

Full Length Research Paper

Empirical analysis of changing business environment on the performance of five-star rated hotels in Nairobi County, Kenya

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The hotel industry has a prospect to grow the economy of a nation, through employment creation, providing market for industry and farm products and consequently reducing poverty levels. Despite the substantive position of the hotel industry to support the economic development in Kenya, there are external factors that influence its performance that has not been analyzed in Nairobi County. A census survey was done in all the ten five-star rated hotels in Nairobi, from which three respondents comprising of the marketing officer, the front office manager, and the finance manager were selected from each hotel. This made up a sample size of 30 respondents who were interviewed using semi-structured questionnaires. The relationship between the environmental variables and performance of the hotel industry was investigated using multiple regression analysis. The results obtained indicated that economical, technological, international and political aspects positively and significantly influenced the performance of five-star rated hotels, with coefficients of 1.467, 1.226, 1.444 and 1.246 respectively at 5% level of significance. From the findings, it is recommended that five-star rated hotels should exploit internal capabilities, utilize technology and innovation in order to optimize performance. They should also engage with various government and service industry players when formulating policies affecting their industry.

Keywords: Environment, five-star rated hotels, performance, Nairobi County, Kenya.

INTRODUCTION

The service industry is at the centre of Kenya's economic growth (Auka, 2012). Ngugi et al. (2017) mentioned that the hotel industry is one of the service industries which co-relates with the tourism industry. They both have the same objective of providing accommodation to guest, leisure, and recreational facilities. Mayaka and Prasad (2012) alluded that hotels provide accommodation, food and drinks and tourism provides relaxations and various fun activities like sightseeing of wild animals, nature walk and picnics thereby supporting economic development. The Kenyan hotel scene is primed for expansion as global

brands and local investors look to capture the growing number of business travelers as it is a very beautiful country known for its wide range of national parks and game reserve. Rogerson (2014) revealed that Kenya is known for its warm and humid climate along the Indian Ocean coastline and the warm and humid climate around Lake Victoria. Awino et al. (2017) asserted that there was a possibility of Kenya giving 16 new five-star hotels in the next five years raising the country's hotel rooms by 2,900. Cytonn Real Estate (2017) affirmed that the completion of the new facilities will increase hotel capacity by 14%. The hotel sector in Kenya is one of the service industries which are greatly affected by the changing business environment due to the nature of its operation. The survival, stability, development and success of the hotel

industry in Kenya greatly depend on appropriate adoption of strategic measures in a multifaceted and dynamic environment in which it operates in. According to Daft (2010), goals of an organization are affected by the environmental constraints that are multi-focus, complex and dynamic. Franca (2014), alluded that business environment is anything, which surrounds business organization. He affirmed that the external environment consists of a set of conditions and influences outside the business which shapes the life and continued existence of the business unit. They include; political, economic, social-cultural, technological, ecological and legal issues (PESTEL). Hamilton and Webster (2018) suggested that the entirety of the inter-relationship between the society and the business are what the management regards as the business environment, that have an effect on the processes, decisions, strategies and performance of a business.

Open system theory recognizes the significance of external environment where they envision internal process relativity and dynamism in the external environment. Organizations are subjective to dynamic needs within the environment, which it cannot easily control. According to Horner and Swarbrooke (2016), Open system approach is grounded on the principle which states that no organization can stay for long if it overlooks the external elements such as the suppliers and the government regulations. This theory consequently affirms that it is necessary for organizations to function in an open system in order to have a competitive advantage.

The growth of the hotel industry has been associated with a number of factors such as the technological innovations, which has made it easy for the guests to access hotel services such as bookings and reservations. The market environment keeps changing profoundly because of the progression in innovation. The techno-environment condition might be the most affected force in altering the style of working and resolution of the organization. Kotler et al. (2015) mentioned that firms must track technological trends and determine whether their products are fulfilling the customer demands. Stefan and Bengtsson (2017) also mentioned that appropriate mechanisms and openness in innovation process affects the firm performance.

