



TAX INCENTIVE MEDIATES FOREIGN DIRECT INVESTMENT DETERMINANTS AND HOTEL PERFORMANCE IN ARUSHA TANZANIA

Praygod Wilfred Chao¹ and Thereza Israel Mugobi (Ph.D.)²

¹Postgraduate Studies, Institute of Tax Administration (ITA), Tanzania.

Email: praygodchao@gmail.com

²Department of Geography, Tourism, and Hospitality Services,
The Open University of Tanzania.

Email: tmugobi@gmail.com

*Corresponding Author's Email: praygodchao@gmail.com

Cite this article:

Praygod W. C., Thereza I. M. (2024), Tax Incentive Mediates Foreign Direct Investment Determinants and Hotel Performance in Arusha Tanzania. *International Journal of Entrepreneurship and Business Innovation* 7(2), 244-258. DOI: 10.52589/IJEI-MO3HHJ3W

Manuscript History

Received: 27 Feb 2024

Accepted: 12 May 2024

Published: 17 Jun 2024

Copyright © 2024 The Author(s).

This is an Open Access article distributed under the terms of Creative Commons Attribution-NonCommercial-NoDerivatives 4.0 International (CC BY-NC-ND 4.0), which permits anyone to share, use, reproduce and redistribute in any medium, provided the original author and source are credited.

ABSTRACT: *This study seeks to explain the mediation effect of tax incentives on the relationship between ownership advantage (OWA), location advantage (LA), and internationalization (INT) factors determining Foreign direct investment (FDI) on hotel performance (HP). The study proposes the mediation model of tax incentives and FDI toward hotel performance in the Arusha region, of Tanzania. The proposed order of the model is that foreign direct investment depends on OWA, LA, and INT which may become applicable through tax incentives and tax incentives may further predict hotel performance. The measurement scale was borrowed from different studies and responded Includes hotel owners, managers, executive officers, and employees. Data were collected from August 2022 to February 2023; whereby 257 filled questionnaires were gathered and 236 were usable for further analysis. Final questionnaires were analyzed using SPSS and Structural Equation Modeling (SEM). The findings support that tax incentive fully mediates the relationship between ownership advantage and FDI toward hotel performance and partially mediates location advantage and internationalization on FDI investments toward hotel performance. The paper strengthens theoretical arguments by indicating the mediation effect of tax incentives on the relationship between the determinant of FDI, OWA, LA, INT, ICT, and hotel performance. Thus, this study adds to the literature as it has confirmed the eclectic paradigm theory.*

KEYWORDS: Tax incentive, Ownership Advantage, Location Advantage, Internationalization, Foreign Investment, Hotel



INTRODUCTION AND BACKGROUND

Traditionally, the tourism sector has received a lower priority from policymakers than the manufacturing or agriculture sector, since it has not been recognized as an appropriate and significant source of growth (UNCTAD 2007: 1). However, in Africa travel and tourism remains one of the key growth drivers of the continent's economy with a contribution of more than US\$ 186BN to the region's economy in 2019, welcoming 84 million international travelers (WTTC, 2023). The sector provides livelihood through direct and indirect employment to 25 million people equating to 5.6% of the total employment and the growth potential for travel and tourism with an average rate of 6.8% annually 2022-2032 (WTTC, 2023). This growth rate has placed Africa as the second-fastest growing tourism region in the world after Asia Pacific.

In terms of room revenue, it is expected that in the next five years, Nigeria will be the fastest-growing market with a projected 12% compound annual increase. It will be followed by Tanzania and Kenya, with a projection of 8.2% and 7.4% compound annual increases respectively (ibid.).

From the World Travel & Tourism Council report (2023), tourism contributes 17% of Tanzania's GDP, 8.7% of the country's total employment, and 26% of the country's foreign exchange earnings below other sectors. But given that the tourism industry needs capital (some tourism activities are relatively capital-intensive), knowledge, infrastructure, and access to global marketing and distribution chains, FDI is often considered the most effective way to access these critical success factors (UNCTAD, 2007: pg6).

FDI is an ever-present feature of tourism in developing economies (Chen and Devereux, 1999, p. 209). It is well known that FDI is seen by developing countries as a main way to facilitate technological transfer from developed countries and reduce the technological gap for example, the technology brought by foreign direct investment in Vietnam has promoted a spillover effect such as diffusion of ideas and transfer of technology stemming from the interaction of foreign firms with the local economy, (Nguyen 2020; Tocar, 2018).

FDI enterprise in Vietnam has brought a spillover effect as workers who are hired by FDI enterprise such as working in hotels returns to their home towns and localities eventually, they set up their own businesses, they bring technological knowledge and skill from FDI enterprise to the local economy but also increase local people's income and contribute to poverty alleviation, (DO Quynh Anh et.al, 2021).

