AN ASSESMENT OF COMPETITIVE STRATEGIES ON PERFORMANCE OF HOTEL BUSINESSES IN NAKURU TOWN, KENYA

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DECLARATION AND APPROVAL

This research project is my original work and has not been presented for academic award in any other University for the purpose of examination.

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Approval

This research project has been submitted for examination with our approval as university supervisors.

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DEDICACTION

Dedicated to my beloved family.To my parents for bringing me up in Godly ways, educating me and supporting me all the way.The values they instilled in me from my childhood have greatly contributed a lot to my professional career.

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May God bless you all abundantly.

ABSTRACT

The hotel and tourism industry contributes a significant proportion of country employment and earnings in developing economies. In Kenya the hotel and Tourism sector contributes 14% of the Gross Domestic Product. Nakuru Town is one of the major tourist destinations in Kenya, however, security threats and decline in the number of tourists visiting the country, increased options, new innovations, and presence of substitute products has changed the competitive landscape. However, there is little evidence that Porter's generic strategies have been applied as strategic responses by hotels in Nakuru Town. This study sought to assess the competitive strategic responses on performance of the hotel industry in Nakuru Town. The study objectives were: to assess cost leadership strategies, differentiation and focus strategies on performance of hotels in Nakuru Town. The study was guided by Porter's generic strategies theory and adopted a descriptive survey research design. The study was carried out in Nakuru Town, among hotels operating in the area. The target population comprised of 74 hotels managers in Nakuru Town from which a sample of 42 determined using Nassiuma's formula and selected using purposive sampling technique. Primary data was collected using questionnaires administered using drop and pick later method. In analyzing the data, first a summary of responses was done using descriptive statistics which included the frequencies, percentages and Chi Square analysis. The relationship between variables was established between application of competitive strategies and hotel performance using Pearson correlation analysis and multiple regression analysis. The study found out a significant correlation between the use of cost leadership strategies and hotel performance ($r = 0.696$, $p < 0.01$), there was also a strong and positive correlation between the application of differentiation strategies and hotel performance ($r = 0.747$, $p < 0.01$) as well as focus strategies and hotel performance ($r = 0.682$, $p < 0.01$). The study therefore concluded that cost leadership strategies played a significant role in enhancing competitiveness and performance of hotels in Nakuru Town through enhancing efficiency in operations. However independently cost leadership could not work alone without the reinforcement of other strategies. Differentiation strategies applied by hotels had the highest impact on hotels performance independently and when applied alongside other strategies. Focus strategies were found to contribute to enhancing performance of Hotels in Nakuru. However, independently they had the least contribution. The study therefore recommended that hotel managers and strategists should strive to understand the correct choice and mix of strategies that work best and complement each other in their hotels to optimize their performance. The study was limited to hotels in Nakuru Town focusing on porters generic strategies.

Key Words: *Competitive strategies, performance, cost leadership, product differentiation, focus strategy.*

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LIST OF ABBREVIATIONS

BSC - Balanced Scorecard

GDP - Gross Domestic Product

KNBS - Kenya National Bureau of Statistics

KTB - Kenya Tourism Board

SME - Small and Medium enterprises

US - United States

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Hotel Catering and Tourism sector is a large and fast-growing service sector that accounts for a significant portion of the global economy. It is classified as a labor intensive industry as most of the functions have to be performed physically by human beings. The sector contributes significantly in employment creation as well as foreign exchange earnings (Baum, 2013).

The sector hosts tourism, hotel and travel segments that are closely related and dependent on one another. Hotels and restaurants provide numerous opportunities that lead to poverty reduction in many parts of the world. For instance, in 2007 alone, hotels and restaurants within developing countries generated profits of more than US$260 billion (Deloitte, 2015). Although a global-level analysis of tourism's economic and poverty alleviation impacts is lacking, it is clear that the industry is having substantial impact on local people and local economies in many developing countries (Ashley et al., 2007). In 2008, 924 million tourists travelled abroad. Three-quarters of these journeys started in a high or upper-middle income country. Remarkably 40 per cent of these journeys ended in a developing country destination associated with poverty which implies that the sector has significant impact in poverty alleviation (Mitchell & Ashley, 2009).

This industry is characterized by a rapid level of expansion in a number of emerging economies across the globe. The average annual growth rate of international tourism receipts in developing countries for the years 1990-2005 was 9.7% compared to 6.3% worldwide over the same period. In 2005, developing countries recorded $205 billion in international tourism receipts (Ashley et al., 2007). Countries with a forecasted average annual industry growth rate from 2009 to 2015 of 5% or more include the BRIC nations such as Brazil, Russia, India and China and certain countries in South East Asia, the Gulf States, North Africa and the West African coastline.

