

The Moderating Effect of Location on the Relationship Between Product Diversification and Performance of Star-Rated Hotels in Kisumu City, Kenya

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Abstract

The hospitality industry is highly competitive, and although product diversification is widely promoted as a strategy for improving hotel performance, its effectiveness may depend on contextual factors such as location. This study examined the effect of product diversification on the performance of star-rated hotels in Kisumu City, Kenya, and tested whether location moderates this relationship. Grounded in the resource-based view and central place theory, the study adopted a descriptive cross-sectional survey design. A census of 88 hotel managers in 11 registered star-rated hotels was undertaken, and 75 usable questionnaires were returned, yielding an 85.23% response rate. Data were collected using a five-point Likert-scale questionnaire whose reliability was confirmed (Cronbach's $\alpha = .757$ for the product diversification scale). Data were analyzed using descriptive statistics, Pearson correlation, multiple regression, and hierarchical moderated regression. Product diversification was positively and significantly associated with hotel performance ($r = .590$, $p < .01$) and positively and significantly predicted performance ($\beta = .215$, $p = .002$). Location significantly moderated the relationship between product diversification and hotel performance ($\beta = .059$, $p = .048$; final model $\beta = .066$, $p = .024$), with the interaction explaining an additional 1.5% of variance in performance. The findings demonstrate that the performance benefits of product diversification are contingent on a hotel's location. Hotel managers should therefore align diversification decisions with location-specific market characteristics, while policymakers should invest in accessibility and surrounding amenities that strengthen hotels' locational advantages.

Keywords: product diversification, location, hotel performance, moderation, star-rated hotels, Kisumu City, Kenya

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Introduction

The hospitality industry is intensely competitive, and effective marketing strategies are essential for attracting customers, increasing market share, and improving overall hotel performance (Choi & Chu, 2001; Kotler, 2011). In response to today's increasingly competitive business environment, hotels are encouraged to diversify their products and services in order to capture a larger market. Diversification is the act of expanding into other products, markets, sectors, industries, or segments has become a major strategic initiative in the hospitality industry (Gemba & Kodama, 2001; Park & Jang, 2013). Hotels have diversified their offerings beyond traditional accommodation to include meeting and event planning, food and beverage services, casinos, retail businesses, and wellness facilities (Chen & Chang, 2012; Kang, Lee, & Yang, 2011; Chen, 2007).

In Kenya, the service sector contributes substantially to gross domestic product, yet hotel performance has deteriorated in recent years, with a number of establishments forced to close (Bukirwa & Kising'u, 2017). Despite the growing recognition of marketing strategies as key drivers of competitive advantage in the hotel industry, their effectiveness in improving performance is often inconsistent. In Kisumu City, many hotels adopt various marketing strategies including product diversification but still

struggle to achieve sustainable growth and profitability. This inconsistency suggests that external or internal factors may moderate the relationship between marketing strategies and hotel performance. One such factor is location.

Location is an indispensable factor that shapes and determines the success or failure of entrepreneurial and business activity (Orhan, 2023). Hotels are location-dependent businesses: a hotel's location determines how easily customers can access it, the type of customers it can attract, its visibility, and its competitive advantage. Yet most studies focus on marketing strategies and their direct impact on hotel performance while overlooking the role of location as a moderating factor. Existing research on star-rated hotels in Kenya, such as studies conducted in Mombasa and Nairobi, has examined diversification and other competitive strategies but has not adequately established whether geographical location changes the strength of the product diversification–performance relationship.

Against this background, the present study addresses two research objectives: (1) To determine the effect of product diversification on the performance of star-rated hotels in Kisumu City, Kenya and (2) To determine the moderating effect of location on the relationship between product diversification and the performance of

star-rated hotels in Kisumu City, Kenya. The corresponding null hypothesis were;

H₀₁: *Product diversification has no significant positive effect on the performance of star-rated hotels in Kisumu City, Kenya.*

H₀₂: *Location significantly moderates the relationship between product diversification and the performance of star-rated hotels in Kisumu City, Kenya.*

Theoretical Framework

The study is anchored on two complementary theories. First, the resource-based view (RBV) holds that unique, valuable, and inimitable resources explain heterogeneity in firm performance (Barney, 1991; Morgan, 2012). From this perspective, diversification enables hotels to exploit intangible resources and generate economies of scale and scope that bolster managerial skills, customer loyalty, and brand reputation (George & Kabir, 2012). Second, central place theory (Christaller, 1933) explains how settlements locate in relation to one another, considering size and distribution. Although originally developed to explain the distribution of retail services, the theory is highly applicable to hospitality because hotels are location-dependent businesses whose accessibility and proximity to customers determine their market reach and performance.

