EFFECT OF COST RESTRUCTURING ON PERFORMANCE OF STAR RATED HOTELS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

The main objective of the study was to establish the effect of cost restructuring on performance of star rated hotels in Nairobi City County, Kenya. The study was anchored on Transaction Cost Theory, Agency Theory, Social Exchange Theory, and Planned Change Theory. A descriptive research design was employed in the study. The study targeted 44 rated hotels operating in Nairobi City County as outlined by Tourism Regulatory Authority. The Study was carried out only in 40 hotels. The unit of observation comprised of one manager, and one supervisor in the hotels making a total of 80 respondents. Primary data was collected through a five-point likert questionnaire. Both inferential and descriptive statistics were employed in analyzing the collected data. Both SPSS software and MS Excel were used in generating the statistics. The study results and findings of the analysis were presented in form of tables and figures. The study established that cost restructuring bears a positive and significant effect on performance of rated hotels operating in Nairobi City County. The study provides the recommendations to the management of the star rated hotels to enhance the levels of cost restructuring process since the practice bears a positive and significant effect on performance of the hotels.

Key Words: Cost Restructuring, Performance, Star Rated Hotels, Organizational Restructuring.

INTRODUCTION

Organizational restructuring is one of the practices widely adopted by companies, firms, and organizations in the developed and developing countries. Organizations adopt restructuring practices aiming at addressing poor performance, discover new and strategic opportunities, establish trust in the capital markets, and increase organization's market value (McKinley, 2018). Restructuring practices according to Kurgat (2016) aims at improving employees' welfare, streamlining costs, increasing operational efficiency, boosting productivity and revenue, and boosting shareholder wealth in order to improve organizational performance. According to Nyambura (2021), signs that an organization requires to restructure comprise of inconsistent and fragmented communication, changes in work flow brought by technological advancements, and issues with employee retention and turnover.

Kurgat (2016) posits that organizational restructuring is related to the need for policies created by human resources to change. Existing human resource policies in an organization aid in the efficient

operation of the business and occasionally call for modification in response to changing circumstances. In order to protect the equality of both internal and external employees during the restructuring process and to encourage them to participate more actively in operations, Recardo and Heather (2012) argues that the existing compensation structure needs to be rationalized.
Organizational restructuring intends to boost business performance by altering ownership structures. According to Lin, Zhang and Zheng (2020), China's State-Owned Enterprises (SOE), consistently performed poorly and depended substantially on financial assistance from the government. Similarly, the enterprises constituted a significant obstacle to the development of the Chinese economy by relying heavily on large budget allocations and achieving poor results. The Chinese government restructured the enterprises by making them privately owned as a result of the poor performance. Shi (2010) noted that restructuring practices allowed the enterprises to hire new management, which helped them perform better.

Globally renowned firms have been undergoing restructuring to adapt to the constantly changing market and demand situations (World Bank Report, 2019). Companies restructure through diversifying their markets, reducing employment, and diversifying their product lines. Nike Inc. for instance initially specialized in selling running shoes, but over time, the firm expanded to provide sneakers for other sports like tennis, soccer, basketball, and fitness gear. According to Mahdi, Abbas and Mozart (2015), the addition of other sport wears to the company's product line resulted in the creation of three more departments that dealt with clothing, footwear, and equipment. With time, the business reorganized its operations by categorizing its products into various sports. Increased consumer demand for product selection, features, and product expertise all played a role in the decision. The restructuring process has enabled the company to maintain its competitiveness in the athletic wear sectors and in the expansion of distribution outlets.

The South African Department of Labor (DoL) underwent organizational reform with the goal of creating an integrated inspectoral body service, where each inspector would be tasked with monitoring the adherence to government regulations (Di Paola & Pons-Vignon, 2013). The restructuring process ignored the specialization and area of expertise of the inspectors. DoL saw a high rate of inspector turnover while the majority of the knowledgeable and experienced inspectors departed the labor force. The inspectorate's performance subsequently declined as the department was left with inspectors who lacked credentials. This scenario adds to the importance of considering crucial factors and psychological preparedness for eventualities before enacting a restructuring process.