Euro Monitor International (2013) reported that sub-Saharan Africa's tourism industry was among the fastest growing market segments in the world. The report indicated that between 1999 and 2013, international arrivals doubled to 36m in 2013. The World Hospitality Group, (2013) in an Africa Pipeline Study reported that by

2013, hotel chains across Africa had over 200 hotel projects on going with a view to develop 40,000 additional rooms. The region attracts tourists from across all corners of the world. South Africa experienced 9.7% increase in visitors from Europe, while the number of North American visitors rose to 13.9% in 2012. Projections show that the Nigerian hospitality would be the fastest-growing market up to 2017 above South Africa and Mauritius.

Since independence, Kenya has relied on its tourism industry to generate foreign exchange earnings. The sector has recorded impressive growth results in terms of foreign exchange earnings and international visitor arrivals to Kenya. According to the Kenya National Bureau of Statistics (KNBS) (2012) Kenya's foreign exchange earnings increased by 32.8 per cent from KShs.73.7 billion in 2010 to Kshs.97.9 billion in 2011; while international visitor arrivals, mostly holidaymakers, rose from 1.6 million in 2010 to 1.8 million in 2011, a rise of 13.3 per cent. In response to this, new hotel and hospitality establishments have also been developed in many parts of the country to cater for the increased numbers of foreign visitors as well as domestic travelers. In this regard, the hotels and restaurants sector recorded growth at 5.0 per cent in 2011 compared to 4.2 per cent in 2010 (KNBS, 2012).

The sector in 2011 contributed 14% to economic output and employed 12% of the labor force (World Bank, 2012). However, the recent wave of terrorism attacks has had a significant negative impact on the foreign visitor figures. The number of bed-nights occupied in hotels decreased by 4.8 per cent from 6,596.7 thousand in 2013 to 6,281.6 thousand in 2014 translating to the drop in average length of stay to 12.3 days from 13.2 days in 2013. The number of local conferences held however increased by 8.0 per cent from 2,849 in 2013 to 3,077 in 2014. However, international conferences decreased by 19.4 per cent in 2014 (KNBS, 2015). International tourist arrivals in Kenya declined by 46.8% in 2014/2015and it continues to decline (World Travel and Tourism Council, 2015).

Nakuru is a major tourist destination in the country owing to the natural sceneries in the Great Rift Valley and wild life there in. Statistics show that over 64% of the tourists who visit Kenya annually also visit Nakuru (IPSOS, 2014). Further, in 2011, the UNHabitat named Nakuru town, as the fastest growing town in East and Central Africa. In response to this growth in Nakuru Town, there has been a rapid growth in the number of hotels in Town and its surrounding. Over the years, the town has always been known for its Agricultural produce and also as a tourist destination for many people. However, that trend and culture has slowly changed over the years with Nakuru town acquiring a new status of being a business destination to investors. In a span of five years since 2011, the number of hotels opened in the town has shot to 74 hotels forcing many land owners convert rental houses into business premises. The growth in hotels continued in the same period in which International tourist arrivals in Kenya recorded the highest declined.

The growth in the number of hotels in Nakuru town shifted the level of supply of hotels in the area. In addition to competition, hotel demand patterns are changing as the economic landscape develops. Technological advancements especially, enhanced internet, and mobile usage, social media have introduced changes in the way guests interact with businesses in the hotel sector and interact with each other (Grant Thornton International, 2014). New innovations such as self-catering and other substitutes have increased demand for higher level customer experience. Western leisure travelers are seeking out more exotic and far-flung holiday destinations, travelling to destinations that were once only on the backpack trail.

The challenge for hospitality businesses is how to deliver a seamless customized guest experience to a variety of visitors with a variety of preferences. Thus cost competitiveness and agility in services and products are critical for survival among operators in the hotel industry. Hotel businesses therefore have to design competitive strategies to survive and grow in the industry (Krishna, 2010). Strategy is a key factor to creating the value of the performance in business organizations. The hotel businesses have to embrace different sets of activities to establish valuable positions and projects to accomplish a firm’s objectives and long-term goals.

Porter (1980) proposed generic competitive strategies as one of the most known strategies involving three elements that would give a business competitive advantage: cost leadership where a firm goals to meet low cost in its industry, differentiation, a firm prospects becoming unique and different in its market, and focus, a firm engages in focusing on particular buyers, product lines, or markets. This study will seek to determine the application of the three competitive strategies by hotels and how it impacts on their performance.

Performance is associated with a firm's results, and revealed through outcomes of business processes and accomplishments and the success of meeting established goals. Jouirou and Kalika (2004) measured organizational performance by a subjective way including cost reduction, customer satisfaction, improved production, and the ability to innovate. Wu (2001) used efficiency, sale performance, customer satisfaction and relationship development to measure of firm performance.

