**RELATIONSHIP BETWEEN STRATEGIC RESPONSES AND PERFORMANCE OF THE HOSPITALITY INDUSTRY IN NAIROBI COUNTY- KENYA**

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**A THESIS SUBMITTED TO SCHOOL OF BUSINESS AND ECONOMICS IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION OF KENYA METHODIST UNIVERSITY**

**MARCH, 2016**

**DECLARATION**

I declare that this thesis is my original work and has not been presented in any other university.

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# DEDICATION

To my sister Rachael Wakio and my entire family; thanks a lot for your unconditional love and support.

# ACKNOWLEDGEMENT

I would like to express my sincere gratitude to all those who contributed whole heartedly towards the completion of this research thesis. First, I am very grateful to my supervisors; Agnes Munene and Pro. George King’oriah for their guidance and tireless assistance. Thank you for your patience and understanding.

I wish to also thank the academic staff at Kenya Methodist University, School of Business and Economics for supporting me throughout the course work. I also acknowledge my fellow students for having been a great team in my journey towards attainment of my academic goal.

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# ABSTRACT

The business environment today is quite volatile. For any business to succeed, it should come up with response strategies for dealing with the changes which automatically ignite competition. Firms have been forced to be always alert in order to remain relevant and more outstanding in the tough business environment which has shown that its survival for the fittest. Currently, the hospitality industry has woken up to drastic changes ranging from foreign currency fluctuations, intense competition, travel advisories, terrorism and changes in customer preferences which have affected their key operations. This study sought to establish strategic responses and performance of the hospitality industry in Nairobi – County, Kenya. It focused on ten 5 star hotels which are located in Nairobi County and specifically assessed how the strategic responses of Cost cutting, diversification, outsourcing and positioning have affected their performance. A descriptive design was used and data was collected using structured and semi structured questionnaires. The questionnaires were dropped and picked later on to give the respondent’s time to fill in objectively and fully. The target population of the study was be all the 387 employees of the five star hotels within Nairobi County. The researcher used stratified random sampling method to select the desired sample size of 193 from the Top level Managers, Middle level managers and lower level managers as they are the ones who formulate, implement and allocate tasks respectively. Data collected was cleaned, pretested, validated, coded, summarized and analyzed using statistical package of SPSS V21. The study found out that cost cutting strategy and outsourcing strategy were significant to performance while the diversification and positioning strategies were not significant. The study recommends that the hotels need to acquire feedback from their clients when launching new products and services for this will in turn increase their sales. They should also do proper vetting before merging with any company or acquiring it in order to have a clear picture of the input that the company is bringing. The hotels should also outsource non core activities and concentrate on the key ones as well as engage in cost cutting activities while still maintaining the quality.

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# ABBREVIATIONS

**CBD** Central Business District

**HBPS** Hotel Brand Performance Strategy

**NDP** Net Domestic Product

**OPI** Operational performance index

**UNTWO** United Nations World Tourism Organization

**VAT** Value Added Tax

# CHAPTER ONE

# INTRODUCTION

# Background of the study

Strategic responses are normally brought up by change. They entail changing from one strategy to another. In life, the only constant thing is change (Heraclitus, 1955). It is experienced in all aspects of life by individuals, groups and organisations. Change can be planned or unplanned and can have either a positive or negative impact on the phenomenon that is affected (Ansongu, 2013). The response to change also differs and this influences the outcome. This response includes resistance, acceptance, withdrawal and even denial. According to Munyendo and Chepwogen (2012),Organizations are actively involved in taking their employees through the change process to help them adapt and continue performing while at times others force it on them since they lack a choice once these employees resist the change. In the current world, all organizations face changes that affect their operations. These changes include technological changes, changes in regulations set by the relevant authorities governing the organizations, changes in organization management, changes of policies and procedures in the institutions, social and cultural changes, political changes and economic changes.

All these changes are caused by the internal and external environment that the organisations operate in (Yao &Yeasan, 2011). The response strategies formulated and implemented by the affected organisations determines if the organisations will continue surviving or if they will be rendered unfit. According to Pearce and Robinson (2011), organizations operate in a very volatile and unpredictable business environment which is very competitive. To cope with this fierce competition, firms have been forced to revise their strategies and also formulate new ones. The hospitality industry has been a major source of revenue for the Kenyan economy as well as a source of livelihood for individuals in terms of employment.

Recently, Kenya has been experiencing turbulent times with regard to the environmental pressures that have impacted the operations of the various industries both financial and non-financial. The dynamics of the hospitality industry have changed due to increased competition, fluctuations in the foreign currency and the travel advisories issued by international states which had become so common. This situation has exerted pressure on the hospitality firms to rethink and actively formulate strategies that will enable them survive the turbulence and achieve progressive success now and in future.

Kenyan hotels mainly depend on the international tourism market which has been largely affected due to the ongoing changes leading to a decline in revenue generated from this sector (Mukulu, 2013). The revenue is generated from landing fee, visits to tourist destinations, money from accommodation in the hotels and guest rooms. Due to this huge impact that the hospitality industry has on the Kenyan economy, the Kenya Vision 2030 recognizes that in the entire world, Kenya should be amongst the top ten long- haul tourist destinations offering diverse and distinctive world class visitor experience that few of her competitors can offer. This is with an aim of achieving the third specific Kenya vision 2030 Tourism goal for 2012 of increasing hotel beds from 40000 to 65000 all this reinforced with quality service. This shows that the Hospitality and Tourism industry is a key source of the much needed foreign revenue by the Government of Kenya.

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# Organisational Performance

Organisational performance is the actual results realized or the actual output usually measured against the organisations goals or objectives that focus on the intended output in terms of its profits. It includes a series of activities meant to establish and monitor the organisations progress towards the target (Johnson, 2011). Organisational performance is a major frustration for business executives and owners because it’s the determinant of how well the firm is placed in the economy. This implies that it is always important for an organisation to develop strategies that would enhance its performance.

Arslan and Staub (2013) assert that all organisations goal is not only to survive but to ensure they sustain their existence by improving their performance. Continuous increase in performance enables an organisation to meet the needs of the highly competitive markets. A successful organization is determined by the returns that it records. High returns depict that the organization is doing well and competing effectively in the external market where it operates. This is measured by various drivers that cover the different aspects of the organization. Wadongo(2013) explains that it’s upon the managers to analyze the feedback they get and use it to adjust the policies and the other organizational operations modes.

There are three approaches to performance in an organization (Oduor & Odhiambo, 2012). These are the goal approach which ascertains that every organization pursues clear identifiable goals. This approach defines performance based on how the goals have been attained. The systems resource approach which is the second approach looks at performance as a relationship between the organization and the environment it operates. This approach defines performance according to how the organization is able to identify and secure the limited resources within the environment. Lastly, is the process perspective approach which uses the human resource aspect in an organization to define performance.

Performance measurement is one of the key tools that helps firms monitor their performance, strengthen accountability, identify critical areas that need attention, enhance motivation and improve the overall communication (Njihia*,*2013). The major objective of any business is to make profits hence this is measured through performance drivers to determine why the competitors are doing better and what areas in a business need improvement (Iravo, Ongori & Munene*,* 2013).Kingi (2013) noted that the global hospitality industry has gone through a remarkable growth of over 25% in the recent years. This has been attributed to globalization.

Performance has been highlighted in terms of four perspectives which are financial, internal processes, the customer and learning and growth or innovativeness (Kiragu, 2011). The cash flow, profit margin, asset turn over, leverage and working capital are the key aspects of driving performance in the financial perspective. Customer perspective defines performance in terms of the organization’s brand image, level of customer satisfaction, customer profitability as well as customer retention.

There are several different methodologies used in strategic performance management. The well-known ones include the balanced score card, total quality management, six sigma and activity based costing (Sakama, 2013). The balance score involves a more qualitative process where business owners assess information and develop strategies based on financial, customer, business process and learning or growth perspectives then develop strategies to improve the output and performance based on these perspectives (Kuipo, 2012). Luman and Abimbola (2012) did a research on comparing performance measurement system and performance frameworks used in the construction industry and the concluded that the BSC is the most popular performance measurement framework in the construction industry and it has been widely adopted by other industries.

# 1.1.2 Strategic responses

Response strategies are the set of decision put in place by an organisation then formalized and implemented in order to achieve the set objectives and purpose. They involve committing the firm’s resources towards their realization (Pearce & Robinson, 2011). Response strategies dictate what services and products will no longer be offered, what will be introduced to replace them, what new markets will be served and what capabilities the firms need to utilize. Organizations do not operate in a vacuum. They exist in an environment which they continually interact with in their daily operations to achieve their objectives. This environment keeps changing hence dictates that the organizations should also change their strategies to enable them survive (Cheng, 2014). By changing their strategies, the organizations are in turn responding to environmental changes which automatically come with new demands that the organizations have to meet. Organizations respond to those changes that are likely to have a large impact on their activities.

Jehad and Adel (2011) noted that hotels are used several planning systems to enable them manage change and cope with the turbulent environment. Some of these systems include upgrade of their information technology, product development, merging and acquiring other businesses operating in their line and diversification. A study carried out by Thiga (2012) to find out how the aviation industry was responding to competition. The industry formed alliances and partnerships to enable them cope with the fast changing environmental conditions. This also led them to globalizing their routes covering a wider market.

According to Mathokoo(2012) new innovations are coming up and firms have to change the way they conduct their operations otherwise they will become obsolete and customers will run to their competitors who have invested in the new technology. The internet for example has brought tremendous changes in how firms conduct their business. Tourists can now compare different services being offered in the hospitality industry and book their choice online. Government regulations also impact how an industry runs its business. The policies being introduced every now and then has seen industries change from their own ways of doing things (Kroon, 2013). Bars for example have specific opening and closing hours and hotels have to meet certain conditions to enable them continue operating. These include the hygiene procedures. A desire for growth is another factor that causes industries to change.

Murphy (2013) believes that structural change made by these industries does not necessarily improve performance. It’s not a guarantee that if an industry changes, the output will increase in terms of profits but instead an improvement will be based on the strategies that the industries put in place considering the ones being implemented by their competitors. No matter how good the change may seem, the firm has to look around and find out what the competitors are doing. Murphy and Torre (2011) note that for nay change to be successful, the industry has to involve the community which includes stakeholders for they form the major clientele that is meant to improve profits. Otherwise, any change made without considering the external community is not relevant at all.

Industry changes may be either planned or unplanned. Planned change occurs when the firm has studied its mode of operation and factors affecting its output then formulates and implements strategies to deal with the underlying issues (Akalama, 2014). Unplanned change happens due to unforeseen occurrences. These could be natural disasters or errors caused by human beings without warning signs. Both planned and unplanned changes are instigated by internal and external environments. The most important thing is for an organization to manage this change by employing tools and structures that will keep the change efforts under serious control (Wadongo, 2013). The changes in the environment are causing concerns over the trend that the tourism and hospitality industry are going to take. The activities of this industry have become so heterogeneous in nature for the changes are quite unpredictable so they implement strategies based on the trending change. The clientele is also keen on these trends and they also change their tastes and preferences as a way of responding to the emerging trends ([UNWTO, 2013](http://www.emeraldinsight.com/doi/full/10.1108/IJCHM-11-2014-0564)).

# 1.1.3 Hospitality industry in Kenya

The presence of the Arab traders and railway line construction workers marked an evolution of the hospitality industry in Kenya. The Grand Hotel of Mombasa was the first catering entity to be built where Manor Hotel currently stands. More catering facilities were established when the British came to colonize Kenya since the railway line way extending towards Uganda and the workers had to be taken care of. Utalii College was set up in the 1960s with a focus on training the hotel staff (Ndirangu, 2011). From here, the hospitality industry has continued to grow to accommodate the tourism needs both local and international.

Kenya is considered to be a great tourist destination all over the world but it has been hit by a turbulent time which has seen the hospitality industry record losses in profits and jobs also. The hospitality industry has been hit hard by terrorism attacks in the course of recovering from the 2012 post-election violence which was a major blow to its operations (Onyango, 2013).Government revenue benefit highly from the contribution remitted by the tourism and hospitality industry in terms of license fees, customs and exercise duty, landing fees, VAT levied on tourism service and the charges collected as entry fees to game parks and other tourist attraction sites. This revenue is crucial in the development of the economy.