Empirical Review and Hypotheses Development

Product Diversification and Hotel Performance

Diversification enables firms to gain, and more importantly secure, competitive advantages and market dominance that would otherwise be unattainable (Li & Greenwood, 2004; Park

& Jang, 2013). Beyond reducing business risks and uncertainties, it allows hotels to satisfy a broader spectrum of customer needs and to build new revenue streams (Chen & Chang, 2012; Kang et al., 2011). Because tourism markets are inherently risky and volatile characterized by dynamic consumer lifestyles, quality uncertainties, and demand shocks tourist products and market diversification are critical for gaining competitive advantage (Yang & Mao, 2020). Understanding how diversification affects hotel performance has consequently become an important research topic in hospitality management (Jang & Tang, 2009; Park & Jang, 2013).

Empirical evidence supports a positive diversification–performance link. Al-Shakhsheer, Al-Ababneh, and Habiballah (2022) found that product diversification had a positive relationship with hotel property performance in the Jordanian hotel industry. Owenga, Mutinda, and Mapelu (2023) established that both horizontal and vertical diversification strategies were significantly adopted in the operation and management of hotels on the Kenyan coast. Christine and Irechukwu (2022) reported that concentric diversification was very highly correlated with organizational performance ($r = .935$, $p < .001$), while Enobong et al. (2022) found that concentric and conglomerate diversification strategies had significant positive effects on the sustainability of hospitality firms, with innovation strengthening this relationship. However, the relationship is not unconditionally linear: Chen, Kaul, and Wu (2019) cautioned that excessive diversification may increase operational costs and managerial complexity, potentially eroding its benefits. Building on this evidence, the study hypothesizes **H₀₁**.

Location as a Moderating Factor

Previous studies have shown that firm performance is directly influenced by

individual determinants, external factors, and firm characteristics (e.g., Dean et al., 2000). However, inconsistent findings across these studies indicate that important contextual variables such as location have not been adequately considered. Location is expected to significantly and positively affect the relationship between strategic actions and firm performance, making their impact more effective and significant (Ogundele, 2007). Minai and Lucky (2011) reported that the strategic location of domestic firms has assisted them in achieving positive performance, while Orhan (2023) provided evidence that location influences the emergence of entrepreneurs and consequently their performance.

In hospitality specifically, Maté-Sánchez-Val and Teruel-Gutierrez (2022) noted that geographical concentration and proximity to places of interest and natural resources play fundamental roles in hotel management and performance, while Valenzuela-Ortiz, Chica-Olmo, and Castaneda (2025) established that location attributes, including proximity to attractions and other facilities, influence hotel demand and performance. Yang and Mao (2020) similarly emphasized that location advantages shape hotel demand and competitive positioning. Zheng

(2019) specifically found that location moderates the relationship between diversification strategies and firm performance among publicly traded tourism firms. Building on this evidence, the study hypothesizes **H₀₂**.

Conceptual Framework

The conceptual framework indicated in Figure 1 positions product diversification as the independent variable (measured through the range of products and services offered, new product introduction, broad market appeal, customer-feedback-driven development, and customization to market segments), hotel performance as the dependent variable (measured through customer satisfaction, market share, net profits, customer loyalty, sales volume, and brand visibility), and location as the moderating variable (conceptualized through accessibility, proximity to key facilities, availability of public amenities, visibility from major roads, and the security and attractiveness of the surrounding environment). The framework proposes that location conditions the strength and direction of the product diversification–performance relationship.