1.2 Statement of the Problem

Hotel industry in developing economies contributes a significant proportion of the GDP and employment. In Kenya Hotel Industry together with Tourism contributes 14% of the GDP (World Bank, 2012). The hotel industry in developing economies has been growing at a higher rate than developed economies characterized by development of more rooms and an increase in more innovative products such as self-catering, home stays, camps and other substitutes. These have had a significant change in competition in the industry. Thus the players in the hotel industry have to deliver a seamless customized guest experience to a variety of guests with a variety of preferences to remain competitive. This challenging business environment demands clear strategies for hotels to achieve their strategic goals.

Lo (2012) observed that porters' generic strategy can create competitive advantage for a firm through the adoption of differentiation, cost-leadership and focus strategies. These strategies give a firm a better chance of outperforming other firms in a homogeneous industry as is the case in Nakuru Town. Nakuru Town is one of the major tourist destinations in Kenya which receives over 64% of the tourists visiting the country and characterized by a rapid expansion in the hotel industry (IPSOS, 2014). However, with the security threats and decline in the number of tourists visiting the country, increased options, new innovations, and presence of substitute products, there is need for effective strategies by players to remain competitive in the market. There is little evidence that Porter's generic strategy has been applied as strategic responses by Hotels in Nakuru Town. Application of strategies not backed by research could lead to inappropriate strategic choices by hotels in Nakuru Town. This study sought to establish the effects of competitive strategic responses on performance of the hotel industry in Nakuru Town, Kenya.

1.3 Objectives of the Study

1.3.1 General Objective

This study sought to assess the effects of competitive strategies on performance of the hotel industry in Nakuru Town, Kenya.

1.3.2 Specific Objectives

The study objectives were:

1. To assess the effect of cost leadership on performance of Hotels in Nakuru Town, Kenya
2. To establish how product differentiation affects performance of Hotels in Nakuru Town, Kenya
3. To determine the effect focus strategy on performance of Hotels in Nakuru Town, Kenya

1.4 Research Hypotheses

The study sought to test the following hypotheses

HO_1: Cost leadership has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.

HO_2: Product differentiation has no statistical significant effects on performance of Hotels in Nakuru Town, Kenya.

HO_3: Focus strategy has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.

1.5 Justification of the Study

Currently the tourism and hospitality industry in Kenya is experiencing difficult challenges owing to the terrorism threats and travel bans that have seen a decline in the number of foreign travelers in the country. Before then, the industry experienced booming moments thus attracting industry expansion in the number and size of hotels and the product range. New product innovation too has taken place in the markets. Thus the market is confronted with increased supply and declining demand. A lot of investment has been done in the industry following its boom and for hotels to survive; they require to be competitive locally, regionally and internationally. This is achievable by applying effective competitive strategies, to adapt to the environmental changes and remain above board in the market place. This study therefore would help analyze the effectiveness of competitive strategies applied in the hotel industry in Nakuru in this period of crisis.

1.6 Significance of the Study

The study would be beneficial to hotel owners in Kenya and beyond by providing validated information on the appropriate strategic responses that would enhance performance during periods of crisis. Secondly, the Kenya Tourism Board would also benefit from the findings through insights on how to mitigate against the effects of low industry performance by enhancing competitiveness of the sector above other emerging tourist destinations. The findings would also benefit scholars of hotel, tourism and strategic management through empirical evidence provided.

1.7 Scope of the Study

The study was conducted in Nakuru Town, in Nakuru County, Kenya, among Hotels registered with the Kenya Tourism Board. It sought to assess the effectiveness of three Porter's competitive strategies in enhancing performance in the hotel industry; that is cost leadership, differentiation and focus strategies. The study covered the period of May 2016 to September 2016.

1.8 Operational Definition of Terms

Competitive advantage – is a business concept describing attributes that allow an organization to outperform its competitors. It is associated with more competitive markets and lower barriers to entry (Porter, 1980). This study focuses on competitive advantage based on hotel performance attributes.

Competitive strategy – as the plan for taking offensive or defensive actions to create a defendable position in an industry, to cope successfully with the five competitive forces and thereby yield a superior return on investment for the firm (Porter, 1980). This study will consider three competitive strategies: cost leadership, differentiation and focus strategies.