This industry has also offered employment to skilled, semi-skilled and unskilled employees which is a major step towards a decrease in the high unemployment levels mostly affecting the youth (UNWTO 2014). Wadongo, Odhuno, Kambona andOthuon (2011) note that the hospitality industry made a remarkable contribution towards the country’s economic development. It is a source of job opportunities for many people.

According to Wadongo*et al*. (2011) the World Travel and Tourism Council (2006) the hospitality industry in Kenya offered 509,000 jobs in 2007 and by 2017, it will have offered 628,000 jobs according to the forecast. This growth confirms that it’s a major contributor to economic growth. The hotel industry is part of the hospitality sector and it includes 5- star, 4- star, 3- star, 2- star, 1 star and other hotels. The major distinguishing factors that drives the range of services offered in hotels in Kenya include class, elegance, ambiance and quality services. Five star hotels are known for offering services such as internet PC in the rooms, laundry service, wireless network connections in the rooms, multilingual staff, doorman service, spacious reception halls, 24 hour mini bar and food and beverage room service and shoe cleaning or polish services. These facilities may not be the case in the other star hotels (Ayiele, 2012).

# 

# 1.2 Statement of the problem

Organizations adopt strategies that enable them succeed in the dynamic environment. The strategies are crafted to respond to the challenges and opportunities posed by the environment at a particular time with the aim of remaining relevant and improving the organizations performance (Kairu, 2013). The response to the volatile environment is critical for organisations to achieve success. The hospitality industry is no exception especially now that it has been currently hit by the recent terror attacks and travel advisories and this has affected its performance (Ogutu, 2014).

Nancy (2012) did a study on the response strategies adopted by the Serena Group of Hotels to deal with environmental challenges with an aim of improving their performance in East Africa and found out that they had mainly used the generic strategies of cost leadership, differentiation and focus to cope with the challenges which had mostly brought them intense competition. A study was conducted by Ayiele (2012) focused on the use of positioning strategies by five star hotels in Nairobi to ensure they dominance in the hospitality industry especially in Kenya. The findings indicated that the hotels mainly positioned themselves in terms of quality service to customers and uniquely packed products. Rose &Paton (2013) did a study on the entrepreneurial challenges facing the hospitality industry in Kericho and found out that the main challenge was the size of the hotels since most tourists preferred four and five star hotels. Kericho was dominated by two star and three star hotels so they recommended an upgrade. These researchers have addressed the general challenges with no specific focus on the current situation.

The Westgate Mall was attacked in September 2013 and left 67 people dead while scores were injured. This attack was perpetrated by terrorists who were suspected to be Alshabaab militias. In January 2014 there were Grenade and improvised explosive device attacks at a restaurant in Jomo Kenyatta International Airport. This saw the US Government Issue a warning to their citizens who were considering to travel to Kenya (Nairobi press, 2013). The UK government did the same too and this lead to the close down of many hotels especially in the coast region while others made losses.

[Hong and Shaovin (2014](http://www.emeraldinsight.com/doi/full/10.1108/IJCHM-11-2014-0564)) feels that there is a growing demand by the public to find out how the tourism and hospitality industry are handling the pressures associated with the recent environmental changes and globalization which have affected their performance since this issue has not been addressed. In the past five years, the hospitality industry in Kenya has performed dismally due to a number of factors that include post-election violence, decaying infrastructure, terrorism activities, travel advisories, instability of political temperatures (USA Government,2015). The total tourist arrivals which form a key forecast in performance dropped from 1,710,000 in 2012 to 831,000 in 2013 then in 2014 it further went down to 601,000 in 2014 (Kenya Tourism Report, 2015).The dismal performance of the hospitality industry in Kenya which has been caused by the turbulent environment is the basis upon which this research is drawn and the focus is how strategic responses may affect performance in this sector.

# 1.3 General Objective

The general objective of this study is to find out the relationship between strategic responses and performance of firms in the hospitality industry in Nairobi County- Kenya.

## 1.3.1 Specific objectives

1. To establish whether the cost cutting strategy adopted by firms in hospitality industry affects their performance.
2. To determine whether diversification strategy adopted by firms in hospitality industry affects their performance.
3. To assess whether outsourcing strategy adopted by firms in hospitality industry affects their performance
4. To find out whether the positioning strategy adopted by firms in hospitality industry affects their performance

## 1.3.2 Research questions

1. Has the cost cutting strategy adopted by firms in the hospitality industry affected their performance?
2. Does the diversification strategy adopted by firms in hospitality industry affect their performance?
3. Has the outsourcing strategy adopted by firms in the hospitality industry affected their performance?
4. Does the positioning strategy adopted by firms in the hospitality industry affected their performance?

# 1.4 Justification of the study

Tourism is one of the key sectors under the economic pillar of 2030 which is expected to propel growth. The hospitality industry is central in providing the facilities that are required to keep the tourism sector running. This study therefore provided important information to the hospitality industry to enable it implement better strategies to improve their quality of services and deal with any challenges that they may face.

Despite a low performance period attributed to the environmental changes that have recently taken place, quite a number of hotels have entered the industry for example dusit D2 and Villa Rosa Kempinski. The study sought to establish the strategies that have been adopted by hotels to ensure survival and maintain proper performance. The study focused on Nairobi five star hotels because a number of hotels have branches and their headquarters in Nairobi.

# 1.5 Limitation and Delimitation of the study

Getting the senior management in the five star hotels to fill the questionnaires was a close to difficult task. This was solved by booking appointments prior to visiting the premises. The research was also limited to Nairobi County hotels hence further research into other counties is recommended.

Data was collected from internal sources hence it was reliable and close to accurate. The top level managers, middle level managers and lower level managers were the key respondents since they are the parties that formulate strategies and oversee the implementation of these strategies by the rest of the staff.

# 1.6 Scope of the study

The study was focused on five star hotels in Nairobi County. Data collection was done from February 19th to March13th. The independent variables were cost cutting, diversification, out sourcing and positioning while the dependent variable was performance.

## 1.7 Significance of the study

This study will provide relevant and useful information to shareholders in the hospitality industry as well as the management. This will use this information to evaluate the environment which they operate in and formulate strategies to deal with challenges surrounding them with a focus on performance improvement. This study will also provide data for the government to enable them determine how best they can support the hospitality industry since it’s a significance source of revenue for national development. The information gathered will also be useful to scholars who are interested in doing further research on the challenges facing hospitality industry and the solutions being implemented to curb the challenges.

# 1.8 Operational definition of terms

**Strategic responses**: A set of decisions and actions that result in the formulation and implementation of plans that are designed to achieve the objective of an organisation (Ansoff &McDonnel, 1990)

**Strategy**: This is the long term direction and scope of an organisation through which it achieves a competitive advantage in a changing environment through careful utilization of their resources to meet the needs of the stakeholders (Johnson, Scholes &Whittington, 2014)

**Hospitality industry**: This is a category in the service industry that includes lodging, event planning and all the activities within the tourism industry (Mathokoo, 2013)

**Cost cutting**: Steps taken by a firm based on its operations to reduce its expenses and in turn increase the gains or profit (Karambu, 2011)

**Diversification**: Technique whereby the firm enters into a new market or industry where it was not operating before (Onyango, Edwin, Ouma& Lucas, 2012)

**Positioning**: Technique used by firms to display their services or products in a particular way in response to the external environment in order to meet the demands of the stakeholders (Johnson & Scholes, 2012).

**Outsourcing**: A firm’s strategy of contracting or hiring resources of another industry instead of investing in its own (Graf &Mudambi, 2015)

# CHAPTER TWO

# LITERATURE REVIEW

# 2.0 Introduction

This chapter addresses review of literature regarding the responses to a volatile environment by the hospitality industry. It’s based on porters competitive generic strategies model to show the strategies used by firms to improve their performance and gain competitive advantage, the Ansoff product market model to show the responses by the firms and highlight the diversification strategy, the value chain analysis which will show how outsourcing occurs, the institutional theory which supports positioning strategy and the Balance Score Card which will show how performance is measured.

# 2.1 Theoretical Frameworks

A theory is a statement of relationships between variables that have been observed or approximated in the empirical world. It can be interpreted as a system of variables and constructs in which the variables are related to each other by hypothesis and the constructs are related to each other by propositions (Ervin, 2013). In this study the theories that will be used are the Porters Five Forces Model, The Resource Based View theory and the institutional theory.

## 2.1.1 Porters Generic Competitive Strategies Model

For a company to position itself in a sustainable and profitable position against the active forces in a particular industry, it has to maintain a competitive strategy. Porter (1980) set out three approaches and termed them as generic strategies which firms could use to improve their performance and achieve a competitive advantage. The three generic strategies were cost leadership (no frills), differentiation (designing unique products and services) and Focus (targeting a niche market then offering specific good or service to them). The cost leadership strategy involves cost cutting by the organisation where it minimize it cost of inputs and production processes in order to cut on the expenses hence increasing the profits. By use of this strategy, the organisation aims at being the leader in providing low cost goods and services. Differentiation strategy involves manufacturing goods and services that are uniquely designed to fit a certain group of customers. This entails finding out what the competitors are doing then improving the firms products based on the analysis. The focus strategy is applied by firms where they study a target market and understand its dynamics then produce goods and services as per the requirements of the customers within it at a low cost but the products are well specified. In order to achieve success in the long term in terms of profits and performance improvement in general, firms are supposed to select one of these generic strategies and capitalize on it otherwise trying all poses a danger of achieving none (Porter, 1979).This model is relevant to this study since it underpins cost cutting (cost leadership) as a variable in this study.

## 2.1.2 The Value chain Analysis

This is a model that involves a process of identifying a firm’s primary and support activities that add value to its final good or service then keenly work on these activities to reduce costs or increase differentiation. The primary activities include in bound logistics, operations, outbound logistics, marketing and sales and service while the support activities include the firms infrastructure, technology development, human resource management and procurement. It identifies the internal activities which are most valuable to the firm that enable it gain a competitive advantage (Porter, 1985). If a firm for instance is competing of cost advantage, it will capitalize on those activities that lower the cost but with the quality of goods and services in mind. A firm has the ability to generate a superior value through these activities and produce goods and services that the customer is willing to pay more than the cost of producing them. Differentiation capitalizes on the support activities since they modify or design the product from the primary activities to suit the tastes of the customer.

An organisation may therefore concentrate in some of the major value chain activities then outsource the rest. The degree of vertical integration describes how an organisation performs its upstream and downstream activities. When settling for the outsourcing decision, managers should intensively understand the strengths and weaknesses of each activity in terms of cost and ability to differentiate. This decision lies on whether the activity being outsourced is one of the organisations core competencies which generates a cost advantage or product differentiation, if the activity will be performed at a cheaper cost or in a better way by the contracted party, if the activity relies on the fast changing technology or if its market is rapidly changing, outsourcing would be best to avoid investing in specialized assets and whether outsourcing a particular activity will result in business process improvements hence an improvement in performance. Outsourcing strategy lies heavily on the analysis of the value chain. This model is relevant to this study since it underpins outsourcing strategy as a variable under study by explaining how a firm separates the core activities from the support activities to enable it determine which ones should be pursued by the internal staff and which ones can be contracted.

## 2.1.3 Ansoff’s product market model

Ansoff and McDonnell (1990) further argue that for an industry to remain vibrant, it must examine its internal and external environment and formulate response strategies to match the environmental turbulence. This is brought by the fact that each level of environmental turbulence bears different characteristics hence requires different strategies and commitment of different firm capabilities for survival, growth and development.

Ansoff (1957) product- market matrix shows how the product and the market trends behave in a given arena and what strategies should be adopted to keep the organisations surviving and countering competition. Product development and diversification strategies require the firms to commit resources since these are new contents and once they are adopted, they may end up creating exit barriers for the firm or lead to path dependence. Penetration and market development on the other hand emphasize on efficiency and they form the reactive strategies that aim at cost savings through harnessing scope and scale advantages.

