

CAPACITY MANAGEMENT AND PERFORMANCE OF FIVE- STAR HOTELS IN NAIROBI COUNTY, KENYA

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ABSTRACT

This study aimed at establishing the influence of capacity management strategies on performance of five-star hotels in Nairobi County. The study also sought to evaluate the challenges experienced in incorporation of capacity management strategies and its impact on performance of five-star hotels. The study Embraced a cross-sectional survey and undertook a census of all 32 five-star hotels within Nairobi County; Kenya. The study involved a sample of 96 participants drawn from the strata management structures of the respective five- star hotels within the Nairobi County. Primary data were used which were collected through questionnaires from the top-level, middle line and lower-level managers. The study used descriptive statistical tools and the regression model to analyze the collected data. The study found that various implementation of demand and supply strategies by five- star hotels was affected by several challenge among them information technology infrastructure, high costs of operations and seasonality-based demand. The study also documented that ICT plays a key role in enhancing capacity

management as well as the performance of five-star hotels. The regression results found that price management showed a positive and significant relationship with performance while demand forecasting reflected positive and significant relationship with performance. Further, the results documented that the relationship between outsourcing and creating reservation systems and performance was positive and significant while there was a positive but insignificant relationship between the use of part-time employees and performance. Additionally, capacity sharing had a significant positive effect on performance whilst expansion ante had a positive and insignificant relationship with the performance of five-star hotels in Nairobi. The research concluded that price management, demand forecasting, outsourcing and creating reservation systems and capacity sharing had a statistically significant and positive effect on performance of five- star hotels in Nairobi County.

INTRODUCTION

Capacity management is a process of balancing cost against the resources needed and it involved balancing forces of supply and demand simultaneously. According to Alp and Tan, (2006) viewed capacity management is the propensity of a service or production resource like a department, factory, equipment or procedure to operate for a period of time. Alp and Tan (2009) also indicated that service capability remains the largest volume of production that can be achieved at a given time and at a given level of machinery, staffs and equipment. Service firms' performance or failure to manage product quality and control assets regarding resources productivity is contingent on its employees monitoring the ability to meet demand (Armistead & Clark, 2004). While Armistead

and Clark, (2012) viewed capacity management to involve analysis, optimization and planning of prospects to meet the demands at a lower cost and efficiently.

Whereas entity performance is viewed in terms of efficiency and efficacy, relevance and financial productivity (Lusthaus et al, 2015). In the business environment, capacity management is associated with serious difficulties, especially when the demand for goods and services is unpredictable, and therefore there are problems with capacity management planning, which have a long-term influence of usage of entity assets and subsequently on productivity (Alp & Tan, 2006). Due to the development of information technology, the need to meet organizational goals and increase efficiency and effectiveness, increasing capacity is very important while reducing operating costs. Not only do customers need more care today, but they also need to be treated as business partners and therefore need to increase capacity to be satisfied and the price paid for goods and services is equal to the value of money (Bradley, 2000).

Kanorio (2014) explored how quality management affected Kenyan banking sector operational performance and documented that quality management systems adoption increases the bank's profitability, turnover, competitiveness, increases the market share, improves services provision, ensures effective detection of operational waste, improves operational efficiency and thus reduce operating costs. In her findings, Wanjiku (2015) established that mobile communications companies and other industrial companies that use operational management strategies post higher performance in their corresponding sectors. The study centered on five- star rated hotels located within the County of Nairobi, Kenya. In spite of the top-notch amenities in Kenyan restaurants and hotels, resources competition is still high. Kamau (2008) highlighted that hospitality sector which hotels falls has been facing numerous challenges posing threat to their existence.