Cost Leadership Strategy – is a strategy that involves offering competitive product pricing through aggressive strategies (Porter, 1980). This study considered cost leadership strategies such as enhancing organizational efficiency, cost reduction, price reduction; cost reduction though sales growth and technology advancement

Focus strategy – refers to a competitive strategy that involves serving a particular target market segment very well. The particular market may be particular buyer group, segment of the product line, or geographic market (Porter, 1980). Focus strategy in this study was assessed using strategies aimed at serving narrow market segments, differentiation products for specific markets, specialty products/ services, personalized advertisements and producing products/services for high price markets.

Hotel performance – is a measure of how a firm uses its assets from its primary mode of business and generates revenues (Gary & Birger, 1989). In this study hotel performance will be assessed based on: return on Investment, cash flow, sales growth rate, customer satisfaction.

Product Differentiation Strategy – refers to the competitive strategy where established firms create brand identification and customer loyalties. Differentiation creates a barrier to entry by forcing entrants to spend heavily to overcome existing customer loyalties (Porter, 1980). Product differentiation strategies assessed in this study include: unique product or services by hotel, product/Service quality, product personalization, company's image and distribution channels.

Hotel – A commercial establishment providing lodging, meals, and other guest services. To be called a hotel, an establishment must have a minimum of six letting bedrooms, at least three of which must have attached (ensuite) private bathroom facilities. This definition is adopted from (Chan & Mackenzie, 2013).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter discusses a review of relevant literature to the study. It focuses on the theoretical foundations then empirical literature review before presenting the conceptual framework on the study variables.

2.2 Theoretical Framework

This study on competitive strategies applied by hotels in Nakuru Town is based on the Porter's generic strategies for enhancing the competitiveness of organizations hence their performance. The Porter's generic strategies are discussed in the following section.

To begin with, strategy is a broad and complex concept and in an attempt to provide a definition, Porter (1996) states that strategy is the creation of a unique and valuable position, involving a different set of activities. Further he notes that, the essence of strategic positioning is to choose activities that yield superior profitability because they are different from that of rivals therefore creating a sustainable competitive advantage. It is worth noting competitive advantage is not necessarily enduring, as a result, strategy must be distinguished from operational effectiveness. It has been proven that both elements can generate competitive advantage, which improves performance, but operational effectiveness is relatively easy to imitate therefore eroding the competitive advantage of the company. In fact, Saloner, Shepard & Podolny (2001) observed that the major threat to the sustainability of a competitive advantage is that rivals can diagnose and duplicate or make obsolete the competitive advantage.

The traditional academic research has made a number of contributions to the business strategy field, and it can be traced starting from the1970s, and followed up by a large numbers of contributions by pragmatics in the late who considered that two identical strategic settings never occur. This means that the research field of business level strategy was complex to study. In light of this the introduction of the concept of strategic groups was first coined by Hunt (1972) which was a great step towards facilitating research. By assigning businesses that employ similar strategies or positioning to a strategic group, the vast array of combinations was reduced. In this implies that by identifying businesses with distinct, consistent, and recurring patterns of strategic behavior, researchers can limit their studies to observing a number of different combinations that are equal to the number of identified existing strategic groups, instead of the number of existing firms.

The types of strategies applied have been identified in a number of industries such as Galbraith & Schendel (1983) in consumer products and industrial products. In addition Hatten et al (1978) focused on brewing industry while, Newman (1978) in chemical process and Fiegenbaum & Thomas (1990) in U.S. insurance industry. However the classifications by Miles & Snow's (1978) and Porter's (1980) generic strategic typology have become the most popular and widely used. These are based on the premise that generic strategies, by definition, are not limited to any particular industry or context. In particular Porter's (1980) model of generic strategies has outperformed all other contributions in terms of the extent of application in research and practiced and the impact on business strategy formulation.

2.2.1 Porter's Generic Strategies

Michael Porter is considered by many scholars as the most influential strategist in the field of business-strategy. According to Eng (1994) for example the arguments underlying the generic strategies advocated in Porter's, Competitive Strategy (1980) have influenced much of the current thinking in strategy formulation. Porter's generic strategies were developed by Porter (1985). According to Porter, a firm's relative position within its industry determines whether a firm's profitability is above or below the industry average. The fundamental basis of above average profitability in the long run is sustainable competitive advantage.

The Porter's model of generic strategies addresses practitioners with an analytical technique for gaining understanding of industries and competitors. The practitioners implied managers seeking to improve the performance of their businesses, advisors to managers, teachers of management, security and analysts or other observers trying to understand and forecast business success or failure, or government officials seeking to understand competition in order to formulate public policy. The reason behind any strategic planning is a primary concern to business managers in particular but also other practitioners is that it may lead to significant benefits for a firm.