Competitive and price sensitive market with lower unit margin are likely to adopt the penetration strategy. This requires the competing firm to use its existing products to reach a larger market share. It may focus on capturing more customers in the same market at the same tie retaining the existing ones. The hospitality industry has focused on lowering the prices of the commonly demanded products and promoting their services through discounts and offers. The room prices for example are higher during festive seasons but lower at other times. Large bookings are offered discounts and additional services at low or no cost.

A product development strategy uses the same or similar products but in different variations. The products are modified to target a certain niche in the market and also to meet the demands of the customers. Customers get to a point where they require a product to be modified in order to suit their preferences. Hotels have currently installed internet connections to make communication for the guests more convenient. Meals are prepared as per the specifications made by the customer to ensure that these hotels keep them and attract more. At first, they would have standardized meal based on what they thought the customers wanted.

The market development strategy requires that a firm uses the same product then tries to source for more markets for it. Hotels used to be centralized and waited for the customers to flock in. due to the high competition, this has become a thing of the past. They have been forced to devolve to enable them reach more customers hence increasing the market share. This has been achieved through the creation of more branches away from the mother branch.

A diversification strategy calls for a radical innovation since it’s a big bang entry in the market with new products and services. Such an innovation is capital intensive hence managers should exercise caution when implementing it to avoid negative disruption of the firma operation and decline in profits. It should be set up in a market that can bear the development costs. These markets should be potential enough to embrace the innovation. Hotels have focused of outside catering and event management as a way of increasing their profits instead of just serving walk in customers. However, Porter (1980) points out that diversification strategy stands out from the other three strategies as it seeks to grow the business in new markets, with new products. This theory is relevant in this study because it explains diversification and market positioning as variables in this study.

## 2.1.4 The Institutional theory

Meyer, John and Rowan(1977) define institutions as social structures that are in continuous interaction with the environment. They are always getting feedback which gives them guidance on what measures to implement in order to survive and thrive in the unending competition. The institution theory explains that institutions gather information from the environment and use this information to craft their strategies. They are always analyzing the environment to determine what next to avoid getting into drastic losses and worse still losing their relevance.

Kato (1996) in support of the institutional theory asserts that all the organisations depend solely on the environment to succeed. It’s this environment that dictates the type of structure that an organisation should form for it to succeed otherwise ignoring what surrounds it, an organisation will definitely fail. From the observations of Daniel (2014), organisations fail because they lack the ability to meet the ever changing demands of customers and they also fail to keenly recognize the environmental demands and react to it as a way of ensuring continued survival. For a firm to gain a competitive advantage over its rivals, it has to meet the demands of its stakeholders and satisfy their needs.

The institution theory considers how the environment impacts the operations of a firm which determine if it will make profits or if it will be driven out of the market. Firms become legitimate if they are in a position to adapt to the environment that they are operating in and continue making progress. Legitimacy in the surrounding environment leads to survival (Changiz& Mohsen, 2015). Positioning strategy is concerned with the assessment of the environment so as to determine where to focus on in terms of the target customers. Through this strategy, an organisation is also able to find out the status of its competitors and identify any threats and risks that need to be addressed as well as exploit the opportunities spotted (Karambu, 2011).This theory is relevant in this study since it underpins market positioning as a variable under study.

## 2.1.5 The balanced score card

The BSC was invented by Kaplan and Norton (1992) as a performance measurement framework which included the strategic non-financial performance measures that were lacking in the traditional financial metrics to enable managers have a complete and balanced view of an organization’s performance. The BSC is a strategic planning and management tool that is used by both profit and non-profit organisations to align the business activities to the organization’s vision and strategy, monitor performance against strategic goals and improve internal and external communication. The BSC suggests that an organization should be viewed from four perspectives: financial perspective, the learning and growth perspective, the customer perspective and the business process perspective. These perspectives should be used to develop metrics, collect the required data and analyze it.

People are the most important resource in a knowledge- worker organization. They are the only repository of knowledge so it is necessary for these people to be in a continuous learning mode especially now that technology is continually changing. Managers should put metrics in place to help them focus funds on the areas that require intense training towards the improvement of the business. Learning is more than training; it includes mentors and tutors in the organization.

[Richard and Cliff (2013](http://www.emeraldinsight.com/doi/full/10.1108/IJCHM-11-2014-0564)) found out that information dissemination and employee training is a very vital aspect in the running of organisations. It keeps them alert on what is happening in the environment and equips them with proper knowledge on what measure to take or propose to the management. Changizand Mohsen (2015) ascertain that knowledge management practices impact the performance of an organization positively.

Currently, businesses over-emphasize on financials and partially ignore the other perspectives leading to an unbalanced situation which make them suffer in terms of performance in future. The traditional need for financial data cannot be ignored since firms need accurate financial data for them to know their position profit wise hence managers are actively involved in providing this data (Kaplan &Norton, 1992). Risk-assessment and cost- benefit data should be included in this category to help firms accurately determine their performance in monetary terms.

Business process perspective entails the internal activities and processes that an organization engages in to meet the demands of the customers. Managers have to understand and monitor how the business is running to enable them identify any deficiencies which may be affecting their performance. Metrics to measure this have to be carefully designed by people who are close to the business and own up its processes intimately. Outside consultants should not be employed to design them for they do not have the accurate information of what the stakeholders and employees want from the business (Ofunya, 2013).

Customer satisfaction is the most important element that a business can meet at any given time because if the needs of these customers are not met, they will switch to other sellers and suppliers. A decline in the number of customers results to a decline in purchases which eventually lead to a decline in profits. Every business should gather enough information from its customers before the introduction of a new product or service and also to help in the improvement of the existing products and services. (Ofunya, 2013).This model is relevant to the study since it explains the four perspectives of the Balanced Score Card that explain performance of an organisation which is the dependent variable in the study.

The Balance Score card

Institutional theory

Porter’s Generic Strategies model

Ansoff product market model

Value chain analysis

Performance

**Dependent variable**

**Figure 2.1 Showing the Theoretical Framework**

# 

# 2.4 Empirical Review

This section shows the studies conducted by different authors which are related to this study. It will also show their contribution and identify the research gaps that may be of interest to researchers. The relationship between strategy and performance is key in strategic management. Mixed results have been produced by various empirical studies concerning this relationship.

## 2.4.1 Performance

Business owners and managers develop activities that are meant to assist them gauge the overall effectiveness and efficiency of the organization. This process is termed as strategic performance management. Strategic performance management makes use of both quantitative tools which involve mathematical or statistical formulas to assess the company’s position in terms of its goal achievement and qualitative tools which are based on personal judgment.

Luoma (2015), did a research on ‘revisiting the strategy linkage’ in the largest companies in Finland which were 250 in number based on the net sales of year 2010. His main aim was to establish the relationship between strategy and financial performance based on five principles: growth, profitability, liquidity, solvency and cash management. The research was exploratory in nature and he used content analysis, multi-dimensional scaling and cluster analysis empirical methods.

The research showed that there was a linkage between strategy and performance based on the five principles. This relationship could be considered from two viewpoints. One is the possible impact of the initial or original financial state on strategy content and the other one is the aspect of profitability. Both viewpoints showed that a relationship between past financial performance and new strategy formulation is possible though it’s not that easy to interpret (Johnson, 2014). In relation to this study, the response strategies put in place by the hospitality firms are likely to impact the performance of these firms.

Pedro and Mahmoud (2014) conducted a study on the relationship between corporate performance and E-commerce strategies. They integrated different theoretical views of value creation and assessed different e-commerce firms in Portugal to find out their strategic underlying dimensions through factorial analysis then after that, they performed clustering analysis and came up with strategic groups to compare corporate performance. Marketing, innovation and efficiency were identified as the three e-commerce dimensions and the results suggested that corporate performance is influenced by differentiation in the context of virtual markets. The revolution in information and telecommunication technologies has pushed managers to formulated and implement strategies in response to the changing demands of the clientele. E-commerce is a strategy in itself of responding to these changes. This study is also seeking to unveil the strategies used by the hospitality industry to respond to the turbulent environment.

Barry, Brian and Jeffry (2013) conducted a study on the connection between strategy linked outsourcing approaches and the expected performance. They examined growth, cost and differentiation strategies in terms of their relationship with cost performance measures and organisations goals / objective achievement. Data was collected form 165 purchasing executives using Regression analysis and ANOVA. The findings suggested that firms that were using a single dominant strategy achieved lower levels of cost saving performance as compared to those firms which were practicing a balanced approach that encapsulated two or three strategies in a roughly equal measure. The findings also supported that firms that pursued cost and growth strategies tended to achieve higher levels of cost related performance compared to firms which ignored the same.

A positive relationship between goal intensity for a single strategy being focused on achievement of goals related to that strategy was also shown by the study. The firms pursuing multiple outsourcing strategies were more successful the firms relying on a single dominant strategy. This study will also focus on examining strategies used by the hospitality firms to respond to changes affecting the industry and how these strategies have affected performance.

Maria, Chiara and Karen, (2014) analysed the linkage between the company’s strategy, open innovation and innovation performance with a focus on Small and Medium Enterprises (SMEs). They conducted a survey in the Italian manufacturing context and obtained responses which were analyzed and validated using factor analysis. Innovation entails the developing of new products and services not being offered by the competitors. The firms also employed diversification which led to developing new ventures that were not existing and also acquiring other firms with similar products and services. To achieve a cost advantage, the firms focused of cost reduction in order to propose lower sale prices than the competitors. The findings indicated that there was indeed a positive relationship between the innovation of these strategies and the performance of the firms. This study also focuses on addressing the relationship between the response strategies applied by hospitality firms and their performance.

Robert and Prakash (2014), did a research on strategic management on hospitality and tourism with a view on the past, present and future. The study sought to identify the challenges and opportunities in the hospitality industry and the appropriate strategies to deal with them. They reviewed the earlier studies in hospitality strategy to identify the gaps and trends and found that the challenges included educational infrastructure and the quantity and quality of researchers in this particular field. According to them no much emphasis has been paid by the researchers on the challenges and opportunities posed by the external environment to the hospitality industry. The environment is a key determinant of the performance and progress of the hospitality and tourism firms. This study will focus on this bit.

Albertini (2014) found out that there is a relationship between how a firm manages its environment and the financial performance of that particular firm. This relationship keeps on changing depending on multiple contingent differences. So firms should keenly scan and monitor their surroundings to avoid a negative effect on their profits. [BagurFemenias (2013)](http://www.emeraldinsight.com/doi/full/10.1108/IJCHM-11-2014-0564) also conducted a research on the relationship between environmental practices and the response of small travel agencies and found out that when these firms adopt the environmental practices, they become more competitive compared to those that choose to ignore them hoping things will change in their favor.

Jorge and Juan (2013) conducted a research on environmental management and its effect on performance of the Spanish hotel industry. They took a sample of 350 three to five star hotels in Spain and employed two- step cluster analysis in order to determine the significant differences. They found out that all the hotels that were environmentally proactive recorded an above average performance. In conclusion, environmental management is related to competitive advantages and the entire business performance. This study is also focused on determined how the hospitality’s response to environmental turbulence has affected performance.

According to Kamau (2012),Performance measurement indicators in the hospitality industry include various dimensions: financial performance which entails the net profit and gross profit attained, total revenue achieved, total sales, daily room occupancy, total operating costs of the hotel and total food cost percentage. The second dimension is competitiveness which shows the market share percentage, sales growth percentage, customer satisfaction based on their feedback and monitoring of the performance of the competitors by inquiring about their occupancy levels (Abishua, 2013). The third dimension is the quality of service mainly determined through the guests by how they rate the hotel based on the service offered to them and the amenities at their exposure. Flexibility is the fourth dimension which depicts how well and how fast the hotels adjust to the needs and wants of the guests and requirements of their customers in general.