The abundance of natural resources is a historically key factor that attracts FDI in ECOWAS countries. It is one of the main reasons for FDI to occur; the natural resource has helped alleviate poverty in ECOWAS countries. ECOWAS has been attracting FDI due to the richness of natural resources including; gold, diamond, iron ore, uranium, aluminum, crude oil, bauxite, manganese, and time (Kallon, 2020). Kairuki (2015), by using a panel data model, investors are willing to invest in African countries even in the presence of political risk. The study also shows infrastructure and trade openness have significance in FDI inflow and poverty alleviation. It is not surprising that the analysis of the determinants of FDI varies countries as well as sector-specific and company-specific.

China has attracted FDI as a result of its location advantage, most FDI tends to invest in China hotel industry due to the uniqueness of its geographical location. However, FDI distribution in China is unequal distribute across provinces and industries (Kallon, 2020). Most FDI is located



in the eastern coastal area which is characterized by a concentration on secondary industries (Mingqire & Xu, 2014). The locational advantages are those attributes the host nations have and it makes more attractive to investors than other destinations (Mutwiwa, & Fondo, 2013). The locational advantages include the macroeconomic environment of the host nation, government policies that enhance ease of doing business in hotel industry and the protection of property rights (Angga, 2013).

The ownership advantage entails that a firm investing in a foreign market expects to compete with local firms in taking advantage of its peculiar benefits such as patent rights, expertise and intangible assets (Angga, 2013). The ownership advantage inspires the investors to exploit foreign markets and resources, overcoming the competitive disadvantage they face from local firms who enjoy better market knowledge (Dunning & Lundan 2008). Ofori (2019) found that SACs find ownership advantage as a means for attracting FDI, due to the fact that ownership advantage is part of the pro market liberalization measures to attract FDI and used as a stimulus for economic growth and development. SACs countries provide ownership advantage through market liberalization to enhance FDI advances their socio- economic and technological development.

Countries trying to attract foreign direct investment often use various tools to influence the foreign investor's allocation decision including public subsidies in the form of investment incentives. Internalization arises from exploitation of international market imperfections by reducing uncertainties and transaction costs (Anyanwu 2011). Internalization of costs generates knowledge efficiently there-by reducing government created costs such as exchange controls, trade tariffs and taxes.

In Slovak Hintošová et al. (2012) reported that internationalization has a positive statistically significant direct effect on FDI inflows. Likewise, Gro and Martins (2020), investigated the determinant of FDI in France's hospitality industry and their findings revealed that taxes incentive through internationalization play a significant role in undersigning the foreign location decision.

In Nigeria Wanjala (2020) evaluated tax incentive through the application of fiscal incentives ranging from corporate income tax, investment allowances, taxes on capital gained, double tax agreement and value added tax (VAT) as a determinant toward FDI in manufacturer firms by using both descriptive design and he found that tax incentives had a significant positive effect on foreign investments in listed Nigerian enterprises

Moreover, Munongo (2015) investigated the efficacy of tax incentives in stimulating FDI in South Africa Development Community (SADC). His study found that, tax holidays, reduced corporate income taxes and losses carried forward as the incentives toward FDI. It employed four separate panels depending on the factor endowments found in the South African countries.

Tanzania has been attracting FDI by creating a conducive environment, so far, the country has been improving its policies to attract more FDIs, for example, export processing zones, free zones, industrial support policies, and privatization of state-owned enterprises (Musakwa & Odhiambo, 2020). Despite all efforts made by Tanzania to boost FDI inflow, the country still faces some challenges such as inadequate mechanisms to deal with all the changes brought by globalization (Mfinanga, 2018).



The significant question that may arise is whether tax incentive would mediate the relationship between ownership, location and internationalization on FDI (Abala, 2014). Thus, it is necessary to tackle the usefulness of tax incentives generally to influence the inflow of foreign direct investment in the tourism and hospitality industry (World Investment Report, 2011). Tanzania has continued experiencing increasing in FDI in the past 15 years, it has made effort to reform its economic liberalization trade policies, and the net flow of FDI increases from US\$387.8m in 1990 to US\$ 17,152.9 m in 2020 (Taylor, 2020; Zavery, 2022). FDI to Tanzania is attracted to Mining, Oil and Gas, and primary agriculture and FDI originates from China, India, Canada, the United Kingdom, and Kenya to mention a few (Bikorimana et al., 2021; Vincent et al., 2022; Zavery, 2022).

Tax incentives remain one of the determinants of foreign direct investment in the performance of tourism sectors (Kubi et al., 2021). The fact that tax is the main source of government income implies that the government can show its commitment to the growth of a particular sector by foregoing this income in exchange for increased investments (Saayman, 2011). The main reason for granting tax incentives is to offer a business environment with potential opportunities for entrepreneurs to invest without tax burden (Boly et al., 2019). Tax incentives mediates the relationship between the determinants that encourage FDI into a particular economic sectors or industries that are identified as crucial areas of development including export-oriented sectors, mining, and industrial parks (Kubi et al., 2021). Tax incentive is regarded to be an integral factor that enhances ownership advantage, location advantage and internationalization in both advanced and transitional economies (Blomstrom and Kokko, 2003).

Literature on tax incentives and FDI has paid more attention on developed and OECD countries, however, little is known on how tax incentive mediates the relationship between determinants of FDI and hotel sectors performance. The dynamics of tax incentive and FDI and its impact on tourism has been relatively little studied (Endo, 2006; UNCTAD, 2007).