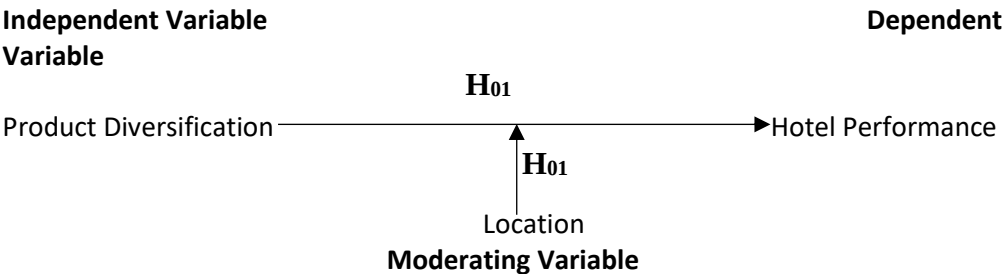


Figure 1: Conceptual Framework

Methodology

The study adopted a descriptive cross-sectional survey design which enables the establishment of statistical

evidence on relationships between research variables while capturing population characteristics at a single point in time (Saunders, Lewis, & Thornhill, 2012). The study was

conducted in Kisumu City, Kenya. Kisumu sits on the shore of Lake Victoria and hosts a diverse tourism portfolio including Ndere Island National Park, Impala Park, Kit Mikayi, and a museum served by Kisumu International Airport, making it a significant tourist destination and a strategic context for examining hotel marketing and performance.

The target population consisted of managers in 11 registered star-rated hotels within Kisumu City, as listed by the Kenya Tourism Authority. Because the population was small and manageable, a census sampling technique was employed, ensuring comprehensive coverage and eliminating sampling error.

Eight questionnaires were administered per hotel, giving a target of 88 respondents. Data were collected using a structured questionnaire developed from the study objectives and relevant literature. Items were measured on a five-point Likert scale (5 = strongly agree; 1 = strongly disagree). The product diversification scale comprised eight items covering the range of products offered, challenges in diversification, competitiveness gains, attraction of new customer segments, new product introduction, broad market appeal, customer-feedback-driven development, and customization.

Content validity was ensured through expert review of the questionnaire by university supervisors, while construct validity was enhanced by deriving items directly from the study objectives and extant literature. Reliability was assessed using Cronbach's alpha, with 0.70 as the minimum acceptable threshold (George & Mallery, 2003). All constructs met this criterion (Table 1).

Data were coded and analyzed using SPSS version 26. Descriptive statistics (frequencies, percentages, means, standard deviations) summarized

respondent characteristics and variable distributions. Inferential analysis proceeded in three stages: (1) Pearson product-moment correlation to establish bivariate associations; (2) multiple linear regression to test the direct effect of product diversification on performance; and (3) hierarchical moderated regression, where three sequential regression models were estimated. *Model 1* included product diversification as the predictor of hotel performance. *Model 2* added location to establish its additional contribution to hotel performance. *Model 3* introduced the interaction term between product diversification and location to test the moderating effect.

The direct-effect model was specified as:

$$HP = \beta_0 + \beta_1 PD + \epsilon$$

where *HP* represents performance of star-rated hotels, *PD* represents product diversification, β_0 is the constant, β_1 is the regression coefficient for product diversification, and ϵ is the error term.

The moderation model was specified as:

$$HP = \beta_0 + \beta_1 PD + \beta_2 L + \beta_3 (PD \times L) + \epsilon$$

where *L* represents location and *PD* × *L* represents the interaction between product diversification and location. A statistically significant interaction coefficient ($p < 0.05$) was interpreted as evidence that location moderated the relationship between product diversification and hotel performance. The change in R^2 after introducing the interaction term was also examined to establish the additional explanatory contribution of the moderation effect. Regression assumptions such as normality (Kolmogorov–Smirnov), linearity (Pearson correlation), homoscedasticity (Levene's test), multicollinearity (tolerance and VIF), and independence of errors (Durbin–Watson) were all verified.