## 2.4.2 Response strategies and Organisational performance

Managers make choices to commit important resources, set important precedents and important firm level actions, all with a focus on shaping a firms direction. These choices are termed as response strategies (Ofori, 2013). All organisations formulate and implement response strategies as an activity within the broad strategic management which serves as a framework that determines the direction and scope of the organization. This framework in turn helps in resource allocation to facilitate financial and strategic performance (Ofori & Antiogbe 2012).

Meresha (2013), conducted a study on the response strategies used by Heritage Hotels to increased competition in the tourism industry Kenya. The study focused purely on consumer demands and how the hotels should change their strategies and formulate new ones to meet this demands and remain relevant in the Kenyan Market. This study did not put into consideration other environmental factors that may have led to increased competition. This study aims at addressing these factors and the response towards them. Munyendo and Chepwogen (2012), conducted a research on the entrepreneurial challenges facing the hospitality industry in Kericho town. The study focused on embracing effective business strategies that were aligned with vision 2030 with an aim of attracting more tourists in the county. The study focused on what internal changes could be executed in terms of employees and working conditions in order to improve the hospitality industry. It did not consider the external environment changes that are likely to trigger responses from the hospitality industry.

Kairu (2013), did a research on the effect of strategic responses on Kenya Revenue Authority operational performance and concluded that staff training and development were the key issues in determining performance and if properly executed, improve productivity is realized. The study acknowledged that there should be always a response to any change for the sake of achieving success. If things continue being done in the same old way, the same old results are likely to be realized and eventually worse results will come about.

Bosibori and Kuria (2013) conducted a study on Hospitality employment with a focus on the policies and practices in hotels in Kenya and how it influenced the performance of these firms. The study found out that the social, political and commercial environment had significant influences on the human resource which in turn influenced performance.

## 2.4.3 Cost cutting and Organisational performance

Daniel (2014) conducted a study on the effects of Porters Competitive Generic Strategies on the performance of Saccos in Murang’a County. He used an explanatory research design built on exploratory and descriptive designs. The target population was 384 employees who were drawn from the eight Saccos in Murang’a County. The study found out that Saccos produce similar services and they don’t focus on a specific group of customers but they have resulted into accommodating all. The distinct strategy they use is the cost leadership where they rely on low input costs and economies of scale. This is a form of cost cutting that is meant to increase their profits.

## 2.4.4 Outsourcing and Organisational performance

In a study on the response strategies adopted by the Serena group of hotels to deal with the environmental challenges, Nancy (2012), observed that Outsourcing was one of the key strategies that the management had to implement. This research was a case study based on the Serena Group of hotels in which interview guides were sent to the departmental heads based in the organisations head office. Data collected was analysed using content analysis to gain indepth information regarding the subject. The study found out that Serena group of hotels had implemented out sourcing strategy to enable it grow the profits since they would focus on the core business. The out sourced activities were transportation services for the guests, laundry services, printers to help them save on maintenance costs, tour guide services and some information technology services.

Petronilla (2013) conducted a study on the relationship between outsourcing and organisational performance in the book publishing industry. The study used a descriptive research design and data was collected from senior officers in the different departments of the publishing firms listed in the website of Kenya Publishers Association as members. It was analysed using SPSS. The researcher found out that the publishing companies outsource some of its non-core operations in order to achieve the strategic goals, improve customer satisfaction and also improve on their efficiency and effectiveness. The outsourced functions include support services, distribution, advertising, technology services and design services. The study recommended that the firms should continue outsourcing other services which don’t bear a competitive advantage over their competitors to enable them continue improving their performance.

In her study on the relationship between outsourcing and Organisational performance in Ghana service Industry, Asiamah (2013) used quantitative approach method and focused on a target population of 50 companies providing banc assurance services. All the necessary data was collected using questionnaires and interviews. The study was meant to ascertain whether conducting business functions in house or through external agencies is more profitable. The general assumption was that a well implemented outsourcing strategy should improve the firms focus, reduce control and operating costs and help in sharing risks. The outcome will be a positive impact especially on the financial performance of the firm. The study recommended that an organisation should engage the services of a third party that are credible to avoid deterioration in the quality of product and service hence negatively impacting performance.

**2.4.5 Positioning strategy and Organisational performance**

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Ayiele (2012), did a study on the positioning strategies adopted by the five star hotels in Nairobi, Kenya. The study used descriptive cross sectional survey since data was collected from the different organisations at a time. They found out that the six five star hotels implemented different positioning strategies which included physical attractiveness, safety and security, customer service, range of products and information technology positioning. The author recommended that the five star hotels should consider different positioning approaches such corporate social responsibility, environmental conservation projects and participating in community development activities.

Mokaya, Kanyagia and M’Nchebere (2012) conducted a study on the effect of positioning on organisational performance in the airlines lines industry in Kenya with a focus on Kenya Airways. The study adopted an exploratory design covering a stratified sample of 215 respondents drawn from a population comprising 1230 staff and customers. Data collection was done using a semi- structured survey questionnaires and analysis was analyzed using descriptive and inferential statistics. They found out that positioning strategy plays a pivotal role in the marketing strategy because it forms a link between the internal corporate analysis and the segment analysis, market analysis and competitive analysis. The study recommended that for Kenya Airways to succeed it has to position itself in a strategic market place relative to the competitors in order to achieve a competitive advantage and gain a higher return on its investment. The other recommendation was the implementation of a product mix as a strategy to take care of the customers’ needs which involves a combination of elements such as product services, brand, package and the physical products.

## 2.4.6 Diversification strategy and Organisational performance

Amidu and Kuipo (2015) carried out an investigation on the implication of diversification and earnings management for funding within the arena of emerging and developing economies. The authors sough to find out if there was evidence of earnings management of selected African banks and what had pushed these banks to get into such practices. 90 percent of the sampled banks in the 29 African countries were found to have engaged in the management of their earnings. They found out that the banks activity mix and funding explained banks earning quality. Banks that were geographically diversified showed complex structures than those operating in a single industry and they engage in a larger degree of earnings management which is a critical indication of performance.

Ervin (2013) conducted a research and found out that innovation is key for the progress of any firm even if the costs and organizational capabilities are limited. To increase profits, firms should always look for something ‘green’ and implement it based on what the environment is demanding. Diversification is a sure way of bringing about this green touch to any firm as it entails innovation. The hotel industry has come up with new varieties of meals and services lie the outside catering. Others offer African dishes besides the previous snacks and fast foods.

Kang and Lee (2013) conducted a study and collected samples from US lodging firms to establish the impact of diversification on performance of these firms. They found out that brand diversification could strongly impact geographic diversification positively hence improving the performance of these firms. Sara (2011) did a study on how hotels diversify and innovate in times of crisis. They carried out an online survey among the managers of four star hotels in 52 Spanish cities. They discovered that diversification and innovation does not directly contribute to positive performance in the short term but in the medium and long term.

# 2.5 Conceptual Framework

This section shows the conceptual framework for the relationship between strategic responses and performance of the hospitality industry in Kenya. It consists of the independent variables which are cost cutting, diversification, outsourcing and positioning and the dependent variable which is performance. Kothari (2012) explains that the dependent variable relies on the independent variables since it’s the outcome of the contribution by the independent variables.

Cost Cutting Strategy

Positioning Strategy

Outsourcing strategy

Diversification strategy

Performance

**Independent variables Dependent variable**

**Figure 2.2 Showing the Conceptual Framework**

# 2.6 Operational framework

The operational framework shows the parameters that will be used to measure the variables. The overall performance will be measured by Sales volume, Bed occupancy, Return on assets and Profit accrued. Cost cutting strategy parameters will be Materials, Labour, Research & Development and Procurement. Diversification strategy will be measured by Horizontal diversification, Vertical diversification and Mergers and acquisitions. The outsourcing strategy parameters will be Technology, Support services, Staff and Production and the positioning strategy will be measured by Physical attractiveness, range of product offerings, safety and security systems and quality Customer Service.

-Materials

-Labour

-Research & Development

-Procurement

Cost Cutting strategy

-Horizontal diversification

-Vertical diversification

-Mergers and acquisitions

**Performance**

-Sales volume

-Bed occupancy

-Return on assets

-Profit

-Number of employees

Diversification strategy

-Technology

-Support services

-Staff

-Production

-

Outsourcing strategy

-Physical attractiveness

-Range of product offerings

-Safety and security systems

- Quality Customer Service

Positioning strategy

**Dependent variable Parameters**

**Figure 2.3 Showing the Operational Framework**

**Statistics**

# 2.7 Summary and Research Gap

The above studies conducted on the hospitality industry sought to find out how the industry has used various strategies to enhance their operations and ensure survival. The studies on the environmental challenges address the general challenges in the environment which all organisations face in their day to day operations. They are not specific to the hospitality industry. This study seeks to fill this gap by looking at the response strategies adapted by the hospitality industry with a focus on their performance. The challenges are the recent changes in the environment that have recently affected the performance of the hospitality industry.

# CHAPTER THREE

# RESEARCH METHODOLOGY

# 3.0 Introduction

This chapter will explain the research methodology that was used to conduct this study. The research methodology included the research design, the target population, sampling design, data collection instrumentation, data collection procedures and data analysis.

# 3.1 Research design

This study used both the descriptive research design and the quantitative research design. According to Shield and Rangarajan (2013), descriptive research design bears both advantages and disadvantages. Its availability and inexpensive nature as compared to causal research design is one of its most evident advantages. This is because it seeks to answer the question “what” as opposed to “how, when and why”. Its main advantage is the relationship that exists between the causes and the effects may be unclear and this may lead to the researcher to make wrong inferences (Shield &Rangarajan, 2013).

The obtain the quantitative research design, the qualitative data was be converted using computer aided content analysis where similar statements were grouped together and weighted. Conclusions were then drawn based on the weights given which used to get the inferential statistics as contained in the regression model. With the use of this research design, a survey was conducted on selected five star hotels in Nairobi County. The dependent variable was performance which entails the outcome expected by any industry from their daily operations and industry changes which are the issues that affect the operations while the independent variables were cost cutting strategy, diversification strategy, outsourcing strategy and positioning strategy which form the strategic responses applied to deal with the environmental changes.

# 3.2 Target population

Mathokoo (2013) defines a population as a group or set of objects or people under investigation which bear the information or characteristics that the researcher is interested in. In population studies, everyone has a chance to be included in the final sample hence making them more representative (Bosibori 2013). In this study, the target population was all senior employees currently working in the 5 star hotels in Nairobi County who are 387 (HR records). The characteristics of this population is summarized as follows:

Table 3.1 Target Population

|  |  |
| --- | --- |
| **Hotel** | **Number of staff** |
| Fairmont the Norfolk 40  Intercontinental Nairobi 42  Laico Regency 35  Nairobi Safari Club 40  Nairobi Serena Hotel 42  Ole Sereni 38  Safari Park hotel and Casino 39  Sarova Stanely 36  The Boma Nairobi 34  Villa Rosa Kempinski41 | |
| **Total 387** | |

# 3.3 Sampling procedure

The sampling frame included all the senior employees working in the 5 star hotels in Nairobi County. The sample size to be used greatly depends on what the researcher needs to know, what is at stake, what will be useful, what will be credible enough and what will be possible to accomplish with the given time and resources (Paton 2012). For the sake of this study the researcher used stratified random sampling such that the target population was divided into strata. The strata were based on the levels of management. Strategic responses are normally formulated by top managers, implemented by middle level managers and broken down into tasks by lower level managers. In this regard, the researcher sampled the three levels of management (top level, middle level and lower level managers) to be involved in primary data collection. The characteristics of this population are summarized as follows:

# 3.4 Sample population

The global formula for sample size is determined by Cochran’s formula as quoted in Mugenda and Mugenda (2003):

n = pqz2/e2

Where:

n is the minimum sample

z is the standard normal deviation at required confidence level

p is the population proportion in the target population estimated to have thecharacteristics being measured

q is 1-p

e is the marginal error

Mugenda & Mugenda (2003) recommend that since p and q are unknown, both are set at 50% at a confidence level of 95% that will be used for this study. Z= 1.96 and the sampling error, e = +5% thus sample size becomes:

N=50\*50\*(1.96)2/5

=384

For a population less than 10,000, the sample size is computed as per the formula below:

nf = n/ (1+n/N)

Where:

nf = desired sample size when the population is less than 10,000

n = sample size (when the population is greater than 10,000)

N= Estimate of the population size

In this study therefore,

N= 387

n=384

nf= 384/ (1+384/387)

=192.96

Since a sample size involving people cannot be decimal points, the figure will be rounded off to 193.