The most common threat noted is that some tourist prefers other destination South Africa, Tunisia and Morocco to Kenya and as a result some hotels are rendered with liquidation problems and others going bankrupt. In addition, demand for restaurant services is usually seasonal, which means that staff and facilities are underutilized in low seasons (Mzera, 2012). Hotels and restaurants across the globe are categorized centered on diverse systems of classification. The star classification systems of hotels being commonly used in different states. Hotels in Kenya with star rating includes but not limited to 1-star, 2-star, 3-star, 4-star as well as 5-star hotels and the higher the rating more luxury it provides to its customer base. The organization in charge determining the condition of the hotels have responsibility of classification, (Johanna, 2010). In the recent Michelin award is now commonly associated with chefs and restaurants and was once using star rating classification where tourist and travelers depended on. (<https://touristmeettravelers.com>)

Every single country has its particular indicator they use for hotel categorization besides those bodies recognized. The facilities and services offered by hotels plays a critical role in classification. Kenya hotel sector in the recent past eyes to benefit from promising tourism industry (KTB, 2014).

The figure of good Kenyan hotels is around 500 with their numbers growing daily (KTB, 2010). In their study, McClanahan, Muthiga and Mwanguni (2015) documented that the Kenyan hospitality industry accounted for 14% of the country's GDP with 12% of aggregate employment, and the industry is expected to grow by 3.7% a year in the next 10 years. Class, atmosphere, flair and high services quality are the main characteristics of Kenyan hotels. However, competitive is very strive in the Kenyan hotel industry (<http://www.kenya.space.com/hotels>). As such, in spite of great quality and well-equipped hotels within Kenya, resources competition and market shares is growing in the hotel sector in Nairobi.

Ayele (2012) posit that enterprises in the hospitality sector are more market competitive and require skilled workers within the industry and in the marketplace. Customer preferences and expectations also increase periodically. Kenyan hotels stand classified by the Hotels and Restaurants authority on the basis of established standards. The most recent classification of Kenyan restaurants and hotels was in 2012. Hotels within Kenya are categorized into 5 categories, referred to as stars alternating from one-star to five- star s. The five-star hotel can be described as a luxury hotel which provides extraordinary accommodation and other facilities that are likely to suit those interested in a holiday and vacation. In order for a hotel to be rated five- star, exceptional service quality is expected. They offer quality service in terms of day and night cleaning, information for guests and discounts on local attractions.

Parking services, a fitness center and a health center are required for the hotel facilities of the five-star hotel. The whole building is completely detached and the place meets high global standards. A number of 5-star rated hotels offer additional services including a lounge, night club and a casino. Room equipment must be furnished and decorated in exceptionally high quality with high caliber employees. Such a hotel must also have a high staff to guest ratio. There are ten five-star hotels within Nairobi County. In 2017, the tourism sector contributed 9% to the world economic growth (GDP) and funded more than 255 million jobs (World Council for Travel and Tourism, 2017).

Research problem

Operational capacity management in a given sector of economy leads to improved performance while enhancing operational sustainability of any firm in any given industry and maintaining good relationship with interested groups. Uncertainty in demand and lack of requisite resources are the major sources of capacity management and service quality problems in given environment (Slack, 2012). Operation managers involved in the management are bound to succeed or fail by juggling on the available resources to obtain the right combination that yield optimum utilization of the available resources and thereby, maximizing the output and therefore emphasis is placed on the factors of production within the organization that influences performance (Bitner & Zeithamal, 2003).

Several scholars have carried out research on capacity management. Internationally, Betts, Walley and Meadows (2000) explored how capacity management, tasks scheduling, forecasting affected US banking centers and documented that short-term deviations were not met within time and that the period apportioned to clients was insufficient. Further, Adenzo, Garcia and Tore (2000) undertook research on how capacity management affected the service sector and documented that personalized requirements and unclear demand made it challenging to assign and plan productive capacity. Further, Battistoni (2013) conducted a study on SMEs in Italy in which he found that operational management strategies positively impacted company's productivity and it was positively related to production and SCM so as to undertake best practices that have an impact on profits, internal efficiency and cost reduction. Additionally, he documented that the entity size did not play a role in the implementation of operational management procedures.

