in more countries. The advantage would be that then also host country

characteristics can be analysed in more detail. The strongly significant results of the host country dummies in the analysis in this paper, as well as existing literature on the role of institutions in the context of sustainable development, indicate that this would be a rich area of further study. Alternatively, additional research in this area may use the survey method of data gathering. Larger sample sizes will make it easier to reliably identify smaller effects – including differential effects related to FDI characteristics - of MNEs in quantitative analyses, and thereby to contribute to our understanding of the role of FDI in sustainable development.

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Table 1. Differences in means between foreign (n=67) and local (n=56) hotels

	Foreign hotels	Local hotels	T-value
Total staff (log)	1.85	1.76	-1.29
Employee per bed	0.97	0.92	-0.31
Training – on the job (binary)	0.67	0.52	-1.74 *
Training – advanced (binary)	0.24	0.59	4.19 ***
Turnover (percent)	6.92	13.71	3.06 ***
Hotel class (rate in USD per double room)	176.44	58.25	-4.85 ***
Hotel size (nr of beds)	149.04	101.56	-2.05 **
Expat ratio (percent expat managers)	0.64	0.17	-7.37 ***

*** p< 0.01; ** p< 0.05; * p<0.10

Table 2. Descriptive statistics and correlation coefficients (n=123)

	Mean	St.d.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) Total staff (log)	1.81	.38	1.00							
(2) Employee per bed	.95	.73	0.18 ***	1.00						
(3) Training – on the job	.60	.49	0.26 ***	0.16 *	1.00					
(4) Training – advanced	.40	.49	0.11	-0.00	0.09	1.00				
(5) Turnover	9.70	11.87	-0.22 **	-0.01	-0.10	-0.01	1.00			
(6) Ownership (foreign=1)	.54	.50	0.12	0.03	0.16 *	-0.36 ***	-0.28 ***	1.00		
(7) Hotel class	122.19	145.96	0.28 ***	0.24 ***	0.34 ***	-0.11	-0.14	0.41 ***	1.000	
(8) Hotel size	127.64	128.92	0.72 ***	-0.26 ***	0.09	0.09	-0.19 **	0.18 **	0.22 **	1.000
(9) Expat ratio	.43	.42	0.11	0.07	0.16 *	-0.22 **	-0.24 **	0.56 ***	0.36 ***	0.15 *

*** p< 0.01; ** p< 0.05; * p<0.10

Table 3 Regression results: direct employment effects

	Number of staff (log)					Employee/bed ratio				
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
Constant	1.54 ***	1.52 ***	1.52 ***	1.52 ***	1.50 ***	1.08 ***	1.06 ***	1.05 ***	1.06 ***	1.02 ***
	32.17	32.25	31.72	32.11	30.16	10.97	11.95	11.86	11.85	10.72
Mozambique	-0.21 ***	-0.19 **	-0.19 **	-0.20 ***	-0.23 ***	-0.43 ***	-0.46 ***	-0.43 ***	-0.46 ***	-0.52 ***
	-2.88	-2.50	-2.54	-2.62	-2.83	-2.93	-3.20	-2.99	-3.15	-3.28
Tanzania	-0.01	-0.04	-0.04	-0.06	-0.10	-0.10	-0.29 **	-0.30 **	-0.29 **	-0.38 **
	-0.18	-0.64	-0.58	-0.92	-1.30	-0.77	-2.40	-2.46	-2.27	-2.49
Hotel size	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***	0.00 ***
	10.74	11.05	10.60	10.97	10.62	-3.25	-4.09	-4.04	-4.07	-4.17
Ownership (foreign=1)	0.06	0.01	0.04	0.06	0.10	0.23 **	0.00	-0.08	0.01	0.12
	1.16	0.24	0.57	0.79	1.16	2.21	0.01	-0.60	0.04	0.74
Hotel class		0.00 **	0.00 *	0.00 **	0.00 *		0.00 ***	0.00 ***	0.00 ***	0.00 *
		2.30	1.97	2.40	1.78		4.79	4.83	4.73	1.93
Expat ratio		0.00	0.00	0.08	0.00		0.15	0.13	0.16	0.15
		-0.02	0.06	0.73	-0.07		1.24	1.03	0.79	1.19
Mode: Standalone			-0.03					0.13		
			-0.39					0.99		
Mode: Non-equity			-0.06					0.09		
			-0.79					0.65		
Ownership * Expat ratio				-0.12					-0.01	
				-0.94					-0.05	
Ownership * Hotel class					0.00					0.00
					-1.31					-0.95
R ²	0.53	0.56	0.56	0.56	0.57	0.17	0.32	0.33	0.32	0.33
F	30.74 ***	22.51 ***	16.75 ***	19.41 ***	19.67 ***	5.74 ***	8.86 ***	6.72 ***	7.53 ***	7.72 ***

T-values below the coefficients.