Olaleye (2016) established that there is a notable positive influence on international investments due to the usage of tax incentives. Kubi et al. (2021), found FDI responds to lower corporate income tax (CTR). Furthermore, foreign direct investment predominates in African economies with longer tax holidays and withholding tax. While Ghana and Kenya, Ofori (2019) found that tax incentives are not well-designed and administered to attract FDI. In Zimbabwe, Munyanyi and Chiromba (2015) found that policymakers indeed use tax incentives to lure investors into the tourism industry but such policies are not followed by other supportive policies in other areas of the economy that help boost investment in the tourism sector.

A number of studies suggest that there are relationship between tax incentives determinants on FDI (Anyanwu 2011; Dunning & Lundan 2008; Olaleye, 2016; Kubi et al., 2021; Kenya, Ofori, 2019; Munyanyi and Chiromba, 2015; Wanjala, 2020). With this in mind, none of the studies have examined the mediation effect of tax incentives on the relationship between the determinants of FDI (ownership advantage, location advantage and internationalization) toward the performance of the hotel sector in Arusha Tanzania. This study builds on the eclectic paradigm theory, and thus, tax incentive mediated the eclectic paradigm variables and performance of the hotel sector.



THEORETICAL FRAMEWORK

The main objectives of this study are to examine the mediation effect of tax incentives on the determinant of FDI toward the performance of the hotel sector. The theoretical framework undraping our argument is built under the eclectic paradigm theory initiated by Dunning (1977, 1993). The theory offers a conceptual framework for factors that influence FDI (Anyanwu 2011). The assumptions underpinning the model is that FDI is determined by three variables, namely; ownership (O), location (L), and internalization (I) thus it is also called the OLI paradigm.

Ownership advantage means Firm specific advantages including managerial effectiveness, organization structure, technology, resource and asset that enables firm to outperform local firms it also includes properties right and intangible asset advantages, the ability to reduce the cost of inter-firm transactions and advantages seen with collective governance that is to say organizing with complimentary assets, Kallon, (2020).

The ownership advantage entails that a firm investing in a foreign market expects to compete with local firms in taking advantage of its peculiar benefits such as patent rights, expertise, and intangible assets. The ownership advantage inspires the investors to exploit foreign markets and resources, overcoming the competitive disadvantage they face from local firms that enjoy better market knowledge (Dunning & Lundan 2008). Tax incentive mediates ownership advantage through offering Sectorial Incentives whereby enterprises in the hotel ownership and management business are exempt from corporate income tax and all other taxes for five years, starting from the commencement of activities. Therefore, the following is one of the hypotheses which guided this study;

H1: There is a significant positive relationship between ownership advantage and hotel performance

H2: Tax incentive positively mediates ownership advantage and hotel performance

location advantage includes natural and created resource endowments, market, labor, international transport, communication costs, investment incentives and disincentives, artificial barriers (for instance import control) to trading in goods and services, societal and infrastructure provision (commercial, legal, educational, communication and transport) and cross-country ideological, language, cultural, business and political differences, also country's specific advantages include the political environment which include regulatory frame work, taxation, fiscal policy, political privileges enable firms to operate efficiently, Wakyereza, (2017).

The locational advantages are those attributes the host nations have that make them more attractive to investors than other destinations (Anyanwu 2011). The locational advantages include the macroeconomic environment of the host nation, government policies that enhance the ease of doing business in an economy, and the protection of property rights. The following hypothesis is formulated;

H3: There is a significant positive relationship between location advantage and hotel performance

H4: Tax incentive positively mediates location advantage and hotel performance



Internalization advantages include avoiding search and negotiation costs, moral and adverse selection costs and protecting reputation of internalizing firm, avoiding cost related to unfulfilled contracts and litigation, capturing economies of interdependent activities, compensating for absence of future market and avoiding or exploiting government intervention. Internalization gains make the firm more profitable to carry out transaction within the firm than to rely on external markets. It should be noted that such gains result from avoiding market imperfection (uncertainty economies of scale, problem of control, undesirability to provide full information to a prospective purchaser and so on), Kallon, (2020).

Internalization arises from the exploitation of international market imperfections by reducing uncertainties and transaction costs (Anyanwu 2011). Internalization of costs generates knowledge efficiently thereby reducing government-created costs such as exchange controls, trade tariffs, and taxes. Therefore, the following hypothesis is formulated;

H5 There is a significant positive relationship between internationalization and hotel performance

H6: Tax incentive positively mediates internationalization and hotel performance

CONCEPTUAL FRAMEWORK

From the conceptual model presented in Figure 1, this study will be used to test the model fit of a specified Structural Equation Model (SEM). One effect called the direct effect, is included in the analysis of the relationship between the determinants of FDI represented by H1, H3, H5 of the study. The study's hypotheses H2, H4, H6 are addressed by the indirect effect (dotted line) of tax incentive at the mid of the model on the determining factor toward hotel performance while the dependent variable is the hotel performance on the right side of the model. The independent variables are built from the economic experience model as they have been modified to fit the context of study and their borrowed from different studies. The basis for these experience dimension contexts variables is grounded in the existing research (Pine & Gilmore, 1999; and Polat, 2021).