Effects of economic aspects on performance of a service industry cannot be overemphasized. According to Nzuve and Omolo, (2012) economical components directly affect the potential engaging quality of the different systems. David and David (2013) implied that conservative factors that include interest rates, inflation, currency value and unemployment level as among the elements that influence the economic environment. Korir et al. (2015) posited that strategic practices in the organization have an affirmative and huge impact on hotel performance.

Global sector can directly affect many organizations, and

it has turned out to be extremely significant recently. National laws affect international business in several ways. There might be lawful views which affects the operation of the business, for example, offshore investments, environment, manners by which financial records are arranged and uncovered, corporate tax assessment, workers' rights, and annuity's arrangements (Prajogo, 2016). National laws may likewise influence the internal organization, for instance, wellbeing, security policies and human resources. Mason (2015) asserted that the political arrangement of any state comprises of the structure and procedure by which it is administered. We live in a world which is sorted out as an interconnection of country states inside which distinctive individuals' live. Gamble and Thompson (2014) argued that civil wars could influence universal business wrecking property and deals could be lost.

Political variables characterize the lawful and administrative parameters inside which the organizations must work. Political components to be considered are tax policies, the stability of the government, entry mode regulations, social policies, and trade regulations. This may put a strain on how a firm works and may affect adversely the performance of a firm. There are political elements which advantage the firm, for example, patent laws and government endowments. Oyebanji (2014) alluded that a stable political condition improves development and advancement and furthermore empowers both local and foreign investors. As indicated by Ajayi (2016), government passes guidelines on ventures that have significant impact and effects on business. Kotler et al. (2015) suggested that the changing political environment affects global enterprises, innovative movement, and firm performance.

Success in business operations calls for constant checking of both internal and external business environment, so as to stay up to date with every environmental variable that supports present and future business activities of a firm, as suggested by Akpoviro and Owotutu (2018). Barnard and Stoll (2010) reiterated that firms have adjusted to being "learning organization" so as to successfully adapt to environmental instability so that the performance of the service industry is not in jeopardy.

There are various indicators used in measuring the performance in organizations. For example, financial related (productivity, turnover, treaties, and liquidity) and non-financial (assertiveness, nature of management, adaptability of the organization, asset usage and inventiveness). Wadongo et al. (2010) hold the view that financial-related performance measure should not be used in firms management. This is based on the grounds that financial measures are related with various shortcomings which incorporate constraint in their exactness. The said non-financial related measures were regarded to be increasingly powerful. In this investigation, the contentions were blended and performance clarified

as a multidimensional concept and consequently, both financial and non-financial measures were considered in surveying performance of hotels. It was measured in view of profitability, the quantity of new items invented or created and on increment in the number of clients in the hotel.

Hotel industry in Kenya promises to be a key frontier in Kenyan economy. Cytonn Real Estate (2017) reported that multinational hotels were expected to increase the bed space in Kenya by 1,520 in 2018, thereby increasing bed capacity by 14%. The good performance of this industry cannot be realized unless the business environment is conducive. Research to address fundamentals issues in the hotel business had been done but none among them exhausted on the general effects of changing business environment on the performance of hotel industry which this study examined, with specific interest on five-star rated hotels in Nairobi County. Further Awino et al. (2017) on their study on the impact of corporate technique on firm performance suggested future research on environmental components influencing the performance of a business, which was consequently undertaken in this study.

The conceptual framework illustrated above shows a virtual relationship of the independent variables in this study, which are economical, technological and international aspects. They are believed to independently or in combination influence the performance of the hotel industry. Political issues which normally confound other variables also affect performance of the business environment.

METHODOLOGY

The study was carried out in Nairobi County, where it had the largest concentration of classified hotels in Kenya. The total population of classified hotels in Nairobi region, Kenya was 44, of which 10 were five star-rated and that was the target population. The study investigated the effect of changing business environment on the performance of the service industry in Nairobi County, Kenya. The constructs investigated were economic, technological, international and political effects on the performance of the five-star rated hotels in Nairobi County, Kenya. Semi structured questionnaires were utilized to get information from the respondents.