Kenyan businesses have not been left behind in implementing organizational restructuring to boost performance. Majority of businesses claim that restructuring decision aims at improving customer service and acquire a competitive edge. Telecommunication businesses have had to create strategies for surviving in the markets due to Kenya's fiercely competitive telecommunications market and the dynamic nature of customer needs and satisfaction. In order to increase competitiveness, telecommunication firms such as Safaricom PLC undergoes organizational restructuring according to Beverlyne (2012). The method leads to improvements in customer service, value generation, and the introduction of programs meant to keep loyal customers. The reorganization approach is also credited with helping Safaricom PLC achieve the present 65% increase in market share and leadership.

Statement of the Problem

Kenya's economy is heavily dependent on the expansion and development of important economic areas like tourism. The contribution of tourism to Kenya's GDP was 8.8% in 2018, 8.9% in 2017, 9.0% in 2016, and 9.7% in 2015, according to Kenya Tourism Board (2020). However, the tourist industry, which is largely made up of hotels, has experienced tumultuous operating conditions that have been linked to performance issues. Due to the fact that a sizable portion of the hotel sector depends on foreign markets, hotels are subject to issues like intense competition, shifting customer demands in terms of services, seasonality of hotel services, and a reduction in global travel (Muhinyu & Gudda, 2019).

According to KNBS (2011), average daily room rates (ADR) averaged at Ksh 12,382 in 2019 which decreased to Ksh 7,030 in 2020.Total revenue increased from Ksh 107.2 billion in 2016 to Ksh 141.6 billion in 2019, and then decreased to Ksh 38.3 billion in 2020. Muhinyu and Gudda (2019) claim that the complexity of managing hotels as a result of the unstable operational environment has made the performance level even worse. Adopting the proper restructuring practices is essential in the hotel industry if businesses are to enjoy exceptional performances, endure fierce competition, and adapt to tumultuous operating environments. The current study thus aimed at establishing how organization restructuring affects the performance of star rated hotels in Nairobi City County Kenya.

Past studies on the theme of the current study has revealed both conceptual and contextual knowledge gaps that the current study sought to fill. Jin and Zhigang (2014) concentrated on the effects of restructuring on businesses' operational aspects in publicly traded Chinese companies. The study found that after restructuring, there had been a noticeable improvement in return on assets, revenues, and overall asset turnover. Duong and Hoang (2020) found that organizational restructuring results in improved financial performance in their study of the effects of restructuring on financial performance in Vietnam. Mwangi and Maina (2021) did research on how restructuring affected Kenya's banking industry's performance and competitiveness. The study's findings showed that bank restructuring techniques improved performance in terms of competitiveness, customer retention, market share, regional expansion, and product quality. According to a study by Onundo and Garashi (2016) on the impacts of restructuring on organization performance among Kenya's mobile phone service provider, financial restructuring, portfolio restructuring, and organizational restructuring all had an impact on the firm's market share and growth.

LITERATURE REVIEW

Cost restructuring, according to Akeem (2017), is the process and practice that a firm implements in an effort to increase its profitability and comprises changing its functions, business processes, and starting cost-cutting initiatives. Cost restructuring techniques help a firm adapt to changes in the operational environment of its business. A firm decides to restructure all operational costs in a challenging operating environment in an effort to boost profitability. According to Nasieku and Susan (2016), cost restructuring involves a company analyzing its internal operations to find areas where expenses can be cut without having a negative impact on that particular division's operations.