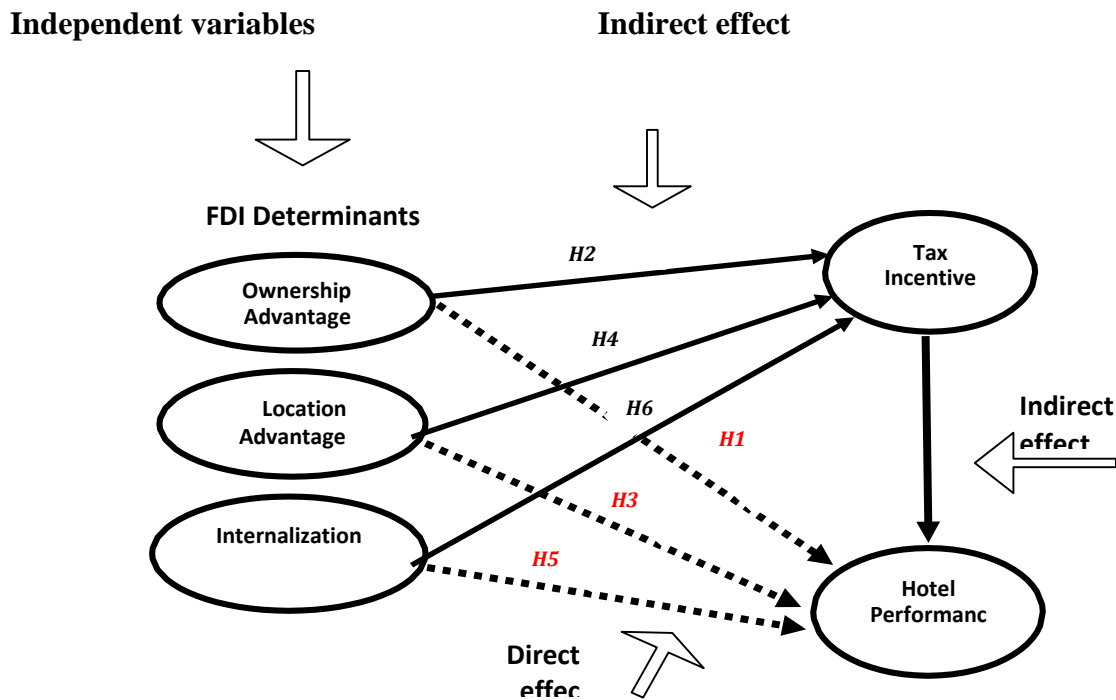


Fig. 1: Conceptual Framework of tax incentives mediation effects on determining factors and hotel Performance

Source: Pine & Gilmore., 1999, and Polat, 2021

STUDY METHODOLOGY

The design of this study is explanatory research. According to Tharenou et al. (2007) and Saunders et al., (2009), the explanatory research design is referred to as an attempt to study cause and effect. That is to say, the current study will be attempted to explain the interplay between the tax incentive mediation effects on the relationship between the determining factor determinants of FDI on hotel performance. With regard to the research strategy, this study utilizes the survey method and data were analyzed quantitatively using structural equation modeling (SEM) with AMOS software version 23.

The study area for this research is conducted in the Arusha Region because tourism activities is mainly concentrated in this part comparing to other region of the country. The region has the most spectacular unique attractions, a number of tourists hotel are main concentrated in this region. It also includes the most important iconic World tourism attractions, namely Serengeti, Lake Manyara, Tarangire, Arusha, and together with the Ngorongoro Conservation Area.

The researcher applied purposive sampling because it provided relevant information from the experts working at the Hotel (Managers, Food and beverage supervisors, executive chef, Souschef and chef of the department). The sampling frame was built by compiling a list of foreign owned hotel in Arusha region and generated from the Ministry of Natural Resources and Tourism (MNRT).



Since these hotels are scattered all over the region and the use of structure equation modelling (SEM) requires large sample size, then we applied the common rule suggesting that a researcher has at least 10 – 15 participants per variable (Field, 2009) and the study had 32 indicator variables, hence a sample of 10 x 32 which equals 320 would suffice. A total of 320 questionnaires were administered to different hotels in Arusha region and its district, of which 232 responses were retained for further analysis. To gain the profile of respondents, initially, data were analyzed using the Statistical Package for the Social Sciences (SPSS 27) and presented in table 1. Later, to test for the full proposed model, an SEM approach was used.

Measurement scale

The measurement scales used to collect data were adopted from the existing FDI measurement scales. The items were measured using a seven-point Likert-type scales. The ownership advantage factors were adopted from previous studies and adapted to fit FDI and hotel performance from Suleiman et al. (2015); Asiamah et al., (2019); Mistura and Roulet (2019) and consisted of 6 items, Asiamah et al., (2019); Asongu et al. (2018); randelovic et al. (2013) provided the basis for designing the items for measuring location advantage factors which is measured by (8 items). We also adopted 9 items from Asiamah et al., (2019); Assunção et al. (2011) for measuring internationalization factors and it contains 7 items and last tax incentive were borrowed from Sama (2022); Chiromba (Hayali et al., (2021); Kubi et al., (2021) and it contained 9 items.