In particular, an explicit process of strategy formulation can determine a firm's long-run competitive strength and generate a persistently higher rate of profit than its rivals by creating a sustainable competitive advantage. However, in order to compete successfully both in the short-run and in the long-run, a firm must first choose an appropriate positioning. The Porter's model proposes three different approaches to gaining or strengthening competitive advantages otherwise referred to as competitive strategies. These include the overall cost leadership, differentiation, and focus which are the basis for this study.

In this study, there are two basic types of competitive advantage a firm can possess: low cost or differentiation. The two basic types of competitive advantage combined with the scope of activities for which a firm seeks to achieve them, lead to three generic strategies for achieving above average performance in an industry: cost leadership, differentiation, and focus as shown on Figure 2.1.

		COMPETITIVE ADVANTAGE	
		Lower Cost	Differentiation
COMPETITIVE SCOPE	Broad Target	1. Cost Leadership	2. Differentiation
	Narrow Target	3A. Cost Focus	3B. Differentiation Focus

Figure 2.1: Porter's Generic Strategies

Source: Porter (1985).

2.2.1.1 Cost Leadership

In cost leadership, a firm sets out to become the low cost producer in its industry. The sources of cost advantage are varied and depend on the structure of the industry. They may include the pursuit of economies of scale, proprietary technology, preferential access to raw materials and other factors. A low cost producer must find and exploit all sources of cost advantage. If a firm can achieve and sustain overall cost leadership, then it will be an above average performer in its industry, provided it can command prices at or near the industry average.

As suggested by Porter in the model, a low-cost position gives a firm a defense against rivalry from competitors, because its lower costs imply that it can still earn returns after its competitors have competed away their profits through rivalry. A low-cost position defends the firm against powerful buyers because buyers can exert power only to drive down prices to the level of the next most efficient competitor. In addition, the low cost strategy provides a defense against powerful suppliers by providing more flexibility to cope with input cost increases. The low-cost position in return provides substantial entry barriers in terms of scale of economies or cost advantages.

Besides, a low-cost position usually places the firm in a favorable position in relation to substitutes relative to its competitors in the industry. The economies of scale and cost advantages tend to defend a firm against powerful buyers and suppliers and provide substantial entry barriers. Achieving a low overall cost position many at times requires a high relative market share. This implies that cost advantages can create value for a firm by reducing the five threats of entry, rivalry, substitutes, suppliers and buyers.

More importantly according to Barney & Hesterley (2006) there are six main sources of cost advantages for firms that successfully adopt cost leadership. These include the size differences and economies of scale, size differences and diseconomies of scale, experience differences and learning-curve economies, differential low-cost access to productive inputs, technological advantages independent of scale, and policy choices. Furthermore, the ability of a valuable cost leadership strategy to create a sustainable competitive advantage is conditional upon the strategy being rare and costly to imitate.

2.2.1.2 Differentiation

In a differentiation strategy a firm seeks to be unique in its industry along some dimensions that are widely valued by buyers. It selects one or more attributes that many buyers in an industry perceive as important, and uniquely positions itself to meet those needs. It is rewarded for its uniqueness with a premium price (Porter 1985).

According to Porter 1985), differentiation focuses on the uniqueness of the products or services offered by the firm, in other words, creating something that is perceived industry-wide as being unique. In practice, differentiation may be achieved in various ways, such as through design, brand image, technology, features, customer service, and dealer network. The basis for differentiation may be sorted into three categories. Firstly, to implement differentiation, a firm may focus directly on product or service attributes such as product features, product complexity, timing of product introduction, or location that are unique.

Secondly, a firm may focus on the relationship between itself and its customers that is unique and strong enough to result to a competitive advantage. Common strategies in these include through product customization, consumer marketing and product reputation. Finally, differentiation may be implemented by focusing on the unique linkages and networks within or between firms. Ideally in this strategy, the firm should differentiate itself along several dimensions. According to Barney & Hesterley (2006) product differentiation is ultimately an expression of the creativity of individuals and groups within the firms. As a result, it is limited only by the opportunities that exist, or that can be created, in a particular industry and by the willingness and ability of firms to creatively explore ways to take advantage on those opportunities to outdo their competitors.

The benefits associated with differentiation are enormous and according to Porter (1985), differentiation may generate superior profitability since it provides insulation against competitive rivalry because of brand loyalty by customers and resulting lower sensitivity to price. Besides, differentiation increases margins, which avoids the need for a low-cost position. The resulting customer loyalty and the need for a competitor to overcome uniqueness provide entry barriers. Differentiation has also been found to yields higher margins with which to deal with supplier power, and it clearly mitigates buyer power, since buyers lack comparable alternatives and are thereby less price sensitive. Finally it is evident that a firm that has differentiated itself to achieve customer loyalty should be better positioned in relation to substitutes than its competitors. Besides reducing the five threats of entry, rivalry, substitutes, suppliers and buyers.