Cost restructuring according to Ngige (2011) represents a strategic and dynamic process that hotels undertake to enhance their financial efficiency and sustainability. This multifaceted concept encompasses a range of measures aimed at optimizing various operational aspects, with a primary focus on reducing overhead costs, optimizing labor scheduling, and refining procurement processes. Overhead costs, often referred to as indirect costs, encompass expenditures that are not directly tied to the production of goods or services. In the context of hotels, reducing overhead costs involves a meticulous analysis and recalibration of administrative, operational, and fixed expenses (Gaturu, Mutinda & Miricho, 2022). This process necessitates a critical assessment of various elements, such as energy consumption, maintenance expenses, administrative overheads, and marketing expenditures. Hotels can adopt measures like energy-efficient technologies, proactive maintenance programs, and streamlined marketing strategies to curtail these costs (Gaturu *et al.*, 2022).

Labor costs according to McCormick and Duff (2011), forms a substantial portion of a hotel's overall expenses, given the labor-intensive nature of the hospitality industry. Labor scheduling optimization involves the art of aligning workforce allocation with fluctuating demand patterns while maintaining service quality and employee satisfaction. The implementation of sophisticated workforce management systems enables hotels to forecast demand accurately, adjust staffing levels accordingly, and minimize labor overages or shortages. Through predictive analytics, historical data analysis, and real-time monitoring, hotels can strike a balance between operational efficiency and guest satisfaction. Additionally, cross-training employees and adopting flexible scheduling practices further empower hotels to respond swiftly to changing guest needs and market dynamics.

Procurement optimization revolves around the strategic selection, sourcing, and management of goods and services essential for hotel operations (Jae *et al.*, 2017). It entails scrutinizing supply chains, vendor relationships, and product specifications to achieve cost savings without compromising quality. Leveraging economies of scale, negotiating favorable contracts, and exploring alternative suppliers are pivotal components of procurement optimization. Embracing sustainable sourcing practices, not only reduces environmental impact but also enhances a hotel's reputation among eco-conscious travelers. Furthermore, the integration of technology, such as e-procurement platforms and real-time inventory management systems, streamlines procurement processes, fosters cost transparency, and enables swift decision-making.

Incorporating these elements of cost restructuring within the hotel industry yields manifold benefits. Beyond the immediate financial gains, the ripple effects extend to improved guest experiences, employee morale, and long-term competitiveness. A judiciously implemented cost restructuring strategy positions hotels to navigate economic uncertainties, respond adeptly to market dynamics, and thrive in an ever-evolving industry landscape. However, it is imperative to recognize that cost restructuring is not a one-time endeavor but a continuous journey that demands a proactive and adaptive approach.

Performance is defined as how effectively a company achieves its stated aims and goals. Nyokabi (2019)adds that organizational performance consists of actual results or outputs that are measured in relation to desired outputs. Financial performance (ROI, ROA, and profits), product market performance (market share, sales), and returns to shareholders make up the primary metrics of organizational performance. Cost effectiveness, level of productivity, and degree of employee motivation are also mentioned by Danso and Mensah (2020) as additional performance indicators. This implies that a company's performance level can also be determined by the caliber of its services and goods, staff training, output, loyalty to the company, and level of job satisfaction.

Hotel managers are gradually realizing that adopting important strategic activities in the areas of production, technology, and human resource management is a significant source for achieving competitive advantages and improved performance (Danso & Mensah, 2020). The techniques and means by which the activities are developed and put into practice within the hotel, however, determines the amount to which the strategic activities bear the predicted performance benefits. For the purpose of achieving the greatest benefits, formulating and implementing organizational changes such as restructuring asks for participation from numerous parties. Njuguna *et al.*,(2019) asserts that restructuring affects workers in both positive and negative ways, and that leaving them out of the decision-making process hinders the achievement of stated goals.

According to Danso and Mensah (2020), organizational efficiency is crucial for hotels to achieve and maintain high performance levels in the dynamic operating environment. The degree to which restructuring practices result in desired performance levels depends on a number of factors, including, among others, the level of employee engagement and involvement, leadership techniques used in the restructuring process, resource commitment, communication techniques, and stakeholder involvement.

Akeem (2017) assessed how cost reduction and cost control practices affects organization performance. The chosen research method was a descriptive survey. 50 questionnaires were distributed and used for the study. Application of the proper statistical tools was done in the analysis of the data that was gathered. Using SPSS, regression analysis was conducted to evaluate the hypothesis. According to the data, it was clear that cost control and management style both had a good effect on organizational performance.