*** p< 0.01; ** p< 0.05; * p<0.10

Table 4 Barriers for hiring local employees: differences between foreign and local firms

		N	Mean	T-value
Lack of skills	Local	56	59%	0.41
	Foreign	67	55%	
No English	Local	56	27%	-2.28 **
	Foreign	67	46%	
Work Attitude	Local	56	13%	-2.60 **
	Foreign	67	31%	

*** p< 0.01; ** p< 0.05; * p<0.10

Table 5. Logistic regression results - Training

	Training - on the job					Training - advanced				
	(1)	(2)	(3)	(4)	(5)	(1)	(2)	(3)	(4)	(5)
Constant	-0.49	-0.66	-0.74	-0.63	-0.49	0.55	0.51	0.54	0.58	0.29
	1.31	2.19	2.57	1.99	1.02	1.64	1.38	1.49	1.64	0.39
Mozambique	-1.41 *	-2.26 **	-2.37 **	-2.30 **	-2.03 **	-1.03	-1.02	-0.97	-0.80	-1.45 *
	3.43	5.23	5.41	4.95	3.92	2.43	1.97	1.75	1.12	3.18
Tanzania	1.70 ***	0.75	0.59	0.91	1.14	-0.96 *	-1.00	-1.04 *	-0.56	-1.57 **
	8.10	1.12	0.64	1.49	1.87	2.99	2.65	2.84	0.70	4.01
Hotel size	0.00	0.00	0.00	0.00	0.00	0.00 **	0.00 *	0.00 *	0.00 **	0.00 *
	0.01	0.23	0.13	0.23	0.14	4.04	3.45	3.11	4.15	3.02
Ownership (foreign=1)	1.31 **	0.60	0.26	0.25	-0.11	-1.28 ***	-1.35 **	-1.67 **	-2.64 ***	-0.57
	4.33	0.77	0.10	0.09	0.01	7.06	6.10	5.03	9.19	0.45
Hotel class		0.01 **	0.01 **	0.01 **	0.00		0.00	0.00	0.00	0.01
		4.53	5.12	4.54	0.13		0.22	0.38	0.05	1.55
Expat ratio		0.97	0.99	0.22	1.00		0.06	-0.02	-1.77	0.03
		1.31	1.33	0.03	1.36		0.01	0.00	2.53	0.00
Mode: Standalone			0.81					0.14		
			0.90					0.03		
Mode: Non-equity			-0.26					0.92		
			0.08					1.42		
Ownership * Expat ratio				1.25					3.15 **	
				0.61					4.83	
Ownership * Hotel class					0.01					-0.01
					0.83					1.39
Nagelkerke Pseudo R ²	0.38	0.45	0.46	0.46	0.46	0.22	0.21	0.22	0.26	0.22
Chi-square	40.23 ***	48.29 ***	49.58 ***	48.91 ***	49.10 ***	21.34 ***	19.77 ***	21.46 ***	25.29 ***	21.27 ***
Wald (country, 2df)	26.87 ***	16.66 ***	15.34 ***	15.20 ***	16.06 ***	3.29	2.83	2.93	1.14	4.20

Wald statistics below the coefficients.

*** p< 0.01; ** p< 0.05; * p<0.10

Table 6. Regression results: turnover

	(1)	(2)	(3)	(4)	(5)
Constant	17.11 ***	17.04 ***	17.05 ***	16.72 ***	15.07 ***
	6.39	6.29	6.25	6.17	5.37
Mozambique	-5.17	-4.34	-3.83	-5.29	-9.06 **
	-1.37	-1.05	-0.92	-1.27	-1.98
Tanzania	-3.18	-2.36	-2.67	-3.87	-8.42 *
	-0.94	-0.65	-0.73	-1.02	-1.87
Hotel size	-0.01	-0.01	-0.01	-0.01	-0.01
	-1.32	-1.30	-1.28	-1.37	-1.55
Ownership (foreign=1)	-4.57 *	-3.73	-5.83	-0.49	4.45
	-1.77	-1.28	-1.58	-0.13	0.95
Hotel class		0.00	0.00	0.00	0.09 **
		-0.16	0.17	-0.02	2.14
Expat ratio		-1.97	-2.61	4.56	-2.72
		-0.58	-0.74	0.77	-0.81
Mode: Standalone			3.14		
			0.87		
Mode: Non-equity			2.91		
			0.73		
Ownership * Expat ratio				-9.35	
				-1.34	
Ownership * Hotel class					-0.10 **
					-2.22
R ²	0.12	0.12	0.13	0.13	0.16
F	3.41 **	2.28 **	1.80 *	2.23 **	2.73 **

T-values below the coefficients.

*** p< 0.01; ** p< 0.05; * p<0.10

Table 7. Additional regression results

	(1)	(2)
Constant	2.74 ***	2.40 ***
	6.75	5.37
Mozambique	-0.64	-0.68
	-1.28	-1.38
Tanzania	-0.28	-0.23
	-0.59	-0.52
Hotel size	0.00 *	0.00 *
	-1.76	-1.80
Ownership (foreign=1)	-0.77 **	-0.05
	-2.13	-0.09
Hotel class	0.00	0.00
	-1.05	-0.84
Turnover reason: fired	1.03 ***	1.56 ***
	3.27	3.50
Turnover reason: other job	0.84 ***	1.18 **
	2.70	2.58
Turnover reason: other (free will)	0.19	
	0.59	
Turnover reason: other (circumstances)	0.19	
	0.59	
Ownership * Turnover reason: fired		-0.23
		-0.38
Ownership * Turnover reason: other job		-1.26 **
		-2.17
R ²	0.26	0.29
F	3.85 ***	4.47 ***

T-values below the coefficients.

*** p< 0.01; ** p< 0.05; * p<0.10