Table 1: Respondents Characteristics

| Characteristics | Distribution of answers |
|--------------------|--|
| Gender | Male: 59.3%; Female: 40.7% |
| Age | 21-40 years: 49.6%; 41-60 years: 22.9%; 61-80 years: 5.5%; above 80 years: .4%; below 20 years: 21.6% |
| Education | High school: 15.7%; Certificate/Diploma: 49.2%; Bachelor/Advance Diploma: 24.2%; Master degree: 9.7%; Other level: 1.3% |
| Job position | Owners: 9.7%; Manager: 19.5%; Director: 7.6%; Supervisor: 13.1%; Others: 50% |
| Job Experience | Less than a year; 7.6%; Between 1-5 Years: 29.7%; Between 6-10 years: 33.1%; Between 11-15 years: 11.9%; Between 16-20 years: 7.6%; More than 20 years: 10.2% |
| Size of your hotel | 20-40 employee's: 26.3%; 40-60 employee's: 28%; 60-80 employee's: 25.8%; More than 80 employees': 19.5% |

Confirmatory Factor Analysis Results (CFA)

Test for Confirmatory Factor Analysis (CFA) using AMOS 23 was initially tested using Structural Equation Modeling (SEM) application (Arbuckle, 1995). Since all the measurement scale were borrowed from previous studies, running CFA was inevitable to assess the contribution of each measurement scale item. We started with testing KMO the chi-square and degrees of freedom to assess the adequate of the sample and it produced value of 0.849 while Bartlett's Test of Sphericity was significant at $p < 0.00$ hence we considered other recommended goodness-of-fit statistics (Bagozzi & Yi, 1988; Iacobucci, 2010; Reisinger & Turner 1999). These are Root mean square (RMSEA), Comparative Fit Index (CFI), Tucker-Lewis Index (TLI), and Chi-square/Degree of freedom (CMIN/DF).

The overall CFA model that fits all the four constructs for this study was tested using a plugin "Pattern Matrix Builder" (See appendix one with pattern). After the initial run and observing the modification indices, the error variances suggested the need for removing items HP6,INT1, OWA1 and the model (Figure 2) was re-ran for second time and it produced the following indices; CMIN/DF = 1.889, TLI = 0.923, CFI = 0.932 and RMSEA= 0.044. This is a good fitting model based on Hoe (2008) recommends that a good model fit should achieve the following minimum fit indices; CFI (>0.90 indicates good fit), CFI ≥ 0.90 , TLI > 0.90 , RMSEA (< 0.08 indicates acceptable fit), and commonly used χ^2 statistic (CMIN/DF ratio of 3 or less) in order to be considered fit.

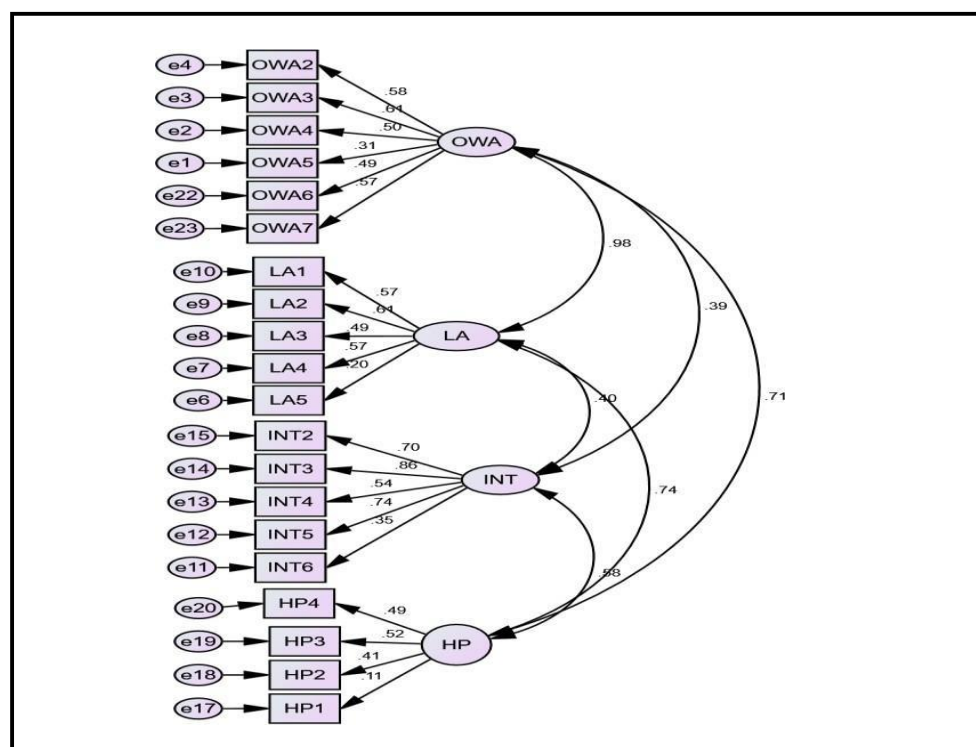


Figure 2: Standardized Overall CFA Model Source: Research data: 2023

Structural Model Results

In testing the structural model for the overall sample, the analysis started by evaluating goodness-of-fit indices. The model in figure 3 met the recommended guidelines for goodness of fit (CMIN/DF = 1.887, RMSEA= 0.061, GFI= 0.858, CFI= 0.855, TLI= 0.832). Table 2

indicates the standardized estimate for the overall SEM model.