Results

Response Rate and Reliability

Of the 88 questionnaires distributed, 75 were completed and returned, giving a response rate of 85.23% well above the 70% threshold recommended as adequate for survey research (Fuchs, Bossert, & Stukowski,

2013). The product diversification, location and hotel performance scales achieved a Cronbach's alpha of above .743, exceeding the .70 benchmark and confirming internal consistency of the items (Taber, 2018) as indicated in Table 1.

Table 1. Reliability of the Study Constructs

Variable	Number of Items	Cronbach's Alpha
Product diversification	8	.757
Location	8	.768
Hotel performance	8	.743

Respondent and Hotel Characteristics

Respondents were predominantly male (61.3%) and female (38.7%). Most managers were aged 31–40 years (42.7%), held a Master's degree (65.3%), and had 6–15 years of managerial experience (46.7%). Regarding hotel characteristics, 46.7% employed more than 70 staff, 80.0% had operated for six or more years, and three-star hotels were most represented (54.7%), followed by four-star (22.7%), two-star (13.3%), and one-star (9.3%) establishments. This profile indicates that the data captured experienced, well-educated managers operating established star-rated hotels of varying classifications.

Descriptive Statistics for Product Diversification

The study assessed product diversification using eight statements relating to the range, development, customization, and market appeal of hotel products and services. Managers rated each statement on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Table 2 presents the descriptive statistics using the mean and standard deviation.

Source data show that all eight indicators recorded mean scores above 3.50, indicating overall agreement among managers regarding product diversification practices. The highest mean was recorded for offering a wide range of products and services ($M = 4.11$, $SD = 1.32$), suggesting that hotels provide diverse offerings as part of their diversification strategy. This finding is consistent with Al-Shakhsheer, Al-Ababneh and Habiballah (2022), who reported a positive relationship between product diversification and hotel property performance. The perception that product diversification presents challenges recorded $M = 3.84$ ($SD = 1.16$), indicating that diversification is also associated with operational and managerial challenges. Chen, Kaul and Wu (2019) similarly found that diversification does not always produce linear performance benefits and that excessive diversification can introduce additional costs. Product diversification improving competitiveness and overall performance recorded $M = 3.80$ ($SD = 1.29$), while introducing new products to meet changing customer needs recorded $M = 3.79$ ($SD = 1.47$). These findings

indicate that managers associate diversification with competitive positioning and responsiveness to customer needs. The remaining indicators also recorded positive mean scores: customization for different market segments (M = 3.79, SD = 1.44), attracting new customer segments (M = 3.72, SD = 1.34), customer feedback in product development (M =

3.69, SD = 1.40), and broad market appeal of products and services (M = 3.68, SD = 1.35). Overall, the results indicate that product diversification was reflected through product variety, market expansion, customer responsiveness, feedback use, and customization.

Table 2. Descriptive Statistics for Product Diversification

Statement	Mean	Std. Dev.
1. The hotel offers a wide range of products and services	4.11	1.32
2. The hotel faces various challenges in product diversification	3.84	1.16
3. Product diversification has improved the hotel's competitiveness and overall performance	3.80	1.29
4. Product diversification has enabled the hotel to attract new customer segments	3.72	1.34
5. The hotel regularly introduces new products and services to meet changing customer needs	3.79	1.47
6. The hotel offers products and services that have broad market appeal	3.68	1.35
7. Customer feedback is used to develop new hotel products and services	3.69	1.40
8. The hotel customizes its products and services to meet the needs of different market segments	3.79	1.44

Note: Scale: 1 = strongly disagree, 2 = disagree, 3 = undecided, 4 = agree, 5 = strongly agree.

Source: Research Data (2026)

Descriptive Statistics for Location

The study assessed hotel location using seven indicators covering geographical location, accessibility, proximity to facilities, public amenities, competitive advantage, visibility and the surrounding environment. Managers rated each item on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Table 3 presents the descriptive statistics.