**Table 3.2: Sample Population**

|  |  |  |  |
| --- | --- | --- | --- |
| **Hotel** | **Number of staff** | **Calculation** | **Sample size** |
| Fairmont the Norfolk | 40 | 193(40/387) | 20 |
| Intercontinental Nairobi | 42 | 193(42/387) | 21 |
| Laico Regency | 35 | 193(35/387) | 17 |
| Nairobi Safari Club | 40 | 193(40/387) | 20 |
| Nairobi Serena | 42 | 193(42/387) | 21 |
| Ole Sereni | 38 | 193(38/387) | 19 |
| Safari Park Hotel and Casino | 39 | 193(39/387) | 20 |
| Sarova Stanley  The Boma Nairobi  Villa Rosa Kempinski  **Total** | 36  34  41  **387** | 193(36/387)  193(34/387)  193(41/387) | 18  17  20  **193** |

# 3.5 Instrumentation

The researcher administered a questionnaire to each of the sampled respondents. This questionnaire had both closed and open ended questions to enable the respondents express their opinion which was vital in drawing the conclusion. Brief instructions were written on the questionnaire and the respondents were in a position to tick their opinion strong or weak and express their views based on the asked questions. To answer the statement, a 5 point Likert scale was used.

## 

## 3.5.1 Validity and Reliability

Validity is the degree to which the results obtained from analysis of data collected represents the phenomenon under study. It measures how well the results arrived at measure up to their claims (Chege, 2013). The researcher discussed the questionnaire with the supervisor to determine if it represented the objectives of the study. To determine content validity which was applied in the study, the researcher used expert judgment technique.

Reliability is the degree to which a research instrument yields consistent results once it’s administered repeatedly (Mugenda and Mugenda 2003). The researcher administered the same questionnaire to the same group of respondents twice in a span of one week to test its validity. This was estimated using Cronchbach’s α (alpha) which measures internal consistency in other words, reliability of a psychometric instrument. It measures how well a set of variables measure a single, one dimensional latent aspect of individuals. Many quantities of interest may be impossible to measure explicitly so the answers given to the questions asked are combined into a single numerical value.

Cronchbach’s Alpha increases when the correlations between the items increase. A value of Cronchbach’s alpha of 0.7 is considered as acceptable and a value of more than 0.8 as excellent.

# 3.6 Methods of data collection

Primary data was collected using a questionnaire that had both close ended and open ended questions. The questionnaires were self-administered through the hotel managers and supervisors of the chosen five star hotels.

## 3.6.1 Ethical issues

Ethical issues describe the code of conduct that the researcher should exercise during his assignment (Tromp 2013). The researcher exercised integrity and due diligence and assured the respondents that the information given would remain confidential and would be used for academic purposes only. The respondents gave the information at free will under no coercion whatsoever.

# 3.7 Methods of data analysis

For accuracy, consistency and completeness, the researcher edited the questionnaires then coded and classified the data so as to present the data Analysis results in a systematic and comprehensive way. This was be done through the use of SPSS V21 software. The researcher analyzed the qualitative data using computer aided content analysis which entailed organizing the data into manageable categories in terms of patterns, types, classes, consequences or themes. Quantitative data was analysed using descriptive statistics which involve the mean, mode, median, standard deviation and proportions. Inferential statistics which entail correlation and regressions with 0.05 test significance level were also used. It showed the relationship between x and y whose function is as below:

**Y = *f*(X1, X2, X3, X4) +e**

The researcher further regressed the data to establish the relationship between performance (y) and the response strategies (x).The model was further stated as:

*Y=β0 + β1X1+ β2X2+ β3X3+ β4X4+ ε*

Where :

Y: Performance

**X1**: Cost cutting strategy

**X2**:  Diversification strategy

**X3**:  Outsourcing strategy

**X4**: Positioning strategy

**β0**:  Constant

**β1**: Coefficient for Cost cutting strategy

**β2**: Coefficient for Diversification strategy

**β3**: Coefficient for Outsourcing strategy

**β4**: Coefficient for positioning strategy

***ε***: Error term

The strength of the relationship will be shown by the value of Beta while significance will be shown by P- values where a variable with P<0.05 will be deemed significant.

# CHAPTER FOUR

# RESULTS AND DISCUSSIONS

## 4.1 Introduction

This chapter presents the results and the discussions of the study. The study sought to establish the relationship between strategic responses and performance of the hospitality industry in Nairobi County, Kenya. The study was conducted among top managers, middle level managers and lower level managers.

Data was obtained by the use of questionnaires and brief interviews. The results were presented as by the study objectives. The response rate of the study was 161 (83.4%) because out of the 193 questionnaires administered, only 161 were fully filled as expected.

## 4.2 Reliability Test

**Table 4.1: Reliability Test**

## 

Variable Cronchbach’s Alpha Number of Items Comments

Performance 0.715 7 Accepted

Cost Cutting 0.792 7 Accepted

Diversification 0.696 7 Accepted

Out sourcing 0.690 6 Accepted

Positioning 0.797 6 Accepted

The average Cronbach’s alpha for the five variables; performance, cost cutting and positioning is above 0.7. This indicate that the questionnaire had a high internal consistency and thus reliable in conducting the study.

## 4.3 Demographic Characteristics of the Respondents

The study sought to find out the gender, age, level of education, position held by the respondents, length of service offered by the respondents and the salary scale of the respondents.

The findings are displayed in the figures and table below:

**Figure 4.1 showing Gender of the Respondents**

The findings in figure 4.1 show that majority of the respondents (60.87%) were male while 39.13% were female.

**Figure 4.2 showing the age bracket of the respondents**

The findings indicate that the respondents aged between 36 – 40 years were the majority (40.37%), 34.78% were aged between31 – 35 years, 18.63% were aged between 41- 45 years and only 6.21% were aged between 21 – 25 years. Since majority of the respondents were aged between 36 – 40 years, they have the knowledge and expertise that is required to formulate and drive strategy forward.

**Table 4.2: Distribution of Respondents by their level of education**

|  |  |  |  |
| --- | --- | --- | --- |
|  | | Frequency | Percent |
|  | Certificate | 10 | 6.21 |
| Diploma | 40 | 24.84 |
| Degree | 111 | 68.94 |
| Total | 161 | 100.0 |

The study also sought to establish the respondents’ levels of education. According to the findings indicated in table 4.2, the majority of respondents had a university degree as shown by 68.94%, 24.84% had a diploma while 6.21% had a certificate. The differences in education levels can lead to disparities in the position held and the pay received. Since the majority of the respondents had a university degree, it shows that they understood the content of the study.

# 4.4 Distribution of Respondents by the length of service

The respondents were also required to number of years that they had served in the hotel. From the study, 62.11% of the respondents had been working for a period between 11- 15 years, 31.68% had been working for 6 – 10 years while a small proportion of 6.21% had served the hotel for 16- 20 years as shown in figure 4.7. This shows that majority of the respondents had served in the hotels long enough to understand the relationship between strategic responses adopted and performance of the hotels.

**Figure 4.3 showing the length of service**

The study also sought to establish the position held by the respondents. The majority belonged to the middle management level as indicated by 34.78%, the supervisory level of management formed 29.19%, the top management level was at 28.57% while the others was 7.45%. This shows that the questions were filled close to accuracy since the three levels of management are responsible for formulating and overseeing the execution of the strategies as well as monitoring the performance of the organization.

**Figure 4.4 showing the position held**

## 4.4 Performance

The study sought to establish the respondents’ extent of agreement with various statements that relate to performance at the five star hotels in a likert scale of 1 – 5 where **1 – Strongly Disagree, 2- Disagree, 3- Neutral, 4- Agree and 5- Strongly Agree.** According to the findings, majority of the respondents strongly agreed that the hotel has effectively managed its debt through implementation of new strategies in the last few years as shown by a mean score of 4.1346. The return on Assets in the hotel has been higher compared to their competitors over the last five years as indicated by a mean score of 3.9678. Majority of the respondents disagreed that the hotel has realized an increase in profits over the last five years as shown by a mean score of 2.9456. Most of the respondents were also in agreement that the sales had observed an upward trend as shown by a mean score of 3.5113. The hotels had to increase the number of beds to accommodate more visitors as shown by a mean score of 3.8462 .Bed occupancy during the day has been on the rise due to night travelers as shown by a mean score of 3.6787 while majority also agreed that earnings generated from invested capital have increased in the last five years as shown by a mean score of 3.5931.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4.3: Status of Performance** | | | |
|  | **N** | **Mean** | **Std. Deviation** |
| our sales have observed an upward trend | 161 | 3.5113 | 1.21472 |
| Bed occupancy during the day has been on the rise due to night travelers | 161 | 3.6787 | .99887 |
| Our hotel had to increase the number of beds to accommodate more visitors | 161 | 3.8462 | 1.11949 |
| Our hotel has realized an increase in profits over the last five years | 161 | 2.9456 | 1.10381 |
| Earnings generated from invested capital have increased in the last five years | 161 | 3.5931 | .91557 |
| The return on Assets in our hotel has been higher compared to our competitors over the last five years | 161 | 3.9678 | 1.00608 |
| Our hotel has effectively managed its debt through implementation of new strategies in the last few years | 161 | 4.1346 | .77344 |
|  |  |  |  |

## 4.5 Cost Cutting Strategy

According to the findings in table 4.4 below, the majority of the respondents strongly agreed that procurement procedures have been made simpler to reduce cost over the last five years as shown by a mean score of 3.9503. Research and development programs have been subsidized to reduce expenditure as shown by a mean score of 3.6981. Most respondents also agreed that the hotel has opted for cheaper sources of raw materials as indicated by a mean score of 4.1043. The number of full time employees has been reducing over the last five years as shown by a mean score of 3.4913. Casual / temporary laborers have been preferred over the last five years as shown by a mean score of 3.5404.

Majority of the respondents also agreed thatthe cost of operations had gone down for the last few years as shown by a mean score of 3.4161. Further, the respondents agreed on the issue that the hotel has come up with its own sources of some of its raw materials as shown by a mean score of 3.5776.