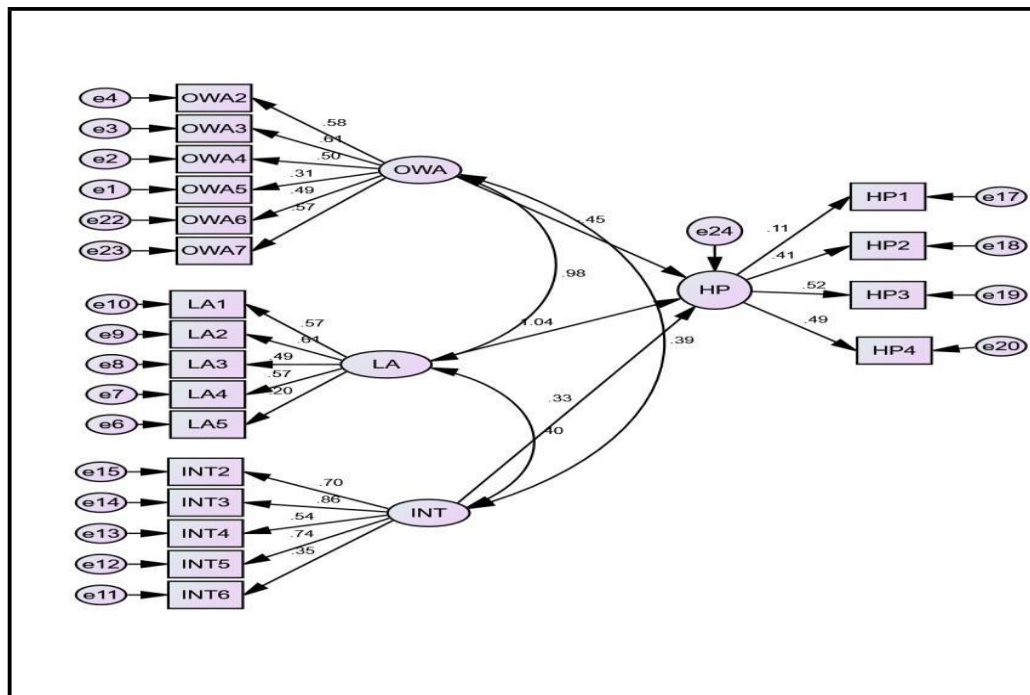


Figure. 3: The structural Model for Direct effect without a mediator (Tax incentive)

Source: Research data: 2023

Table 2: Standardized and unstandardized estimate for the overall sample

| Path | Unstandardized Estimate | S.E. | C.R. | P | Standardize Estimate |
|---------------|-------------------------|-------|-------|------|----------------------|
| HP <--- LA | .625 | 1.682 | .372 | .710 | 1.043 |
| HP <--- OWA | -.212 | 1.273 | -.166 | .868 | -.448 |
| HP <--- INT | .159 | .127 | 1.255 | .210 | .334 |
| OWA5 <--- OWA | 1.000 | | | | .306 |
| OWA4 <--- OWA | 1.413 | .367 | 3.849 | *** | .499 |
| OWA3 <--- OWA | 1.792 | .441 | 4.061 | *** | .609 |
| OWA2 <--- OWA | 1.805 | .450 | 4.012 | *** | .579 |
| LA5 <--- LA | 1.000 | | | | .203 |
| LA4 <--- LA | 2.337 | .852 | 2.742 | .006 | .574 |



| | | | | | | | |
|------|------|-----|-------|-------|-------|------|------|
| LA3 | <--- | LA | 1.760 | .657 | 2.680 | .007 | .485 |
| LA2 | <--- | LA | 2.601 | .943 | 2.759 | .006 | .606 |
| LA1 | <--- | LA | 2.313 | .845 | 2.737 | .006 | .566 |
| INT6 | <--- | INT | 1.000 | | | | .351 |
| INT5 | <--- | INT | 2.390 | .481 | 4.968 | *** | .738 |
| INT4 | <--- | INT | 1.775 | .390 | 4.555 | *** | .542 |
| INT3 | <--- | INT | 2.699 | .532 | 5.075 | *** | .855 |
| INT2 | <--- | INT | 2.439 | .496 | 4.915 | *** | .704 |
| HP1 | <--- | HP | 1.000 | | | | .114 |
| | | | 3.003 | 2.148 | | | |
| | | | 2.752 | 1.943 | | | |
| | | | 2.914 | 2.062 | | | |
| | | | 1.428 | .372 | | | |
| | | | 1.774 | .443 | | | |