Table 3 shows generally favourable perceptions of hotel location, with mean scores ranging from 3.52 to 3.84. Geographical location recorded the highest mean (M = 3.84, SD = 1.16), while proximity to key facilities had the lowest

(M = 3.52, SD = 1.35). Accessibility, public amenities and visibility each recorded a mean of 3.68. These findings indicate that managers generally perceived location characteristics as favourable to hotel operations and market performance. The high rating for geographical location is consistent with Maté-Sánchez-Val and Teruel-Gutierrez (2022), who reported that spatial concentration and proximity to places of interest and natural resources influence hotel-related management practices. Similarly, Valenzuela-Ortiz, Chica-Olmo, and Castaneda (2025) found that location attributes, including proximity to attractions and facilities, influence hotel demand and

performance. The findings therefore support the relevance of location as a

contextual factor in examining the performance of star-rated hotels.

Table 3: Descriptive Statistics for Location

Statement	Mean	StDv
1. Geographical location enhances effectiveness of marketing strategies and hotel's performance	3.84	1.16
2. Hotel is easily accessible from major roads	3.68	1.29
3. Hotels proximity to key facilities enhances marketing effectiveness.	3.52	1.35
4. The availability of public amenities near the hotel positively influences customer choice	3.68	1.35
5. The hotels location provides a competitive advantage over other hotels	3.65	1.46
6. The visibility of hotel from major roads enhances customers awareness	3.68	1.40
7. The surrounding environment provides a secure and attractive setting for guests	3.67	1.46

Note. Scale: 1 = strongly disagree, 2 = disagree, 3 = undecided, 4 = agree, 5 = strongly agree.

Source: Research Data (2026)

Descriptive Statistics for Performance of Star-Rated Hotels

The study assessed hotel performance using six indicators covering customer satisfaction, market share, profitability, customer loyalty, sales

volume and brand visibility. Managers rated each indicator on a five-point Likert scale ranging from 1 = strongly disagree to 5 = strongly agree. Table 4 presents the descriptive statistics.

Table 4. Descriptive statistics for performance of star-rated hotels

Statement	Mean	StDv
1. The hotel focuses on ensuring that it enhances and maintains customers satisfaction	3.68	1.32
2. The hotel has expanded its market share	3.77	1.29
3. There is an increase in net profits	3.73	1.26
4. A number of customers are loyal to the hotel	3.84	1.28
5. There is an increase in sales volume in the past years	3.56	1.36
6. The hotel has a well established brand visibility	3.95	1.36

Note. Scale: 1 = strongly disagree, 2 = disagree, 3 = undecided, 4 = agree, 5 = strongly agree.

Source: Research Data (2026)

Table 4 indicates generally positive assessments of hotel performance, with mean scores ranging

from 3.56 to 3.95. Brand visibility recorded the highest mean (M = 3.95, SD = 1.36), followed by customer loyalty (M =

3.84, SD = 1.28), market share (M = 3.77, SD = 1.29) and net profits (M = 3.73, SD = 1.26). Sales volume recorded the lowest mean (M = 3.56, SD = 1.36). The relatively high rating for customer loyalty is consistent with Cheng et al. (2019), who found a positive relationship between service recovery, customer satisfaction and customer loyalty. The market-share finding is also consistent with Theuri, Ndiao, and Mathenge (2021), who reported positive relationships between differentiation-oriented strategies and hotel market share. The highest rating for brand visibility further suggests that brand presence was a relatively strong aspect of perceived hotel performance, consistent with Mohammad et al. (2024), who reported that hotel brand image and customer engagement significantly influence booking intentions. Overall, the findings indicate favourable perceived performance across customer, market, financial and branding dimensions.

Assumption Tests

The Kolmogorov–Smirnov test confirmed normality of the product diversification construct ($p = .153 > .05$).

Linearity was supported by a significant Pearson correlation between product diversification and performance ($r = .590$, $p < .01$). Homoscedasticity was confirmed by Levene's test ($F = 1.813$, $p = .058 > .05$). Multicollinearity was not a concern (tolerance = .643; VIF = 1.555, well below 10), and the Durbin–Watson statistic of 1.835 fell within the acceptable 1.5–2.5 range, indicating independence of errors. The data were therefore suitable for regression analysis.

Correlation Analysis

The study used the Pearson Product-Moment Correlation analysis to determine the nature and degree of the relationships between the pricing strategy, promotion strategy, product diversification, market development strategy, location and Performance of Star-Rated Hotels for the star rated hotels in Kisumu City, Kenya. The correlation coefficient has a value from -1 to +1; the positive values showed a positive correlation between variables. The significance of the relationship was tested at 1% level of significance. The results are summarized in the Table 5.