Locally, Ochieng (2015) carried out research study on capacity management and performance of service industry focusing on the Sunset hotel in Kisumu and found out that inventory management, price management besides outsourcing practices affects performance. In his study the researcher did not exhaustively demonstrate the relationship between technology, expansion ante and use of part staff and performance of five- star hotels. Further, Ong'ondo (2013) examined how Safaricom strategies on capacity management affects its services quality. The author focused on extent to which strategies for capacity management strategies were adopted, the determinants of strategies of capacity management implementation. The findings indicated that the implementation of Safaricom Limited's capacity management strategies in its retail channels has improved services quality by the entity. Oyedijo (2012) explore the strategic speed and competitiveness of the Nigerian telecommunications industry. The results documented a fundamental link between strategic dexterity and competitiveness. He also found that companies that are flexible and speedy outperform companies with poor tactical agility.

Arising from the previous studies done by other researchers, few of them have exhaustively captured the role of capacity management Strategies and performance of five-star hotels specifically in Nairobi. Given such circumstances prevailing within the industry, this research seeks to explore how capacity management strategies influences five-star hotels performance in Nairobi County. The paper sought to answer the following questions; what are the influence of supply strategies on performance of 5 star rated hotels with the County of Nairobi? How do demand strategies influence the performance of five-star rated hotels, what are the challenges experienced in execution of capacity management strategies in Nairobi County? To examine the role of information technology on capacity management of five- star rated hotels within the County of Nairobi.

Research objectives

The study's general aim objective was to establish the influence of capacity management strategies on performance of five-star hotels in Nairobi County

The specific research objectives were:

- i. To determine the influence of demand strategies on performance of five-star hotels in Nairobi County
- ii. To determine the influence of supply strategies on performance of five- star hotels in Nairobi County
- iii. To establish the challenges experienced in the implementation of capacity management strategies among five-star hotels in Nairobi County
- iv. To determine role of information communication technology on capacity management of five-star hotels in Nairobi County

Theoretical foundation

This segment entails assessment of theories guiding the paper including theory of capability and resource -based theory.

Resource Based Theory

Role of ICT in improving organization performance and sustainability is best explaining by resource-based (RBV) view hypothesis. The model views the firms as linkage of capabilities and resources which are rare and scarce and besides providing that an entity provides additional advantage via tactical expansion of organization's rare, difficult to copy and difficult to substitute resources like ICT. David (2009) indicates that the RBV provides that a company can be successful by combining its distinctive assets to manage all segments of entity as needed. ICT is one of the most valuable resources that can be used to improve business performance (Cagna, 2007).

The agility at which organization adopt information technology as portfolio of key assets and performance drivers in the present age. The unpredictability of hospitality sector requires improvement of environmental features that reconfigure external and internal, create and integrate resources (Raisinghani, 2005). The RBV provides a linkage pattern between organization internal capabilities to strategy formulation towards performance improvement, (Ochieng, 2006). The theory provides the basis for the study since it underpins the necessity of hotels investing and developing unique resources such as ICT which finally improves hotel performance, (Wang & Ahmed, 2007).

In the RBV, a distinction is made between different resources categories in the narrower sense, such as human capital, physical capital, financial resources, firm capital resources, company technology, reputation, information resources comprising the organization culture as a management team (Penrose, 2015).

Human resource capital development includes but not limited to training, experienced, intelligence and relationship management while organizational capital includes channels of information exchange between different strategic units in an organization. Reputation and culture are two resources concern with corporate activities beyond organizational boundaries. These resources do not have strategic value per se, but if used efficiently and effectively, they can provide strategic value and thus enhance performance (Barney, 2012).