The Mediation Test for both Direct and Indirect Effects with Mediator

The structural model is executed to test for both direct and indirect effect with a mediation variable of tax incentive. This process is intended to test for direct and indirect effects. This is followed by confirmation of model fit to ascertain the legitimacy of estimates shown above. The model fit results for the structural model with the mediator are; CMIN/DF= 1.432, GFI = 0.946, TLI = 0.966, CFI = 0.976 and RMSEA=0.044. This confirms that the structural model is appropriate to explain the mediation effect of tax incentive on the relationship between determining factors (ownership, (OWA), location (LA), and internationalization (INT)) and hotel performance (HP).

Results from the direct effect before mediation where ownership advantage (OWA) has a direct relationship with hotel performance (HP) supported the study by having a positive significant relationship between OWA and HP ($\gamma = 0.066$, $p = 0.000$) and thus H1 of the study is supported. However, when the mediator enters the model, the strength of the direct effect dropped while the relationship was not significant ($\gamma = 0.721$, $p = 0.494$). Thus, full mediation occurs and H2 is supported. The study also examined the location advantage on hotel performance and the results from the direct effect before mediation where LA has a direct relationship with HP produced the following results ($\gamma = 0.721$, $p = 0.542$) and thus H3 is supported in the study.

However, when the mediation was entered in the model, the p-value before mediation was insignificant and when mediation enters the model the p-value observed to be significant ($\gamma = 0.021$, $p = 0.000$) thus partial mediation occurs. Thus, the result partly confirms hypothesis H4.

Results from the direct effect before mediation where Internationalization (INT) has a direct relationship with hotel performance (HP) supported the study by having a positive significant relationship between OWA and HP ($\gamma = 0.012$, $p = 0.000$) and thus H5 of the study is supported. The mediation effect of tax incentive on INT and HP is observed to be weak after the mediation enters the model ($\gamma = 0.148$, $p = 0.542$). The strength of indirect effect has dropped compared to the direct effect before the mediation and thus the indirect path INT to HP is significant while TI to INT and HP was not significant thus partial mediation occurs. Therefore, the result



partly confirms hypothesis H6.

DISCUSSION

This study was inspired by the need to learn more about the mediation effect of tax incentive on the relationship between FDI determining (OWA, LA, INT) factors and hotel performance. The findings provide evidence that tax incentive fully mediates the relationship between OWA and HP, partially mediates the relationship between LAA and HP it also partially mediates the relationship between INT and HP.

To start with, it was found that tax incentive full mediate the relationship between ownership advantage and hotel performance (H2). The findings are not surprising given the nature of the study when foreign firm are given tax incentive on patent rights, expertise, and intangible assets it will result into hotel performance.

The finding was consistent with what Dunning and Lundan (2008) describes, tax incentive will help foreign companies in the host country to enjoy ownership advantage which inspires the investors to exploit foreign markets and resources, overcoming the competitive disadvantage they face from local firms who enjoy better market knowledge. Wakyereza (2017) argued, Uganda constitution allows foreign ownership property and establish property in any sector, and tax incentives are provided which allows foreign firms to access resources endowment and market

It was allows found that, tax incentive partially mediate the relationship between location advantage and hotel performance. This notion tells that the indirect effect has partial relationship with location advantage toward hotel performance. The findings are similar with Polat (2021) who found that location advantage tends to attract more foreign investors. China has attracted FDI as a result of its location advantage, most FDI tends to move to China due to the uniqueness of its geographical location. Location advantages include tax incentive of the host nation (Angga, 2013).

Gro and Martins (2020), investigated the determinant of FDI in France's hospitality industry and their findings revealed that taxes incentive play a significant role in undersigning the foreign location decision.

Tax incentive partially mediates the relationship between internationalization and hotel performance. Hintošová at al. (2012) support the findings by revealing that internationalization has a strong direct effect with hotel performance in Slovak. While in Zimbabwe, tax incentives were introduced to boost FDI in 2009 after the decline of the tourism sector.

The incentives were aimed at boosting investment and visitor influx in the tourism sector (Mahembe and Othiambo, 2019). In Mali and Mozambique, the adoption of insertional agreement has attracted FDI (Moreira, 2009). Internalization of costs generates knowledge efficiently there-by reducing government created costs such as exchange controls, trade tariffs and taxes incentives. Kubi et al. (2021), found FDI responds to lower corporate income tax (CTR).



Managerial Implication

Regarding the full and partial mediation effect of tax incentive (TI) on the relationship between OWA and HP, and the partial mediation between tax incentive on LA and INT toward HP, government through its tax department need to offer incentive in the form of fiscal and financial attractions to attract more foreign investors in Tanzania. This indicates that when tax authority provides tax incentive to foreign companies, more investors will be attracted to invest in Tanzania due to its location and more hotel will be built to some of the attractions with fewer accommodation.