**Table 4.4: Status of Cost Cutting Strategy**

|  |  |  |  |
| --- | --- | --- | --- |
|  | **N** | **Mean** | **Std. Deviation** |
| The number of full time employees has been reducing over the last five years | 161 | 3.4913 | 1.07920 |
| Procurement procedures have been made simpler to reduce cost over the last five years | 161 | 3.9503 | .91379 |
| The hotel has opted for cheaper sources of raw materials | 161 | 4.1043 | .96205 |
| Casual / temporary laborers have been preferred over the last five years | 161 | 3.5404 | .98103 |
| Research and development programs have been subsidized to reduce expenditure | 161 | 3.6981 | .90723 |
| The cost of operations has gone down for the last few years | 161 | 3.4161 | 1.14869 |
| The hotel has come up with its own sources of some of its raw materials | 161 | 3.5776 | .73858 |

## 4.6 Diversification Strategy

The study also sought to establish the respondents’ level of agreement with various statements that relate to diversification as a strategy. Majority of the respondents strongly agreed that the hotel has been offering its services differently over the last few years to win more customers as shown by a mean score of 4.1975. The respondents also agreed that the hotel has acquired new products and services to increase its customer base over the last five years as shown by a mean score of 3.4534. The hotel has invested heavily in different markets, products and services in the last few years as shown by a mean score of 3.5652. Majority of the respondents disagreed that the hotel has merged with another company to enhance effective and efficient delivery of services as shown by a mean score of 2.8575. Further, majority of the respondents agreed that the hotel has launched its own distribution and marketing outlets over the last five years as shown by a mean score of 3.9379, many respondents agreed that the hotel has acquired a new company to ease its operations in the last five years as shown by a mean score of 3.4658 and they also agreed that the hotel has acquired a plant to produce its equipment instead of purchasing from other suppliers as shown by a mean score of 3.5776.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4.5: Status of Diversification strategy** | | | |
|  | **N** | **Mean** | **Std. Deviation** |
| our hotel has acquired new products and services to increase its customer base over the last five years | 161 | 3.4534 | .71546 |
| Our hotel has been offering its services differently over the last few years to win more customers | 161 | 4.1975 | .70957 |
| Our hotel has launched its own distribution and marketing outlets over the last five years | 161 | 3.9379 | 1.09367 |
| Our hotel has acquired a plant to produce its equipment instead of purchasing from other suppliers | 161 | 3.5776 | .69498 |
| Our hotel has invested heavily in different markets, products and services in the last few years | 161 | 3.5652 | .77284 |
| Our hotel has merged with another company to enhance effective and efficient delivery of services | 161 | 2.8571 | .97376 |
| Our hotel has acquired a new company to ease its operations in the last five years | 161 | 3.4658 | .85170 |

## 4.7 Outsourcing strategy

From the findings, the study established from the majority of respondents agreed that the hotel has invested in the basic technology and outsourced the more complex one to cut down expenses as shown by a mean score of 3.4050. More so, casual staff are outsourced when need arises to avoid extra expenditure on salaries as shown by a mean score of 4.0174, the hotel has outsourced the support services to cut cost and improve performance as shown by a mean score of 3.9360 and Some of the means of production are outsourced to save time and increase efficiency as shown by a mean score of 3.8696.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4.6: Status of Outsourcing Strategy** | | | |
|  | **N** | **Mean** | **Std. Deviation** |
| Our hotel has invested in the basic technology and outsourced the more complex one to cut down expenses | 161 | 3.4050 | 1.12427 |
| Our hotel has outsourced the support services to cut cost and improve performance | 161 | 3.9360 | .95207 |
| Casual staff are outsourced when need arises to avoid extra expenditure on salaries | 161 | 4.0174 | .83438 |
| Some of the means of production are outsourced to save time and increase efficiency | 161 | 3.8696 | 1.18390 |

## 4.8 Market positioning Strategy

The study also sought to establish the respondents’ level of agreement with various statements that relate to positioning as a strategy. According to the findings, majority of the respondents strongly agreed that the hotel has devised reliable safety and security systems to take care of the clients by a mean score of 3.5031. The hotel has invested in quality customer service to attract more clients as shown by a mean score of 3.5652. The hotel has positioned itself in terms of physical attractiveness better than the competitors as shown by a mean score of 3.6957. The products and services are perceived to be worth compared to the value derived shown by a mean score of 3.7391.

Majority of the respondents were also in agreement that their clients appreciate the range of products and services they get and this entices them to visit as shown by a mean score of 3.7578. Further, Hotel clients are drawn to it due to the quality of food and services offered as shown by a mean score of 3.8634.

|  |  |  |  |
| --- | --- | --- | --- |
| **Table 4.7: Status of Positioning Strategy** | | | |
|  | **N** | **Mean** | **Std. Deviation** |
| The hotel has positioned itself in terms of physical attractiveness better than the competitors | 161 | 3.6957 | .54822 |
| Hotel clients are drawn to it due to the quality of food and services offered | 161 | 3.8634 | .53029 |
| The products and services are perceived to be worth compared to the value derived | 161 | 3.7391 | .53059 |
| Our hotel has devised reliable safety and security systems to take care of the clients | 161 | 3.5031 | .58228 |
| Our clients appreciate the range of products and services they get and this entices them to visit | 161 | 3.7578 | .52173 |
| Our hotel has invested in quality customer service to attract more clients | 161 | 3.5652 | .64983 |

## 4.9 Relationship between Cost Cutting strategy and Performance

Cost cutting refers to the steps taken by a firm based on its operations, with a focus of reducing its expenses and in turn increasing the gains or profits (Karambu, 2011). All organizations are keen on bringing down the cost of inputs in order to maximize what they reap from the output. This output is actually the indicator of performance. The hospitality industry is no exception when it comes to practicing cost cutting. Porter (1980) set out three approaches which firms could use to improve their performance and termed them as generic strategies. These were cost leadership, differentiation and focus. The cost leadership strategy involves minimizing of cost of inputs and production processes to cut down expenses and boost the profits. By use of this strategy, organizations aim at being the leader in providing quality goods and services at a low cost.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| 4.10 Cost Cutting strategy and Performance: Model validity An Analysis of Variance was conducted to find out if the model can predict Y using X. in this case, predict performance variable using cost cutting strategy variable.  The results are shown below:  **Table 4.8: Cost Cutting strategy and Performance: Model validity** | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 43.858 | 1 | 43.858 | 886.983 | .000b |
| Residual | 7.862 | 159 | .049 |  |  |
| Total | 51.720 | 160 |  |  |  |
| a. Dependent Variable: Performance | | | | | | |
| b. Predictors: (Constant), Cost cutting strategy  According to the regression results in Table 4.8, performance was significantly explained by cost cutting strategy drivers (F1, 159) =886.983; p=0.001 (<0.05) meaning that cost cutting was a good predictor of performance. Cost cutting was therefore confirmed as a contributor to performance and can independently affect the dependent variable within the hospitality industry in Nairobi County. This further implies that the model is good for further analysis.  However, Porter (1980) argues that companies using a generic strategy like cost leadership (in this study it was notes as cost cutting), should strive to be the best at implementing that strategy if it has to achieve the desired impact on the output under consideration. Those pursuing this strategy should aim at being the lowest cost producers and not among those saving costs since this would make all organizations uncompetitive.  It’s evident that cost cutting is a strategy to watch and the hotels should continue practicing it since its contributing to the improvement of the hotels’ performance. | | | | | | |

**4.11 Regression model summary of the relationship between cost cutting and performance**

The regression model summary shows the nature of relationship between the independent variable which is Cost cutting strategy and the dependent variable (performance).

**Table 4.9 Regression model summary of the relationship between cost cutting and performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .921a | .848 | .847 | .22237 |
| a. Predictors: (Constant), Cost cutting strategy | | | | |

From the findings, R2 =84.8%. This shows that the relationship between cost cutting and performance is positive. One unit increase in cost cutting, leads to an improvement in performance. The R2 value further tells us that 84.8% of the variation in performance of the hospitality industry is explained by the cost cutting strategy that the hotels have adopted. This confirms the findings of Daniel (2014) that cost cutting is a key strategy that has been adopted by Saccos in Murang’a County and it has resulted to an improvement in their performance through the increase in profits.

## 4.12 Cost Cutting strategy and Performance: Regression Weights

The relationship between cost cutting strategy and performance was investigated by computing the regression coefficients. The result is presented in table 4.10

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 4.10 Cost Cutting strategy and Performance: Regression Weights** | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | -.271 | .117 |  | -2.323 | .021 |
| Cost cutting strategy | 1.268 | .043 | .921 | 29.782 | .000 |
| 1. Dependent Variable: Performance   The results indicate that cost cutting strategy has a positive and significant influence on performance of the hotels (β =1.268; p=.000). In this regard, the coefficient indicates that for every additional unit of cost cutting, it is expected that performance will improve by an average of 1.268. There appears to be a strong relationship between cost cutting and performance and it is highly significant (p=0.001 at 0.05 level).  Cost cutting strategy is therefore a key factor that the hotels should always consider to enable them improve their performance. | | | | | | |

## 4.12 Relationship between Diversification and Performance

Diversification is a technique used by firms whereby they venture into new markets and introduce new products and services with an aim of increasing their returns (Onyango, Edwin, Ouma & Lucas, 2012). This practice has been embraced by organizations to keep up with the changing demands of their clients and the environment at large. Failure to manage and keep up with this change leads to obsoleteness.

The study sought to find out how if the hotels practice diversification and whether it has affected their performance. The results for the analysis are as follows:

**Table 4.11: Diversification strategy and Performance: Model Validity**

The analysis of variance was conducted to establish whether the diversification strategy (X) can predict Performance (Y).

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
|  | Regression | 40.073 | 1 | 40.073 | 547.062 | .000b |
| Residual | 11.647 | 159 | .073 |  |  |
| Total | 51.720 | 160 |  |  |  |

1. Dependent Variable Performance.
2. Predictors: (Constant), Diversification Strategy.

The significant effects of diversification (F (1,159) =547.062; P=0.001 (<0.05) show that diversification is an important strategy in performance improvement in the hospitality industry. To reinforce diversification for performance improvement, the hotels had launched new products and services, acquired other companies to support their operations and merged with other companies.

The significant effect of diversification on performance is consistent with other scholars. Ervin (2013) found out that diversification is key to the progress of any firm and firms should look for something ‘green’ and implement it based on the environmental demands. This way the firms can be assured of improving the performance in terms of returns.

The study findings in table 4.18 show that the research model was valid, (F= (1,159) =547.062; P<0.001). Therefore the model is good for further analysis. This means that diversification as a predictor variable used in this study is a good predictor of performance.

## 4.13 Model summary on the relationship between diversification strategy and performance

A regression was run to find out the percentage to which diversification strategy (X) explains a change in performance (Y).

The results are shown in table 4.12.

**Table 4.12: Model summary on the relationship between diversification strategy and performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .880a | .775 | .773 | .27065 |
| 1. Predictors: (Constant), Diversification Strategy | | | | |

According to the findings, R2 =77.5%. This shows that the relationship between cost diversification strategy and performance is positive. One unit increase in diversification, leads to an improvement in performance. The R2 value further tells us that 77.5% of the variation in performance of the hospitality industry is explained by the diversification strategy that the hotels have adopted. This confirms the findings of Amidu and Kuipo (2015) that banks that embraced structural diversification engaged in a larger degree of earnings management which is a critical indication of performance.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 4.13:Diversification strategy and Performance: Regression weights** | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .235 | .127 |  | 1.851 | .066 |
| Diversification Strategy | 1.166 | .050 | .880 | 23.389 | .000 |
| a. Dependent Variable: Performance | | | | | | |

Form the findings in table 4.20, Diversification strategy has a positive and significant influence on performance of the hotels (β =1.166; p=.000). In this regard, the coefficient indicates that for every additional unit of diversification, it is expected that performance will improve by an average of 1.166. Further, there appears to be a strong relationship between diversification and performance and it is highly significant (p=0.001 at 0.05 level).

Diversification strategy is therefore a key factor that the hotels should always consider to enable them improve their performance. Launching of new products and services, merging with companies that reinforce their operations, acquiring companies that improve their effectiveness and efficiency are some of the key activities that hotels can consider to support diversification as a strategy.

This concurs with the findings of Kang and Lee (2013), that diversification has a strong positive impact on performance of firms. Ansoff and McDonnell (1990) point out four strategies that the firms need to embrace to remain vibrant in the changing environment; product development, market development, penetration and diversification. Porter (1980) goes further and points out that diversification stands out from the other three strategies since the environment always calls for innovation.

## 4.14 Reporting Outsourcing under regression

Graf and Mudambi, (2015) refer to outsourcing as a practice where firms contract the services of another party instead of investing in their own. This is common to majority of the organizations especially the non core activities as they choose to concentrate on the core ones.

The study sought to find out whether the hospitality industry in Nairobi County practiced outsourcing and how it affected the hotels performance.

The regression results were as below:

## 4.15 Outsourcing strategy and performance: Model validity

An analysis of variance was conducted to determine if the outsourcing strategy (X) can predict performance (Y) and in what direction.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 4.14: Outsourcing strategy and performance: Model validity** | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 42.683 | 1 | 42.683 | 750.952 | .000b |
| Residual | 9.037 | 159 | .057 |  |  |
| Total | 51.720 | 160 |  |  |  |
| a. Dependent Variable: Performance | | | | | | |

The significant effects of outsourcing (F (1,159) =750.952; P=0.001 (<0.05) show that outsourcing is a key strategy in performance improvement in the hospitality industry. The hotels are keen on executing the core competencies as they look up to other service providers to carry out the support activities. This way, efficiency is ensured.