Theory of Capability

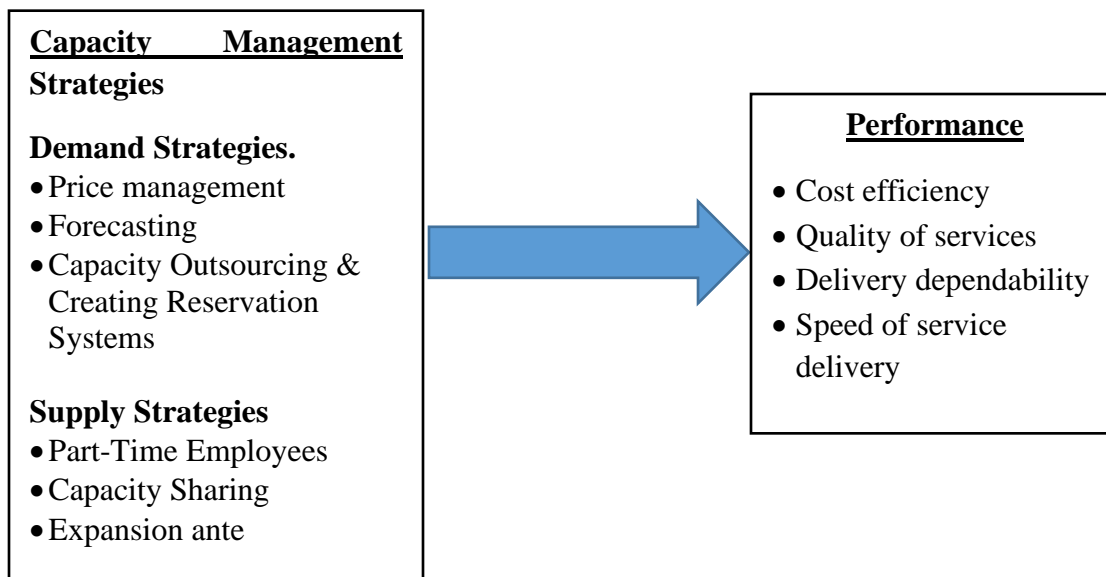
The capability theory states that resources usage, not just resources possession, serves as an effective performance driver (Vorhiesetal, 2009). The model indicates that entities are designed with their professional and human resource skills in mind. Demsetz (2009) describes an organization's capabilities as a comprehensive set of techniques that its employees use to synchronize tasks and capitalize on resource utilization. Multiple skills of an entity's employees are based on the collective and aggregate employees' expertise and knowledge (Donegan and Murray, 2003). Human resource administration as a strategy of managing capacity aids companies achieve viable performance (Njuguna, 2009). Hotels just like other enterprises face lots of competitive issues due to complexity and dynamism of the business environs. This has led hotel professionals to encourage their employees to constantly about the latest and most innovative practices of capacity management.

Conceptual framework

The conceptual model depicts the linkage between independent variables (capacity management strategies) and a dependent variable that is organizational performance measured by capacity utilization such as cost efficiency, quality of services, delivery dependability and speed of service delivery.

Independent Variable

Dependent Variable



Source: Researcher, (2023)

Figure 1: Conceptual Framework

RESEARCH METHODOLOGY

A cross sectional survey was employed and as it enabled the researcher to make available a comprehensive, detailed overview and general assessment of whether capacity management affects performance of five-star hotels located within Nairobi County. A cross sectional strategy has been simplified as a snapshot of the populace for which they gather data. The advantage of a cross sectional survey is that the researcher can compare and compare many variables present in a population in a specific time period, and is therefore essential for the study to gather data to draw conclusions about the population at a given point in time.

Mugenda and Mugenda (1999) noted that a population is an assortment of persons, events, or things that share specific and common remarkable traits that a researcher intends to generalize study outcomes. The context of the study involved a census of all the 32 five- star hotels within the County of Nairobi. The population was stratified in to the following; top-level, middle line and lower-level management and respondents were picked randomly. The study involved 96 participants drawn from the strata management structures of the respective five- star hotels within the Nairobi County. Stratified sampling was preferred as the target population was not homogeneous and could be divided into strata or groups to attain a sample that was representative.

Primary data collection was undertaken through a structured questionnaire. The structured questionnaires were issued to individual respondents within the various organizations to gather the required information for the study. The Likert scale is suitable for measuring attitudes, perceptions, behaviors and values which are very useful in transforming qualitative feedbacks to quantitative values. In data analysis, data is organized to lead to results that need to be interpreted by the researcher (Burns & Grove, 2003). As noted by Burns and Grove (2003) and Hynman (2009), data analysis involves converting questionnaire responses into a form that can be manipulated to generate statistics. The filled questionnaires were checked for information consistency and completeness before analysis. The first and second objective of the study were analyzed through inferential statistics which involved regression analysis that produced the Analysis of Variance with the aid of SPSS Mac version 23. Objective three and four of the study were analyzed through descriptive statistics.