Table 5: Correlation Analysis Results

		Performance of Star-Rated Hotels	Production diversification	Location
Performance of Star-Rated Hotels	Pearson	1		
	Correlation			
	Sig. (2-tailed)	.000		
Production diversification	Pearson	.590**	1	
	Correlation			
	Sig. (2-tailed)	.000		
Location	Sig. (2-tailed)	.000	.003	
	Pearson	.568**	.387	1
	Correlation			
	Sig. (2-tailed)	.000	.001	

Source: Research Data (2026)

Table 5 showed a positive and significant relationship was found between product diversification and

Performance of Star-Rated Hotels ($r = 0.590$, $p < 0.01$). This means that there is a positive relationship between the

product diversification and the Performance of Star-Rated Hotels, high. The result indicates that hotels which offer diverse products/services are found to be more correlated with the level of performance. Similarly, performance of Star-Rated Hotels was positively and significantly related to location ($r = 0.568$, $p < 0.01$). This means that the Hotel Location is highly positively related to Performance of Star-Rated Hotels. The results indicate that location factors such as accessibility, visibility and closeness to key facilities are associated with high performance of hotels.

Hypothesis Testing

Effect of Product Diversification on Performance of Star-Rated Hotels

The study first examined the effect of product diversification on the performance of star-rated hotels in Kisumu City. *Model 1*, which included product diversification as the predictor, showed a positive and statistically significant relationship between product diversification and hotel performance ($\beta = 0.215$, $p = 0.002$) as presented in Table 6. The p-value was below the 0.05 significance level, indicating that the relationship was statistically significant.

The positive coefficient indicates that higher levels of product diversification were associated with higher hotel performance. The broader regression analysis similarly produced an unstandardized coefficient of $B = 0.170$ and a standardized coefficient of $\beta = 0.216$ ($p = 0.011$). Thus, a one-unit increase in product diversification was associated with a 0.170-unit increase in hotel performance, holding the other variables in the original regression model constant.

Model 1 explained 64.7% of the variance in hotel performance ($R^2 = 0.647$). The finding demonstrates that product

diversification made a statistically significant positive contribution to hotel performance. Based on the significance of the regression coefficient, *H01* was rejected.

The results therefore indicate that product diversification had a statistically significant positive effect on the performance of star-rated hotels in Kisumu City. The finding that product diversification positively and significantly affects hotel performance aligns with Al-Shakhsheer et al. (2022), who found a positive relationship between product diversification and hotel property performance, and with Owenga et al. (2023), who documented significant adoption of horizontal and vertical diversification strategies among star-rated hotels on the Kenyan coast. It is also consistent with Christine and Irechukwu (2022), who established a strong positive correlation between concentric diversification and organizational performance, and with Enobong et al. (2022), who found that diversification strategies enhance hospitality firm sustainability. From a resource-based view, diversification allows hotels to exploit intangible resources and achieve economies of scope (George & Kabir, 2012), while from a marketing mix perspective it expands the product element of the offering to meet a broader spectrum of customer needs (Kotler, 2011). The present results nonetheless qualify this optimism: managers acknowledged that diversification carries implementation challenges, echoing Chen et al. (2019), who showed that excessive diversification can raise operational costs and managerial complexity. Diversification is therefore beneficial when new products and services are relevant to customer needs and within the hotel's financial, operational, and managerial capacity.

Moderating Effect of Location on Product Diversification and Hotel Performance

The study subsequently examined whether location moderated

the relationship between product diversification and hotel performance. Hierarchical regression was conducted through three sequential models.

Table 6: Hierarchical Regression Results for Product Diversification, Location and Hotel Performance

Variable	Model 1: Product Diversification	Model 2: + Location	Model 3: + Location × Product Diversification
Constant	—	—	—
Product diversification (β)	0.215	0.164	0.158
p-value	0.002	0.012	0.014
Location (β)	—	0.096	0.391
p-value	—	0.271	0.021
Location × Product diversification (β)	—	—	0.059
p-value	—	—	0.048
R ²	0.647	0.694	0.713
ΔR ²	0.647	0.047	0.019
F-statistic	32.058	31.351	28.224

Source: Research Data (2026)

Model 1 contained product diversification and explained 64.7% of the variance in hotel performance ($R^2 = 0.647$). Product diversification remained positive and statistically significant ($\beta = 0.215$, $p = 0.002$).