2.2.1.3 Focus

The generic strategy of focus rests on the choice of a narrow competitive scope within an industry. The focuser selects a segment or group of segments in the industry and tailors its strategy to serving them to the exclusion of others. The focus strategy has two variants. The first is cost focus in which a firm seeks a cost advantage in its target segment, while the second is differentiation focus in which a firm seeks differentiation in its target segment. Both variants of the focus strategy rest on differences between a focuser's target segment and other segments in the industry.

The target segments must either have buyers with unusual needs or else the production and delivery system that best serves the target segment must differ from that of other industry segments. Cost focus exploits differences in cost behavior in some segments, while differentiation focus exploits the special needs of buyers in certain segments. The current study combines the two variants of focus strategy. To analyze the generic strategies applied in the hotel industry in Nakuru Town in developing competitive advantage and how this impacts on the hotel performance. The analysis looks at the application of cost leadership strategies, differentiation strategies and focus strategies.

2.3 Empirical literature

The relationship between strategy and performance has received much attention in the literature. Empirical research on the profit impact of marketing strategy indicated that firms with a high market share were often quite profitable, but so were many firms with low market share. The least profitable firms were those with moderate market share. This was sometimes referred to as the hole in the middle problem. Porter's explanation of this is that firms with high market share were successful because they pursued a cost leadership strategy and firms with low market share were successful because they used market segmentation to focus on a small but profitable market niche.

Schwenk, and Shrader (1993) meta-analysis of existing studies re-emphasized that there is a positive relationship between strategy and business growth. Porter (1991) also established that strategy leads to superior organizational performance which is also sustainable. The study noted that when a company develops and implements long-term strategies such as functional polices, it could earn positive advantage on the market. Thus, a firm's success is based on its strategy, to create and exploit conditions which give the firm unique competitive positioning. In their study on performance of SMEs, Fletcher and Harris (2002) found that strategy flexibility creates strengths and fast track niche-filling capabilities which in turn focus more on differentiation strategies. According to Tanwar (2015) generic strategies can help the organization to cope with the five competitive forces in the industry and do better than other organization in the industry.

2.3.1 Cost Leadership Strategy and Firm Performance

According to Porter (1985) cost leadership or "low-cost" strategy put emphasis on organizational efficiency. This strategy involves the process through which the company is able to produce or distribute goods and services at a lower cost than competitors within the industry. Porter defines strategy of cost leadership as trading standard products combined with aggressive pricing. Cost leadership strategy is proposed by Porter (1985), as a successful way to achieve sustainable competitive advantage by reducing and controlling the costs. Some of the ways to realize low cost strategy and achieving the required performance are: economies of scale, control and reduction of administrative costs, the curve of experience, technology.

In a study on business strategy in Ghana by Acquaah (2011) reveals that cost leadership strategy results in improvements in efficiencies. These capabilities include cost and price reduction, increase in sales growth and market shares, and high performance. Valipour, Birjandi, & Honarbakhsh (2012) conducted a study to establish the effects of cost leadership strategy and product differentiation strategy on the performance of firms in Iran. The findings of the study revealed that a positive relationship exists between financial leverage and performance furthermore if the companies chose product differentiation strategies rather than cost leadership strategy, this relationship was more positive. Thus, if the company chose cost leadership strategy; the company's performance increases. While if the company chose product differentiation strategy; the company's performance increases.

Hilman, Mohamed, Othman, & Uli (2009) stated that to gain cost leadership advantage organization should pursue forward, backward and horizontal integration strategies. Organizations that implement cost leadership strategy employs several activities like accurate demand forecasting, high capacity utilization, economies of scale, technology advancement, outsourcing and learning/experience curve (Bordean, Borza, Nistor, & Mitra, 2010).

Cost leadership strategy emphasizes that firms can gain competitive advantage by achieving low cost within the industry (Hilman, 2009). Cost leadership strategy is effective in hospitality industry, if the hotel has distinctive competency in the management of materials and production process (Lo, 2012). Lo (2012) stated that hotels could successfully pursue a cost leadership strategy through efficient, cost saving in hotel designs and operational activities. Organizations can follow cost leadership strategy, when the customers don't give much importance for brand, price sensitivity and buyers have significant bargaining power. Porter (1980) reiterated that cost leadership may lead to process innovation to a certain extent.

In a study conducted by Hilman and Kaliappen (2014) to assess whether cost leadership strategy and process innovation influence the performance of Malaysia hotel industry. The study involved 54 three to five star hotels in Malaysia using the cross-sectional approach. The findings of the study revealed that strategic implementation perspective and strategic alignment between organizational strategies were operative in creating better performance. This study further revealed that process innovation played a partial mediation role in the connection of cost leadership strategy and organizational performance. Cost leadership was a business strategy that assists the firms to be low cost producer by increasing internal efficiencies and refining the utilization of all the resources effectively than the rivals.