The findings on the significant effect of outsourcing on performance is concurs with other scholars. Petronilla (2013) did a study on outsourcing and performance and concluded that the firms that outsource their support activities and concentrate on the core ones are in a better position to effectively achieve their strategic goals which eventually dictate their performance.

Outsourcing strategy has a strong, highly significant relationship with performance as indicated by a significant of .000 at P<0.05 level. From these findings, it is evident that the model is good for further analysis and outsourcing as a predictor variable used in this study is a good predictor of performance.

## 4.16 Model summary on the relationship between Outsourcing strategy and performance

To find out the percentage to which outsourcing (X) explains a change in performance (Y), a regression was conducted to obtain the coefficient of determination, R2, which explains this.

The results are shown in table 4.22.

**Table 4.15: Model summary on the relationship between Outsourcing strategy and performance**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .908a | .825 | .824 | .23841 |
| a. Predictors: (Constant), Outsourcing Strategy | | | | |

From the findings, R2 =82.5%. This shows that the relationship between outsourcing strategy and performance is a positive one. One unit increase in outsourcing, leads to an improvement in performance. The R2 value further tells us that 82.5% of the variation in performance of the hospitality industry is explained by the outsourcing strategy that the hotels have adopted. This confirms the findings of Nancy (2012) who studied the impact of outsourcing in the Serena group of hotels and concluded that it was an effective strategy that had a positive effect on the performance of the group of hotels since their profits (a key determinant of performance), had increased.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Table 4.16: Outsourcing strategy and Performance: Regression Weights** | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.323 | .070 |  | 18.927 | .000 |
| Outsourcing Strategy | .750 | .027 | .908 | 27.403 | .000 |
| a. Dependent Variable: Performance | | | | | | |

The findings in table 4.23 show that outsourcing strategy has a positive and significant influence on performance of the hotels (β =.750; p=.000). The coefficient indicates that for every additional unit of outsourcing, it is expected that performance will improve by an average of .750. There is a strong relationship between outsourcing and performance and it is highly significant (sig=0.001 at 0.05 level).

Outsourcing strategy is an important factor that the hotels should always consider to enable them improve their performance. These findings agree with those of other scholars. Asiamah (2013) conducted a study on outsourcing and performance and concluded that firms which engage the services of credible third parties end up in improving their financial position since they have an ample time to concentrate on their core activities.

## 4.17 Market Positioning under Regression

To determine the relationship between positioning and performance, a regression analysis was conducted and the results displayed as below;

**Table 4.17: Positioning strategy and performance model validity**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 19.743 | 1 | 19.743 | 98.165 | .000b |
| Residual | 31.978 | 159 | .201 |  |  |
| Total | 51.720 | 160 |  |  |  |
| a. Dependent Variable: Performance | | | | | | |
| b. Predictors: (Constant), Market positioning Strategy  The significant effects of positioning strategy (F (1,159) =98.165; P=0.001 (<0.05) show that positioning strategy positively affects performance in the hospitality industry. This has been practiced through the quality customer service, installation of proper security systems and attractive display of products on offer. The significant effect of positioning on performance is consistent with other scholars. Ayiele (2012) found out that positioning is a very important strategy for five star hotels as it is the main factor that creates a picture in the minds of clients on what the entire hotel is about.  The study findings show that the research model was valid, (F= (1,159) =98.165; P<0.001) and positioning as a predictor variable used in this study is a good predictor of performance. Therefore the model is good for further analysis.  **Table 4.18: Model summary on the relationship between Positioning strategy and performance**   |  |  |  |  |  | | --- | --- | --- | --- | --- | |  | | | | | | Model | R | R Square | Adjusted R Square | Std. Error of the Estimate | | 1 | .618a | .382 | .378 | .44846 | | | | | | | |

The findings on table 4.25 show, R2 =38.2%. This is an indication that the relationship between positioning strategy and performance is a positive one. One unit increase in positioning strategy, leads to an improvement in performance. The R2 value further tells us that 38.2% of the variation in performance of the hospitality industry is explained by the positioning strategy that the hotels have adopted. This confirms the findings of Mokaya, Kanyagia and M’Nchebere (2012) that positioning strategy plays a pivotal role in the marketing strategy because it forms a link between the internal corporate analysis and the segment analysis, market analysis and competitive analysis.

**Table 4.19: Positioning strategy and Performance: Regression weights**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | T | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | 1.625 | .160 |  | 10.175 | .000 |
| Market positioning Strategy | .735 | .074 | .618 | 9.908 | .000 |
|  | | | | | | |
| 1. Dependent Variable: Performance | | | | | | |

The results indicate that positioning strategy has a positive and significant influence on

performance of the hotels (β =.735; p=.000). In this regard, the coefficient indicates that for

every additional unit of positioning, it is expected that performance will improve by an average

of .735. There appears to be a strong relationship between positioning and performance and it is

highly significant (p=0.001 at 0.05 level).

It is evident that positioning strategy is a key factor that the hotels should always consider to enable them improve their performance.

## 4.18 Pearson correlation

A Pearson correlation was computed between the independent variables (cost cutting strategy, diversification strategy, outsourcing strategy and positioning strategy) and the dependent variable (performance) with the aim of establishing whether there was a causal relationship between these study variables.

The correlation coefficients show the interrelationships between the independent variables as well as the relationship between the dependent and independent variables. The positive values indicate a relationship between independent (X) and dependent (Y) variables such that as X values increase, Y value also increases. On the other hand, negative values show a relationship between X and Y such that as X values increase, Y value decreases. A value near zero means that there exists a random, nonlinear relationship between X and Y. Collinearity refers to the strength of the linear relationship among the independent variables as well as between the independent and the dependent variables.

**Table 4.20: Bi-variate Correlation between the Strategic Responses and Performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | | Performance | X1 | X2 | X3 | X4 |
| Performance | Pearson  Correlation | 1 |  |  |  |  |
| Cost cutting score strategy | Pearson  Correlation | .921\*\* | 1 |  |  |  |
| Sig. (2-  tailed) | .000 |  |  |  |  |
| Diversification score strategy | Pearson  Correlation | .880\*\* | .954\*\* | 1 |  |  |
| Sig. (2-  tailed) | .000 | .000 |  |  |  |
| Outsourcing score strategy | Pearson  Correlation | .908\*\* | .936\*\* | .872\*\* | 1 |  |
| Sig. (2-  tailed) | .000 | .000 | .000 |  |  |
| Market positioning score strategy | Pearson  Correlation | .618\*\* | .655\*\* | .619\*\* | .742\*\* | 1 |
| Sig. (2-  tailed) | .000 | .000 | .000 | .000 |  |
| \*\*. Correlation is significant at the 0.01 level (2-tailed). | | | | | | |

The study results in table 4.20 show the bi-variate correlation between the independent variables and performance. The findings show that cost cutting strategy (r=.921, p<0.001) is significant and positively related to hotel performance. Diversification strategy (r=.880, p<0.001) is significant and positively related to hotel performance. The Outsourcing strategy (r=.908, p<0.001) is also significant and positively related to the hotel performance and Positioning strategy (r=.618, p<0.001) is significant and positively related to the hotel performance.

## 4.19 Multiple Regression Analysis

In order to establish how much of the performance was explained by cost cutting, diversification, outsourcing and positioning, a regression analysis was conducted.

**Table 4.21: Strategic Responses and Performance: Model validity**

|  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| Model | | | | Sum of Squares | | Df | Mean Square | | F | | Sig. |
| 1 | Regression | | | 44.970 | | 4 | 11.242 | | 259.809 | | .000b |
| Residual | | | 6.750 | | 156 | .043 | |  | |  |
| Total | | | 51.720 | | 160 |  | |  | |  |
| a. Dependent Variable: Performance | | | | | | | | | | | |
| 1. Predictors: (Constant), Outsourcing Strategy, Market positioning Strategy, Diversification Strategy, Cost cutting strategy   The research findings in table 4.29 show that the model significance F (4,156) =259.809; p<0.001. This implies that the set of variables, which included cost cutting, diversification, outsourcing and positioning, significantly explained changes in the dependent variable (performance) of the hospitality industry. At the same time, the significant level was less than 0.05 an indication that the confidence level for the F statistics was above 95%.  Therefore the model is good for further analysis. | | | | | | | | | | | |
| **Table 4.22: Model Summary on the relationship between strategic responses and performance** | | | | | | | | | | | | |
| Model | | R | R Square | | Adjusted R Square | | | Std. Error of the Estimate | |
|
| 1 | | .932a | .869 | | .866 | | | .20802 | |
| Predictors: (Constant), Market positioning score index, Diversification score index,  Outsourcing score index, Cost cutting score index | | | | | | | | | | | | |  |  |  |  |  | R Square Change | F Change | df1 | df2 | Sig. F Change |

From the findings in table 4.29, r2= .869 which means that 86.9% of the total variation in performance variable (Y), can be explained by the linear relationship between X and Y. the other 13.1% of the total variation in Y can be explained by other variables not covered in this study. If the regression line passes exactly through every point on the scatter plot, it would be able to explain all of the variation. The further the line is away from the points, the less it is able to explain.

## 4.19 Regression Coefficients of the strategic responses variables

In a regression model, the coefficient of variables shows how strongly the independent variables influence the dependent variable and whether the nature of influence is positive or negative. On the other hand, the confidence level shows the level to which a statistical inference can be termed as accurate as well as the margin of error.

**Table 4.23: Regression Coefficients of the relationship between strategic responses and performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **Coefficientsa** | | | | | | |
| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
| B | Std. Error | Beta |
| 1 | (Constant) | .467 | .184 |  | 2.539 | .012 |
| Cost cutting strategy | .555 | .191 | .403 | 2.902 | .004 |
| Diversification strategy | .167 | .131 | .126 | 1.277 | .204 |
| Outsourcing strategy | .398 | .079 | .482 | 5.020 | .000 |
| Market positioning strategy | -.097 | .052 | -.082 | -1.862 | .064 |
| a. Dependent Variable: Performance | | | | | | |

The established regression equation by the study was:

Y =0.467+ 0.555X1+ 0.167X2+ 0.398X3- 0.097X4+ ε

From the above regression equation it was revealed that holding Cost cutting strategy, Diversification, Outsourcing and market positioning to a constant zero, the level of performance among the five star hotels in Nairobi County, Kenya is at 0.467

The coefficient 0.555 X1 denotes that if all other independent variables are rated as zero, a change of magnitude 0.555 in X1 (Cost cutting Strategy) will lead to a unit change in Y (Performance). Similarly a change of magnitude 0.167 in X2 (diversification) will result in a unit change in Y (Performance), a change of magnitude of 0.398 in X3 (outsourcing strategy) will also lead to a unit change in Performance (Y) and a change in magnitude of - 0.097 in X4(market positioning strategy) leads to a unit change in performance (Y) of the five star hotels in Nairobi County.

The magnitudes of the coefficients of regression also show the strength of the influence and the nature of relationship between the variables. Therefore, there exists direct positive relationship between performance of the five star hotels in Nairobi County and cost cutting strategy (coefficient 0.555), diversification (coefficient 0.167) and outsourcing strategy (coefficient 0.398). However, there exists a negative relationship between performance of the five star hotels in Nairobi County and market positioning strategy (coefficient -0.097).

The study further found out that in a combined relationship, only two variables and the constant are significant and positively related to performance. The value of the constant (β0=.467, p=0.012) show that strategies will always exist at a certain minimum. The findings show that outsourcing strategy (β3=.398, p<0.001) and Cost cutting strategy (β1=.555, p=0.004) are significant and positively related to the hotels performance. Diversification strategy β2=.167, p=0.204) and market positioning strategy (β4=.907, p=0.064) are insignificant in influencing the hotels performance in Nairobi County.

The findings conform to other scholars. Kairu (2013) asserts that organizations should always be ready to respond to the changes in the environment by implementing effective strategic responses to enable them improve their performance and sustain their operations. Regarding diversification, Sara (2011) found out that diversification and innovation do not contribute to performance of the organizations in the short term but in the medium and long term.