Model 2 added location to product diversification. The inclusion of location increased the explained variance from 64.7% to 69.4%, representing an R^2 change of 0.047. Location also had a positive and statistically significant coefficient ($\beta = 0.218$, $p = 0.002$). This result indicates that location contributed independently to explaining hotel performance. However, the significant coefficient for location alone does not establish moderation.

Model 3 introduced the interaction between product diversification and location. The inclusion of the interaction term increased the explained variance from 69.4% to 71.3%,

representing an additional 1.9% of explained variance ($\Delta R^2 = 0.019$). The interaction coefficient was positive and statistically significant ($\beta = 0.059$, $p = 0.048$).

The final regression results supplied in the original analysis also showed a positive and statistically significant Location × Product Diversification coefficient ($\beta = 0.066$, $p = 0.024$), providing additional evidence that the interaction remained significant after the other variables and interaction terms were included in the full model. For the focused manuscript, however, Model 3 above should be reported as the final product-diversification moderation model, rather than retaining the unrelated pricing, promotion and market-development interactions.

Since the interaction between location and product diversification was statistically significant at the 5% level, H_{02}

was rejected. The results therefore demonstrate that location significantly moderated the relationship between product diversification and the performance of star-rated hotels in Kisumu City. This confirms that the performance benefits of diversification are contingent on where a hotel is situated. This finding corroborates Zheng (2019), who found that location moderates the diversification–performance relationship among tourism firms, and extends Maté-Sánchez-Val and Teruel-Gutierrez (2022) and Valenzuela-Ortiz et al. (2025), who established the importance of proximity to attractions, facilities, and natural resources for hotel performance. In terms of central place theory (Christaller, 1933), hotels in centrally accessible locations capture larger catchments of customers, so each additional diversified service finds a bigger market; conversely, in peripheral or poorly accessible locations, even well-designed diversified offerings may not reach sufficient demand to translate into performance gains. Practically, this means diversification decisions should not be made uniformly across hotels but should reflect the customer volumes, spending patterns, and competitive conditions associated with each location.

Conclusion and Recommendations

Conclusion

Product diversification has a positive and significant effect on the performance of star-rated hotels in Kisumu City, Kenya, and location significantly moderates this relationship. The effectiveness of diversification strategies is therefore conditional on the hotel's location: accessibility, proximity to key facilities, availability of public amenities, visibility, and the surrounding environment shape the degree to which diversified products

and services convert into improved performance.

Theoretical Implications

The findings extend marketing mix theory by demonstrating that the product element does not operate in isolation from place: the performance payoff to product decisions depends on locational context. They also reinforce the resource-based view by showing that the value of diversification-related capabilities is context-dependent, and they lend empirical support to central place theory in the hospitality sector.

Practical Implications

Hotel managers should align product diversification decisions with the characteristics of their location, taking into account customer segments, demand volumes, and available resources. Hotels in highly accessible, amenity-rich locations can leverage broader portfolios more aggressively, whereas hotels in less favorable locations should prioritize a focused set of offerings matched to identifiable local demand and invest in visibility and access improvements.

Policy Implications

Tourism authorities and destination planners should support the competitiveness of star-rated hotels by improving road access, public amenities, security, and signage around hotel clusters. Such investments amplify the returns that hotels obtain from diversification and other marketing strategies.

Limitations and Directions for Future Research

The study used a cross-sectional design and perceptual, self-reported measures of performance. Future research should adopt longitudinal designs, incorporate

objective performance data (occupancy rates, revenue per available room, and profitability), and complement managers' perspectives with customer data. Comparative studies across other Kenyan cities, counties, and star-rating categories, as well as investigations of additional moderators such as technology adoption and economic climate, would further generalize the findings.

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