The model comprised of 6 variables as the independent variables which included Price management, demand forecasting, Capacity Outsourcing & Creating Reservation Systems, Part-Time Employees, Capacity sharing and Expansion ante as aspects of demand strategies and supply strategies. The dependent variable was performance. The output of the study findings was presented through frequency distributions, tables showing mean scores, standard deviation and percentages for every variable in the study. Other findings were presented through charts and histograms and interpretations were explained.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \beta_6X_6 + \varepsilon$$

Where;

Y = Performance

β_1 = Constant Term

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ & β_6 = Beta Coefficients

X₁ = Price management

X₂ = Forecasting

- X₃ = Capacity Outsourcing & Creating Reservation Systems
- X₄ = Part-Time Employees
- X₅ = Capacity Sharing
- X₆ = Expansion ante
- ε = Error Term

RESEARCH FINDINGS

The research study undertook a census of all 32 five-star hotels within the County of Nairobi where 96 participants were targeted from the hotels management. The study managed to collect complete data from 24 five-star hotels thus a response rate of 76.04%. The attained response rate was deemed adequate to undertake study, as it was more than 50%. This response rate was ascribed to the respondents’ cooperation and the researcher’s effort to explain the purpose and objectives of the study.

An in-depth descriptive analysis on extent of adoption of demand strategies revealed that five-star hotels had largely adopted price management, demand forecasting and outsourcing and reservation systems as they key demand strategies. The results also revealed that the five-star hotels had largely adopted the use of part time employees, capacity sharing and expansion ante as the key supply strategies.

Descriptive analysis statistics on the challenges affecting implementation of demand and supply strategies revealed that the implementation of demand and supply strategies by the five- star hotels were largely affected by various challenge among them information technology infrastructure, high costs of operations, seasonality-based demand and inadequate security within the borders. Other challenges included increased customer complaints, and complexity of customer preferences especially when dealing with a large customer base.

The regression results showed that price management, demand forecasting and had positive and significant relationship and further results demonstrated that relationship between outsourcing, capacity sharing and creating reservation systems was positive and significant. Further, a positive but insignificant interrelationship was documented between the use of part-time employees and performance whilst expansion ante revealed there is positive and insignificant relationship with the performance of the five- star hotels.

Regression analysis were used to determine the interrelationship between capacity management strategies and the five-star hotels performance. The results were as follows.

Table 1: Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|--------------|-------------------|-----------------|--------------------------|-----------------------------------|
| 1 | .884 ^a | .782 | .762 | .25461 |

a. Predictors: (Constant), Expansion ante, Demand forecasting, Price management, Part-time employees, Capacity sharing, Outsourcing and creating reservation systems

Table 1 depicts that the R square (coefficient of determination) was 0.782, which shows that the explanatory variables (expansion ante, demand forecasting, price management, part-time

employees, capacity sharing, outsourcing and creating reservation systems) accounted for 78.2% of the variation in the response variable (performance). The other proportion (21.8%) is accounted for by other variables and the error term.

Table 2: ANOVA

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|-------|------------|----------------|----|-------------|--------|-------------------|
| 1 | Regression | 15.366 | 6 | 2.561 | 39.505 | .000 ^b |
| | Residual | 4.279 | 66 | .065 | | |
| | Total | 19.644 | 72 | | | |

a. Dependent Variable: Performance

b. Predictors (Constant), Expansion ante, Demand forecasting, Price management, Part-time employees, Capacity sharing, Outsourcing and creating reservation systems

Source: Study Data (2021)

Table 2 depicts that the adopted regression model was significant as indicated by an F value of 39.505 which is statically significant as depicted by a P-value of $0.000 < 0.05$. This shows that the model was appropriate to examine the interrelationship among the study variables.