Through tax incentive, foreign investor will also be attracted to take advantage of ownership and internationalization. Serious attention should be paid to the tax burden which is still relatively high. Tax incentive should be made clear through the Tanzania investment sector and to be publicly to all the Tanzania embassy abroad. This call for cause of action and decision maker to passively learn from other countries who have been proving tax incentive and how the number of foreign companies is growing.

CONCLUSION

The study confirms that tax incentive full mediate the relationship between OWA and partially mediate the relationship between LA, INT and hotel performance. Based on the researcher best of knowledge, previous studies in FDI have focused on OWA, LA, INT determinants of FDI, few studies have looked on the mediation effect of tax incentive on the relationship between the determinants (OWA, LA, INT) and hotel performance and this make one of the theoretical contributions of the study. Future studies in Tanzania and elsewhere can adopt this model in other tourism organizations context. Specifically, this model can be applied to other tax regions of Tanzania and other part of the global where most of tourism attraction being found and compare the findings to the recent study in order to build more robust models.



REFERENCES

- Abala, D.O. (2014). Foreign Direct Investment and Economic Growth: An Empirical Analysis of Kenyan Data. *DBA Africa Management Review*, 4 (1), 62-83.
- Appiah-Kubi, S. N. K., Malec, K., Phiri, J., Maitah, M., Gebeltová, Z., Smutka, L., ... & Sirohi, J. (2021). Impact of tax incentives on foreign direct investment: Evidence from Africa. *Sustainability*, 13(15), 8661.
- Asiamah, M., Ofori, D., & Afful, J. (2019). Analysis of the determinants of foreign direct investment in Ghana. *Journal of Asian Business and Economic Studies*, 26(1), 56-75.
- Asongu, S., Akpan, U. S., & Isihak, S. R. (2018). Determinants of foreign direct investment in fast-growing economies: evidence from the BRICS and MINT countries. *Financial Innovation*, 4(1), 1-17.
- Assibey-Yeboah, S., & Koomen, I. (2019). *Horticulture Business Opportunities in Ghana: 2019: Sector report I*. Wageningen University & Research.
- Awosusi, O. O., & Awolusi, O. D. (2014). Technology transfer, foreign direct investment and economic growth in Nigeria. *Africa Development*, 39(2), 1-20.
- Blonigen, B. A., & Piger, J. (2014). Determinants of foreign direct investment. *Canadian Journal of Economics/Revue canadienne d'économique*, 47(3), 775-812.
- Boly, A., Coulibaly, S. & Kéré, E.N. (2019). Tax Policy, Foreign Direct Investment and Spillover Effects, Working Paper Series N° 310, African Development Bank, Abidjan, Côte d'Ivoire.
- Hayali, A. S., Küçükosman, A., & KPARTOR, K. (2021). The Relationship Between Foreign Direct Investment And Tourism Sector: The Jamaican Case. *Uluslararası İktisadi ve İdari İncelemeler Dergisi*, (31), 229-246.
- Li, Q. (2006). Democracy, autocracy, and tax incentives to foreign direct investors: A cross-national analysis. *The Journal of Politics*, 68(1), 62-74.
- Mistura, F., & Roulet, C. (2019). The determinants of Foreign Direct Investment: Do statutory restrictions matter?.
- Munongo, S. (2015). The Effectiveness of Tax Incentives in Attracting Foreign Direct Investment: The Case of the Southern African Development Community. (Unpublished PhD thesis). University of South Africa.
- Munyanyi, W., & Chiromba, C. (2015). Tax incentives and investment expansion: evidence from Zimbabwe's tourism industry. *AD-minister*, (27), 27-51.
- Nansongole, N. E. (2011). *Determinants of foreign direct investment in tourism: The case of Malawi* (Doctoral dissertation).
- Ngowi, H. (2000). Tax incentives for foreign direct investments (FDI): Types and Who should/should not qualify in Tanzania? *The Tanzanet Journal*, 1 (1), 19-28.
- Nuță, A. C., & Nuță, F. M. (2012). The effectiveness of the tax incentives on foreign direct investments. *Journal of Public Administration, Finance and Law*, 1(1), 55-65.
- Olaleye, M.O., Riro, G.K. & Memba, F.S. (2016). Effect of Reduced Company Income Tax Incentives on Foreign Direct Investment in Listed Nigerian Manufacturing Companies. *European Journal of Business, Economics and Accountancy*, 4, (1) 39-54.
- Petrović-Randelović, M., Denčić-Mihajlov, K., & Milenković-Kerković, T. (2013). An analysis of the location determinants of foreign direct investment: The case of Serbia. *Procedia-Social and Behavioral Sciences*, 81, 181-187.
- Suleiman, N. N., Kaliappan, S. R., & Ismail, N. W. (2015). Determinants of Foreign Direct Investment: Empirical Evidence from Southern Africa Customs Union (SACU) Countries. *International Journal of Economics & Management*, 9(1).



Thuita, G.W. (2017). An Investigation of the Effect of Tax Incentives on the FDIs: A Case of EPZs in Athi River Kenya. *Journal of Accounting, Finance and Auditing Studies*, 20 (33), 17-36