Design and sampling analysis

A census survey study was employed on all the ten (10) five-star hotels in Nairobi County. Multistage sampling technique was used. First purposive method was used to select Nairobi which had the highest concentration of five-star rated hotels in Kenya and apportioned equal number of three respondents per hotel, (the marketing officer, the front office manager, and the finance manager) making a total of 30 respondents.

Data analysis

Data was analysed quantitatively by use of a multiple regression model to investigate the relationship between the business environmental factors and performance of the hotel industry. Computerised method using SPSS version 24.0 software was utilised. The following is the regression equation model representing the relationship between environmental variables and performance of five-star rated hotels in Nairobi County.

$$Y_i = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon \quad (1)$$

Where;

Y_i = Dependent variable (performance of the Five rated hotel industry)

β_0 = is the constant

β_1 - β_4 = Beta Coefficients

X_1 - X_4 = Independent variables

ε = Error term

(X_1 = Economical, X_2 = Technological, X_3 = International, X_4 = Political aspects)

Other authors who have utilized this method to analyze the relationship between the environment and performance of organizations include Njoroge et al., (2016) Njuguna et al. (2014), Mark and Nwaiwu (2015), and Waitthaka et al. (2016).

RESULTS AND DISCUSSIONS

The measure of goodness of fit (Pro>F) was 0.000 and the co-efficient of determination (R^2) of 0.7448 of the model demonstrated statistical significance in goodness of fit and high level of explanatory power. The R^2 of 0.7448 implied that the model specification explained 74.48% of the total variations in the dependent variables (economy, technology, international environment and politics).

The resulting equation is ($Y_i = 4.481 + 1.421 X_1 + 1.752 X_2 + 1.782 X_3 + 1.652 X_4 + \varepsilon$) (2)

The results obtained showed that economical, technological, international and political aspects positively and significantly influenced the performance of five-star rated hotels in Nairobi County, Kenya with coefficients of 1.467, 1.226, 1.444 and 1.246 respectively at 5% level of significance. This implies that increasing the economical, technological, international and political aspects by one unit will effectively improve the performance of five-star rated hotels in Nairobi County, by a margin of 1.467, 1.226, 1.444 and 1.246 respectively. This means that the improving the environmental variables will generally increase the performance of five-star rated hotels in Kenya. The conclusive analysis conquers with those of Akpoviroro and Owotutu (2018) who found, a positive relationship between the economic and political environment and organizational performance. Njoroge et al. (2016) established that external environment had positive and significant influence on organizational business