Table 3: Coefficients

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|-------|--|-----------------------------|------------|---------------------------|-------|------|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | .873 | .444 | | 1.965 | .054 |
| | Price management | .104 | .040 | .182 | 2.576 | .012 |
| | Demand forecasting | .687 | .299 | .140 | 2.293 | .025 |
| | Outsourcing and creating reservation systems | .521 | .053 | .755 | 9.767 | .000 |
| | Part-time employees | .056 | .063 | .070 | .892 | .376 |
| | Capacity sharing | .172 | .070 | .180 | 2.437 | .017 |
| | Expansion ante | .114 | .072 | .146 | 1.585 | .118 |

a. Dependent Variable: Performance

The coefficients result show that price management had a positive (B=0.104) and significant (P-value=0.012<0.05) interrelationship with performance while demand forecasting had a positive (B=0.687) and significant (P-value=0.025<0.05) interrelationship with performance. The results further show that the link between outsourcing and creating reservation systems and performance was positive (B=0.521) and significant (P-value=0.000<0.05) while there was a positive (B=0.056) but insignificant (P-value=0.376<0.05) link between the use of part-time employees and performance. Capacity sharing positively (B=0.172) and significantly (P-value=0.017<0.05) affected performance whilst expansion ante positively (B=0.114) and insignificantly (P value=0.118>0.05) affected the performance of the five-star hotels within Nairobi County. From the findings the following model was formulated.

$$Y = 0.873 + 0.104X_1 + 0.687X_2 + 0.521X_3 + 0.056X_4 + 0.172X_5 + 0.114X_6 + \varepsilon$$

Where

Y = Performance

X₁ = Price management

X₂ = Demand forecasting

X₃ = Outsourcing and creating reservation systems

X₄ = Part Time employees

X₅ = Capacity sharing

X₆ = Expansion Ante

Conclusions

The study's first objective was to examine whether demand strategies affect the performance of five-star hotels within Nairobi County. The findings indicated that price management, demand forecasting, outsourcing and creating reservation systems positively and significantly affected the five-star hotels performance. The study based on this observation concludes that price management, demand forecasting, outsourcing and creating reservation systems are the demand strategies that influence the performance of five-star hotels within Nairobi County.

The study's second objective was to examine whether supply strategies affect the performance of five-star hotels within Nairobi County. The study outcomes indicated that only capacity sharing had a significant and positive impact on the five-star hotels performance. The study thus concludes that capacity sharing is the only supply approach mechanisms that affects performance of five-star hotels within Nairobi County.

Thirdly, this study sought to assess the challenges experienced in the implementation of capacity management strategies among 5-star hotels within Nairobi County. The research based on documented findings concludes that high costs of operations, seasonality-based demand and inadequate security within the borders and increased customer complaints are the major challenges affecting the implementation of capacity management strategies among 5-star hotels within Nairobi County.

Recommendations

The study indicated that price management, demand forecasting, outsourcing and creating reservation systems were the demand strategies that affected performance while capacity sharing was the supply strategies that affect the five-star hotels performance. The study based on these findings suggests that the management of five-star hotels in Nairobi should develop effective policies on both demand and supply approach mechanisms and incorporate price management,

demand forecasting, outsourcing and creating reservation systems and capacity sharing to enhance their hotels performance.

Secondly, it was documented that various implementation of demand and supply strategies by five-star hotels were affected by various challenge among them information technology infrastructure, high costs of operations and seasonality-based demand. The study thus recommends that the management as well as the various policy makers in the hotel industry should develop effective strategic as well as policy mechanisms to address the various firm specific and environment related challenges affecting the Kenyan hotel industry.

Suggestions for further research

This study was undertaken in Nairobi County but there are many other five- star hotels in major town towns and counties within Kenya. The study therefore recommends extra research on effect of capacity enhancement mechanisms among five- star hotels in other parts of the country. In addition, similar research can be undertaken on the effect of capacity enhancement mechanisms on competitiveness of five-star hotels.

Secondly, the study focused on cost reduction, quality of services, delivery dependability and speed of service delivery as the key performance measures. However, several other financial and non-financial measure like return on assets and equity, the balanced score card are also available performance measures. The study thus recommends a similar study using other performance measures.

Lastly, the study's model summary indicates that expansion ante, demand forecasting, price management, part-time employees, capacity sharing, outsourcing and creating reservation systems explained 78.2% of the variation in the five- star hotels performance. This indicates several other determinants affect five- star hotels performance. The study recommends a study on other factor both firm specific and industry related that might affect capacity management as well the hotels performance.

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