Ngige (2011) evaluated how organizational restructuring affect levels of competitiveness and long-term business performance for firms in the banking sector. The study concentrated on cost restructuring, its consequences on workers, and the subsequent effects on banking sector performance. 180 respondents were chosen at random from a sample of 30 banks and included in the study. With the aid of standardized questionnaires, data was gathered. The findings showed that banks with restructured costs improved performance and had more favorable market competition.

Gaturu, Mutinda and Miricho (2022) focused on establishing costs reduction and client satisfaction techniques adopted by hotels in the Kenyan Coastal region. A quantitative approach utilizing survey design and stratified random sampling was employed to gather and analyze the data. A total of 394 questionnaires were given out to different respondents from various strata in hotels along the coast of Kenya. In SPSS version 21, descriptive statistics and regression analysis were used to evaluate the data, generate percentages and frequencies to characterize the data, and assess the effects of cost-cutting measures on visitors. It was found that hotels in Kenya's coastal region gave guests' happiness top priority and put a number of measures in place to raise and maintain visitor contentment. It was discovered, however, that not all tactics improved guest pleasure. The study found that energy and water conservation measures improved client satisfaction in hotels along Kenya's coast. On the other hand, labor cost-cutting tactics had a detrimental effect on hotel guests' pleasure.

Jae *et al*., (2017) carried out a study to determine how organizational restructuring strategy affects financial performance of businesses in the hotel industry with a focus on hotels in the UK. The study put particular emphasis on diversifying the market and cost-cutting tactics. An analysis of 190 hotels in the UK was conducted using a descriptive research design. According to the study's findings, hotels had adopted a high percentage of cost-cutting measures and had diversified their markets, which had improved their financial performance. For enterprises in the hotel industry to improve financial performance, the study suggested adoption of cost-cutting methods and market diversification.

RESEARCH METHODOLOGY

The study was anchored on Transaction Cost Theory, Agency Theory, Social Exchange Theory, and Planned Change Theory. A descriptive research design was employed in the study. The study targeted 44 rated hotels operating in Nairobi City County as outlined by Tourism Regulatory Authority. The Study was carried out only in 40 hotels. The unit of observation comprised of one manager, and one supervisor in the hotels making a total of 80 respondents. Primary data was collected through a five-point likert questionnaire. Both inferential and descriptive statistics were employed in analyzing the collected data. Both SPSS software and MS Excel were used in generating the statistics.

RESEARCH FINDINGS

According to the descriptive results on cost restructuring outlined in table 1, respondents agreed with the statements that there is automation of processes in the hotel to reduce overhead costs (mean=4.199), that the hotel outsources various functions to reduce costs (mean=3.964) and that the hotel have established an efficient work schedule for employees (mean=3.687). Respondents further agreed with the statements that the scheduling ensures continuity of activities throughout (mean=4.241), that the scheduling ensures availability of sufficient labor force as per business demands (mean=4.002), that the hotel ensures that all procurement practices are conducted through the established procurement procedures (mean=4.275) and that there is reduction of waste in the hotel's supply chain (mean=3.978). All respondents were in agreement with the statements on cost restructuring as depicted by average response of 4.049 and std, dev of 0.514. The results are in tandem with Estin (2008) who asserted that companies engaging in cost restructuring benefits from the approach since it lowers operating expenses.