Conceptual framework

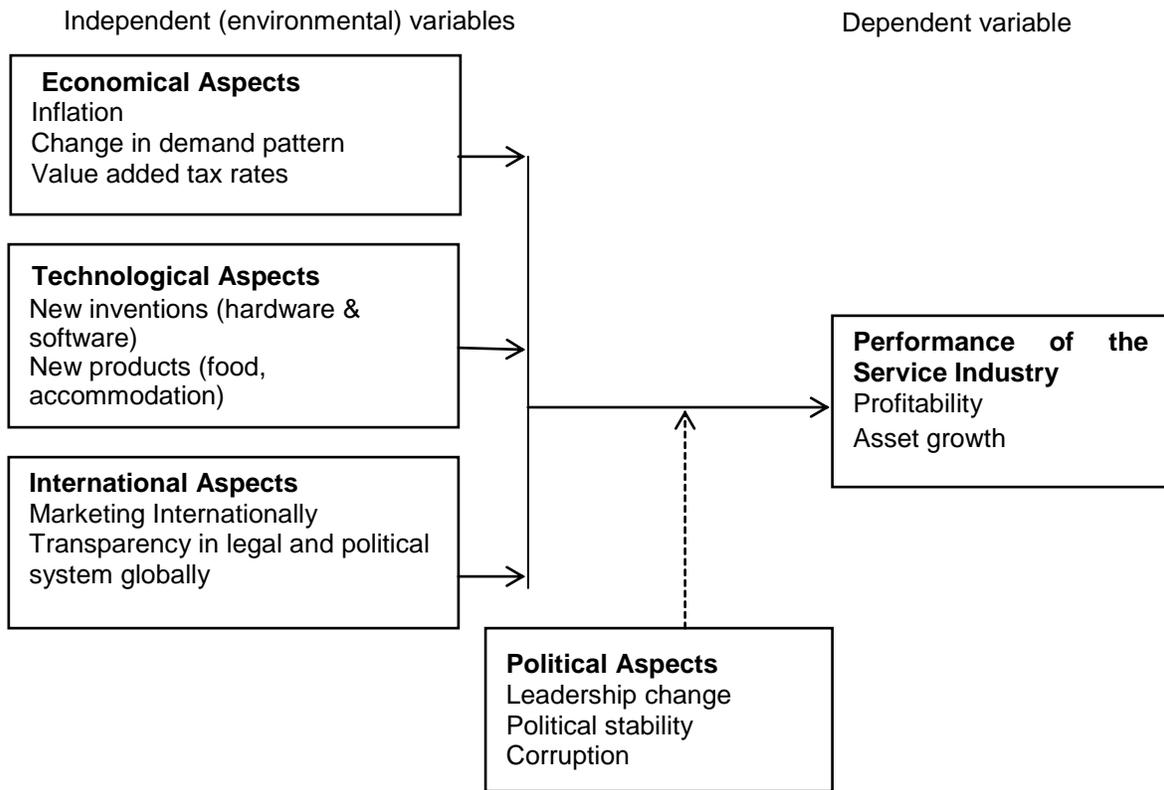


Fig.1. Diagrammatic representation of conceptual framework (own conceptualization).

Table 1. Regression Model Summary.

Model	Prob > F	R	R Square	Adjusted Square	R	Std. Error of the Estimate
1	0.000*	0.863	0.7448	0.7011		0.7638

	Unstandardized Coefficients		Standardized Coefficients	t-values	t-critical	Significance
	Beta	Std. Error	Beta			
(Constant)	4.481	5.30		0.912	1.667	0.472
Economy	1.421	1.222	0.97	1.467	1.667	0.0375*
Technology	1.752	1.324	0.68	1.226	1.667	0.041*
International	1.782	1.235	0.94	1.444	1.667	0.0342*
Political	1.652	1.334	0.78	1.246	1.667	0.033*

performance in Kenya. Njuguna et al. (2014) found a statistically significant relationship between external environment and performance of community based organizations and they suggested that external environment have an implication on the organization's

ability to achieve its objectives resulting to better performance. Further, Waithaka et al. (2016) explored on the impact of technology oriented competitive intelligence practice on the performance of firms listed on the Nairobi securities exchange, and found out system oriented com-

petitive insight practice had a positive and noteworthy relationship on the performance of the firms. Mark and Nwaiwu (2015) examined the effect of political condition on business execution of multinational organizations in Nigeria and found out that unfavorable political condition had a negative noteworthy effect on the business performance of global organizations. In their analysis Rauter et al (2019) also revealed a positive and significant relationship between economic innovation and the Performance sustainability of the firm. This means striving for economic and sustainability related innovation goals influences performance of the firm.

However, Machuki and Aosa (2011) found out that, despite existence of a relationship between the external environment and corporate performance in Kenya, they did not find any significant effect on the performance of publicly quoted companies by the external environment.

CONCLUSION AND POLICY IMPLICATION

The study examined environmental factors that affect performance of five-star rated hotels in Nairobi County. The business environmental factors such as economy of a country, technology used in the industry, the international related factors and political stability of the country influence the performance of the hotel service industry. From the study findings, it is recommended that five-star hotels should fully exploit opportunities provided by the environment such as internal capabilities to optimize performance; utilize technology advancement in order to improve performance, and also engage with various arms of the government and service industry players when formulating policies that affect the industry.

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