Besides, according to Bani-Hani and AlHawary (2009), competitive advantage from product-price-performance is almost short term, especially in an era where technologies are altering the existing business boundaries. Advantages can only be sustained through competence that is enjoyed at the very roots of products. A study conducted by Valipour, Birjandi & Honarbakhsh (2012) examining the effects of cost leadership strategy and product differentiation strategy on the performance of firms revealed that when companies' strategy was based on cost leadership strategy; cost leadership strategy, financial leverage and dividend variables had a direct link relationship with company's performance. Thus, if the company's strategy was based on cost leadership strategy, an increase in financial leverage and Dividend payments would result in performance increment. The financial leverage multiplication strategy variable has inversely relationship with company's performance.

On the contrary, Jermias (2008) examining the relative influence of competitive intensity and business strategy on the relationship between financial leverage and performance showed that if the companies use cost leadership strategy, the relationship between financial leverage and performance was negative.

2.3.2 Differentiation Strategy and Firm Performance

Differentiation refers to the development of a unique product or service (Porter, 1985). These products are seen as such when compared with competing products because of the distinguished features. Rahman, (2011) looks at product differentiation as a competitive business strategy whereby firms attempt to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services. Product differentiation strategy can be a tool of competitive advantage which is adopted by organizations in order to provide products that satisfies individual customer’s needs. In satisfying individual customer’s needs, quality has become a major differentiating factor among products (Shammot, 2011).

According to Enz (2011), differentiation strategy focuses on offering products or services that customers perceive to be different and better than the offerings of the competition. Enz further identifies that this strategy is popular in the hospitality industry, primarily because hospitality services are complex and satisfy self-identity and social affiliation needs, thus creating tremendous opportunities for differentiation. Besides, the potential for differentiation is great in service businesses and the ease of imitation can make it likely that several brands will attempt similar strategies.

According to Rahman, (2011) differentiation is a strategic choice, not a feature of the market, and as such needs to be based on creating a bundle of resource capabilities. As a result, service experiences that complement consumers' lifestyles, and brands that communicate their aspirations may allow the firm that creates these products and services to set itself apart sufficiently that it can charge a premium price. Rahman further argues that the higher price is necessary to cover the extra costs incurred in offering the unique experience. To understand and profit from a differentiation strategy it is important to understand customer lifestyles and aspirations, so that the hotel's distinctive offerings are valued by customers.

Differentiation can be achieved in various ways, including: roduct features, complementary services, technology embodied in design, location, service innovations, superior service, creative advertising, better supplier relationships leading to better services (Enz, 2011). Certain resources are more effective as a source of sustainable differentiation than others. The reputations and brands of an organization are difficult to imitate, whereas particular service features may be easy to imitate. Therefore in general, intangible resources such as a high-performance organizational culture are hard to imitate and are a stronger basis of competitive advantage, whereas a tangible resource such as the fixtures and furnishings in a hotel are easy to imitate.

Enz, (2011) further identifies that te key to success when deploying a differentiation strategy is that customers must be willing to pay more for the service than it cost your hotel to create it. Furthermore, a critical aspect of the differentiation strategy is to keep costs low in the areas that are not directly related to the sources of differentiation. For instance, many large hotels avoid investing in real estate so that they can focus their efforts on brand and franchise differentiation. This "asset-light" strategy is common throughout the hotel industry.

According to Stalk, Evans and Shulman (1992) organizations sustain a competitive advantage only so long as the services they deliver and the manner in which they deliver them have attributes that correspond to the key buying criteria of a substantial number of customers. Sustained competitive advantage is the result of an enduring value differential between the products or services of one organization and those of its competitors in the minds of customers.

In the 1970s and early 1980s, one of the major features of an industrial economy was the increased emphasis been placed on internal quality of execution, rather than price, as a major competitive tool. 'Quality' was viewed as a key market differentiator, resulting in many organizations defining and improving processes, adopting and implementing total quality management systems, and attaining quality standard accreditation. Recently however, interest has been growing in the application of advanced process monitoring and control strategies to improve manufacturing operations. Quality, as a competitive advantage tool is seen as one of the fundamental ways in which individual businesses can successfully compete in the global marketplace. The choice of what product to purchase in most consumer markets is not majorly determined by the lowest price, a product's quality could be a determining factor (Matsa, 2009).

There are many ways and dimensions by which firms can differentiate themselves (Thompson et al, 2009) and their product from rival companies. First, the company`s image and customer perceptions are important elements during differentiation strategy because the perceived difference or distinguishing features make the customer more sensitive toward the buying process (Allen & Helms, 2006).