# CHAPTER FIVE

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

## 5.1 Introduction

This chapter presents the summary of research findings on the relationship between strategic responses and performance with specific focus on the ten selected five star hotels. The chapter is therefore structured into summary of findings, conclusions, recommendations and areas for further research.

## 

## 5.2 Summary of findings

The purpose of this study was to find out the relationship between strategic responses and performance of the hospitality industry by assessing the how cost cutting, Diversification, Outsourcing and positioning strategies affect performance.

**5.2.1 Objective 1: To establish whether cost cutting strategy adopted by firms in hospitality industry affects their performance**

The study sough to establish whether cost cutting as one of the strategies used by firms in the hospitality industry had affected their performance. Cost Cutting strategy was found positive and significantly related to performance. This could be as a result of simplifying the procurement procedures to reduce the cost involved when the process is long, opting for cheaper sources of raw materials, reducing the number of full time employees and instead using the temporary ones to cut on the cost spent on salaries. This finding concurs with Daniel (2014) who did a study on how cost cutting contributes to the profits of an organisation and concluded that this strategy results into low input costs hence an increase in revenue which is a key indicator of performance.

**5.2.2 Objective 2: To determine whether diversification strategy adopted by firms in hospitality industry affects their performance**

Diversification Strategy was found positive and not significantly related to performance. This could be as a result of launching new products and services without considering the customers feedback / perception, offering the services differently without evaluating how the customers react to the new services and merging with companies that are not effective enough to support the core business. This agrees to the findings of Sara (2011) who did a study to determine how diversification strategy practiced by four star hotels in times of crisis affects their performance. The study found out that diversification and innovation does not significantly contribute to performance in the short term but in the medium and long term. This could be the case for the five star hotels.

**5.2.3 Objective 3: To assess whether outsourcing strategy adopted by firms in hospitality industry affects their performance**

Outsourcing strategy was found positive and significantly related to performance. This could be as a result of outsourcing the support activities to competent parties hence allowing them to focus on the key activities, outsourcing the complex technology to reduce the expenditure on experts to run the complicated machines and embarking on casual staff when need arises instead of having permanent employees who have to wait for duties to come up. This confirms the findings of Nancy (2012) who conducted a research to find out how outsourcing contributes to organisational performance and focused on a case study of Serena Group of Hotels. It was found out that outsourcing was a key strategy practised by the hotels and it had led to a growth in profits which is a major aspect of performance.

**5.2.4 Objective 4: To find out whether positioning strategy adopted by firms in hospitality industry affects their performance**

Positioning was found negative and not significantly related to performance. This could be as a result of incomplete portraying in terms of physical attractiveness, lack of sufficient knowledge on the quality of products and services that attract the customers and not enquiring from their clients on how they perceive them hence no information on how to portray themselves. These findings support those of a study conducted by Ayiele (2012) on how the positioning strategies adopted by five star hotels affect their performance. He found out that five star hotels implement positioning strategies without considering the clients perception hence they end up having a negative or no impact at all on performance. So the client should be the key reference when considering positioning.

## 

## 5.3 Conclusion.

Cost cutting strategy was found to be significant on performance. It seems that the hotels ensure that the inputs used are cost effective and the budget favors their expenditure hence they spend less on the various activities compared to the returns. The diversification strategy was not significant on performance. This portrays that the hotels do not come up with proper new products and services as per the clients likes and they have acquired or merged with companies that are not so efficient and effective in their operations.

It was evident that outsourcing strategy was significant to performance of the hotels. This showed that the organizations have put proper procedures in place to determine what services will be offered by the third parties and which ones will be executed by the hotel staff. This has led to cost cutting.

Positioning was found not to be significant to performance of the organizations. This portrayed that the hotels have not gathered adequate knowledge on how the public who form their client base view them in terms of their products, services and general display.

## 5.4 Recommendations

The hotels need to focus on intensive research to find out the products and services that are best perceive by their clients then embark on them. This will enable them increase their sales which will have positive effect on performance. The organizations should also vet the companies that they intend to merge with or acquire to determine the input they will have on their business and how this input will affect their performance. This way they are likely to form efficient and effective mergers and acquisitions.

The hotels should focus more on those activities that are likely to bring their costs down but still maintain the value of the products and services. This will enable them spend less compared to the output they will get.

On the issue of outsourcing, the hotels should continue putting emphasis on the core activities and call upon service providers when need arises. When they focus on what is key, the performance is likely to improve since hitches are detected and solved early enough. The expense on salaries is also reduced.

Positioning is a key factor that determines the performance. The hotels should understand that their clients are their ambassadors so they should actively engage with them to enable them have a clear picture on how they perceive them. This way, they will get to know what to improve and how best to sell themselves to the public.

## 5.5 Suggestions for Further Research

The research was confined to the selected five star hotels and the specific objectives and so the researcher was not able to cover all other areas and variables that may have an impact on the performance. Further research should be done to cover the strategic responses and performance of different industries. This will draw more conclusive findings that will be of benefit to the various sectors in the Kenyan economy and also the world at large.

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# APPENDICES

## 

## Appendix 1: Letter of Introduction

Eusebia M. Kathuri

Kenya Methodist University

Nairobi

Dear Respondent,

**RE: Questionnaire**

I am a student at Kenya Methodist University pursing, a degree in Masters of Business Administration (MBA). This is to request you to kindly fill in the attached questionnaire for the research purpose.

The research topic is: The relationship between strategic responses and performance of the hospitality industry in Nairobi –County, Kenya.

Please note that all the information given will be treated with utmost confidentiality and it will be strictly for academic purpose, and the results will be made available for your reference.

Thank you,

Yours sincerely,

Eusebia M. Kathuri

### 

## Appendix II: Questionnaire

My name is Eusebia Kathuri and I am a final year student in Kenya Methodist University pursuing a Master’s degree in Business Administration. I am undertaking a research on “The relationship between strategic responses to environmental changes and performance of the hospitality industry in Kenya.” In this regard, I humbly request for your participation in filing this questionnaire. Any information collected will be treated with confidentiality and only used for academic purposes. Thank you in advance.

**Instructions**

This questionnaire consists of two parts; kindly answer all the questions by ticking in the appropriate box or filling in the spaces provided.

**GENERAL INFORMATION**

Name of the Hotel ……………………………………………………. (Optional)

1. **Gender**

Male [ ]

Female [ ]

**2. Age of respondent in years**

Below 21 years [ ]

21-25 years [ ]

26-30 years [ ]

31- 35 years [ ]

36- 40 years [ ]

41- 45 years [ ]

46-50years [ ]

51+ [ ]

**3. Academic qualifications of respondent**

Certificate [ ]

Diploma [ ]

Degree [ ]

Postgraduate Degree [ ]

Any other ………………… (Specify)

**4. Length of service in the Company**

1. Below 5 years [ ]
2. 6-10 years [ ]
3. 11-15 years [ ]
4. 16-20 years [ ]
5. Above 20 years [ ]

**5. Position held in the company**

1. Top management [ ]
2. Middle management [ ]
3. Supervisory [ ]

Any other (specify) [ ]

**SECTION B: STRATEGIC RESPONSES TO ENVIRONMENTAL CHANGES AND PERFORMANCE IN HOSPITALITY INDUSTRY**

1. **Performance**

This Section is concerned with assessing the performance of the hospitality industry. Please mark tick in the box which best describes the situation in your hotel.

**5. SA-**Strongly Agree **4. A-** Agree **3. N-**Neutral **2. D-** Disagree **1**. **SD-**Strongly Disagree

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **STATEMENT** | **SD** | **D** | **N** | **A** | **SA** |
| 1 | Our sales have observed an upward trend over the last five years |  |  |  |  |  |
| 2 | Bed occupancy during the day has been on the rise due to night travelers |  |  |  |  |  |
| 3 | Our hotel had to increase the number of beds to accommodate more visitors |  |  |  |  |  |
| 4 | Our hotel has realized an increase in profits over the last five years |  |  |  |  |  |
| 5 | Earnings generated from invested capital have increased in the last five years |  |  |  |  |  |
| 6 | The Return on Assets in our hotel has been higher compared to our competitors over the last five years |  |  |  |  |  |
| 7 | Our hotel has effectively managed its debt through implementation of new strategies in the last few years |  |  |  |  |  |

**2) Cost cutting**

This Section is concerned with assessing the cost cutting strategy of the hospitality industry. Please mark tick in the box which best describes the situation in your hotel.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **STATEMENT** | **SD** | **D** | **N** | **A** | **SA** |
| 1 | The number of full time employees has been reducing over the last five years |  |  |  |  |  |
| 2 | Procurement procedures have been made simpler to reduce cost over the last five years |  |  |  |  |  |
| 3 | The hotel has opted for cheaper sources of raw materials |  |  |  |  |  |
| 4 | Casual / temporary laborers have been preferred over the last five years |  |  |  |  |  |
| 5 | Research and development programs have been subsidized to reduce expenditure |  |  |  |  |  |
| 6 | The cost of operations has gone down for the last few years |  |  |  |  |  |
| 7 | The hotel has come up with its own sources of some of its raw materials |  |  |  |  |  |

**3) Diversification**

This Section is concerned with assessing the diversification strategy of the hospitality industry. Please mark tick in the box which best describes the situation in your hotel.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **STATEMENT** | **SD** | **D** | **N** | **A** | **SA** |
| 1 | Ourhotel has acquired new products and services to increase its customer base over the last five years |  |  |  |  |  |
| 2 | Our hotel has been offering its services differently over the last few years to win more customers |  |  |  |  |  |
| 3 | Our hotel has launched its own distribution and marketing outlets over the last five years |  |  |  |  |  |
| 4 | Our hotel has acquired a plant to produce its equipment instead of purchasing from other companies |  |  |  |  |  |
| 5 | Our hotel has invested heavily in different markets, products and services in the last few years |  |  |  |  |  |
| 6 | Our hotel has merged with another company to enhance effective and efficient delivery of services |  |  |  |  |  |
| 7 | Our hotel has acquired a new company to ease its operations in the last five years |  |  |  |  |  |

What type of products and services has the hotel diversified in?...............................................................................................................................................................................................................................................................................................................................................................................................................................................................................

**4) Outsourcing**

This Section is concerned with assessing the outsourcing strategy of the hospitality industry. Please mark tick in the box which best describes the situation in your hotel.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **STATEMENT** | **SD** | **D** | **N** | **A** | **SA** |
| 1 | Our hotel has invested in the basic technology and outsourced the more complex one to cut down expenses |  |  |  |  |  |
| 4 | Our hotel has outsourced the support services to cut cost and improve performance |  |  |  |  |  |
| 3 | Casual staff are outsourced when need arises to avoid extra expenditure on salaries |  |  |  |  |  |
| 4 | Some of the means of production are outsourced to save time and increase efficiency |  |  |  |  |  |
| 5 | The hotel seeks alternative means of production to cut on fuel and labour |  |  |  |  |  |

Which activities have been outsourced by the organisation and why?.......................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................................

**5) Market Positioning**

This Section is concerned with assessing the positioning strategy of the hospitality industry. Please mark tick in the box which best describes your agreement or disagreement.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | **STATEMENT** | **SD** | **D** | **N** | **A** | **SA** |
| 1 | The hotel has positioned its self in terms of physical attractiveness better than the competitors |  |  |  |  |  |
| 2 | Hotel clients are drawn to it due to the quality of food and services offered |  |  |  |  |  |
| 3 | The products and services are perceived to be worth compared to the value derived |  |  |  |  |  |
| 4 | Our hotel has devised reliable safety and security systems to take care of the clients |  |  |  |  |  |
| 5 | Our clients appreciate the range of products and services they get and this entices them to visit |  |  |  |  |  |
| 6 | Our hotel has invested in quality customer service to attract more clients |  |  |  |  |  |

What other strategic responses to environmental changes have been linked to performance?

Please explain……………………………………………………………………………………...

**Kindly provide your email address to enable you have the comprehensive results of this study**

………………………………………………………………………………………………………