Table 1: Descriptive Statistics on Cost Restructuring

Cost Restructuring	**Mean**	**Std.Dev**
There is automation of processes in the hotel to reduce overhead costs	4.199	0.241
The hotel outsources various functions to reduce costs	3.964	0.739
The hotel have established an efficient work schedule for employees	3.687	0.915
The scheduling ensures continuity of activities throughout	4.241	1.128
The scheduling ensures availability of sufficient labor force as per business demands	4.002	0.142
The hotel ensures that all procurement practices are conducted through the established procurement procedures	4.275	0.217
There is reduction of waste in the hotel's supply chain	3.978	0.219
Average	**4.049**	**0.514**

According to the descriptive results on performance of star rated hotels outlined in table 2, respondents agreed with the statements the hotel have recorded an upward trend in the levels of revenue per available room (RevPAR) (mean=4.625), that the hotel have recorded an upward trend in the levels of profits (mean=4.418) and that there was a high occupancy rate in the hotel (mean=4.542). The results consequently shows that respondents agreed with the statements that the hotel have attained a high customer satisfaction index(mean=4.284) and that the hotel have increased the number of outlets(mean=3.978).All respondents agreed with the statements on performance of star rated hotels as shown by average response of 4.369 and std.dev of 0.194.Accoring to Danso and Mensah (2020), the degree to which restructuring practices result in desired performance levels depends on a number of factors, including, among others, the level of employee engagement and involvement, leadership techniques used in the restructuring process, resource commitment, communication techniques, and stakeholder involvement.

Table 2: Descriptive Statistics on Performance of Star Rated Hotels

Performance of Star rated hotels	Mean	Std.Dev
The hotel have recorded an upward trend in the levels of revenue per available room (RevPAR)	4.625	0.012
The hotel have recorded an upward trend in the levels of profits	4.418	0.019
There is high occupancy rate in the hotel	4.542	0.064
The hotel have attained a high customer satisfaction index	4.284	0.102
The hotel have increased the number of outlets	3.978	0.771
Average	**4.369**	**0.194**

According to the results, cost restructuring bears a positive significant correlation with performance of star rated hotels operating in Nairobi City County. This is shown by a correlation value of 0.548 and significant value of 0.000. The results bears the implications that enhancing cost restructuring practices results to enhanced performance of the star-rated hotels. The results are consistent with Ngige (2011) who found that firms with restructured costs improves performance and have more favorable market competition.

According to the results, cost restructuring bears a positive and significant effect on performance of star rated hotel in Nairobi City County, Kenya. This is depicted by a Beta value of 0.589 and sig value of 0.000<0.05. The results implies that increasing cost restructuring practices with one units results to 0.589 units increase in the levels of on performance of star rated hotel in Nairobi City County, Kenya. The results concurs with Estin (2008) who asserted that companies engaging in cost restructuring benefits from the approach since it lowers operating expenses.

The study employed the results from the regression analysis to either reject or fail to reject null hypothesis formulated in the study. The summary of the hypothesis testing is formulated in table 3.

Table 3 Hypothesis Testing

Hypothesis	Method and Criteria	Remark
H_{01}: There is no significant effect of cost restructuring on performance of star rated hotel in Nairobi City County, Kenya	• Multivariate regression analysis ($p < 0.05$)	Reject **H_0**

Conclusion and Recommendation

The analysis results culminated to conclusions that cost restructuring bears a positive and significant effects on performance of star rated hotels operating in Nairobi City County, Kenya. Additionally, cost restructuring practices in the hotel such as having an automation of processes in the hotel to reduce overhead costs, outsourcing various functions to reduce costs, establishing an efficient work schedule for employees to ensure continuity of activities and availability of sufficient labor force as per business demands and ensuring that all procurement practices are conducted through the established procurement procedures which reduces waste in the hotel's supply chain further leads to improved performance levels of star rated hotels operating in Nairobi City County, Kenya.

The study provides recommendations to the management of the star-rated hotels to enhance cost restructuring practices during organization restructuring process since the practice bears a positive and significant effect on performance levels of star rated hotels operating in Nairobi City County, Kenya. This can be achieved by employing cost restructuring practices such as having an automation of processes in the hotel to reduce overhead costs, outsourcing various functions to reduce costs, establishing an efficient work schedule for employees to ensure continuity of activities and availability of sufficient labor force as per business demands and ensuring that all procurement practices are conducted through the established procurement procedures which reduces waste in the hotel's supply chain.

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