Secondly, the differentiation created by the relationship between the company and buyers through product personalization and adaptation to the buyers` characteristics. Third, differentiation can be achieved by focusing on connections between departments or other company's relationships such as mix product, distribution channels and after-sales services. Firms that differentiate their product/service successfully set a higher price than competitors to justify the high costs of being unique or different. According to Porter (1985), the advantages that benefit firms implementing differentiation strategy refers to the realization of higher income compared to competitors due to brand loyalty, quality and lower demand elasticity of consumers.

To understand and profit from a differentiation strategy it is important to understand customer lifestyles and aspirations, so that the hotel's distinctive offerings are valued by customers. Differentiation can be achieved in an almost unlimited number of ways, including: product features, complementary services, technology embodied in design, location, service innovations, superior service, creative advertising, and better supplier relationships leading to better services.

According to Tanwar (2013) differentiation is a viable strategy for earning above average returns in a specific business because the resulting brand loyalty lowers customers' sensitivity to price. Research does suggest that a differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier. A low-cost strategy is more likely, however, to generate increases in market share.

Researchers such as Wang and Lo (2003) have found that there is a significant relationship between competitive advantage and the sales-based performance of organizations, when sales-based performance was measured by the level of sales revenue, profitability, return on investments, productivity, product added value, market share and product growth. Flatt and Kowalczyk (2008) were of the opinion that organizational culture is one intangible asset that can help organizations create a competitive strategic advantage and enhance financial performance.

Abu-Aliqah (2012) in his study adopted the following variables to measure product differentiation strategy: high product quality, fast delivery, design and new products, and unique product features. The study findings of Acquaah and Yasai-Ardekani (2008) showed the viability and profitability of implementing cost leadership, differentiation, and the combination of the singular strategies. Nevertheless, the incremental performance benefits to firms implementing a combination strategy do not significantly differ from the performance of firms implementing only the differentiation strategy. In addition, firms that implement a coherent competitive strategy, that is: a combination, cost-leadership, or differentiation and tend to gain considerable incremental performance benefits.

In a different study, Amoako-Gyampah and Acquaah (2008) examined the relationship between manufacturing strategy and competitive strategy and their influence on firm performance and found out that there was a positive relationship between competitive strategy and the manufacturing strategies of cost, delivery, flexibility, and quality. In addition, the result shows that quality is the only manufacturing strategy component that influences performance indirectly. Prajogo (2007) examined the underlying strategic intent of quality performance and the result of his findings show that product quality is predicted by differentiation strategy, but not cost leadership strategy.

The study by Valipour, Birjandi & Honarbakhsh (2012) revealed that if companies' strategy was based on product differentiation strategy; the financial leverage, firm's size and financial leverage multiplication strategy variables, would have a direct link relationship with company's performance. Thus, if the company's strategy was based on product differentiation strategy, with increase in financial leverage, firm's size and financial leverage multiplication strategy; the performance would be increased. The financial leverage multiplication strategy variable had inversely relationship with company's performance. Also with increase in product differentiation strategy and dividend payout; the performance decreased.

In a study conducted by Dirisu, Iyiola and Ibidunni (2013) to assess product differentiation as a tool of competitive advantage and optimal organizational performance it was established that however little the significance product differentiation holds in relation with organizational performance, there was a positive relationship between the variables. This research study further demonstrates that product differentiation could be used as a tool for achieving competitive advantage and enhancing greater organizational performance.

In Kenya, a study conducted by Nolega, Oloko, William and Oteki (2015) to assess the effects of product differentiation strategies on firm product performance at the Kenya Seed Company revealed an increase in customer base of that was attributed to product differentiation strategies categorically product quality.

2.3.3 Focus Strategy and Firm Performance

In the focus strategy, the company aims to serve the customers in a narrow market segment (Hlavacka et al., 2001) through low cost or differentiation (Porter, 1980). Developing the studies about Porter`s competitive strategies, Thompson et al., (2008) indicates that a focused strategy aimed at securing a competitive edge based on either low cost or differentiation becomes increasingly attractive as more of the following conditions are met: The target market niche is big enough to be profitable and offers good growth potential. Industry leaders do not see that having a presence in the niche is crucial to their own success. It is costly or difficult for multi segment competitors to put capabilities in place to meet the specialized needs of buyers comprising the target market niche and at the same time satisfy the expectations of their mainstream customers.

When using differentiation strategy, a company focuses its efforts on providing a unique product or service (Bauer & Colgan, 2001). Since, the product or service is unique this strategy provides high customer loyalty (Hlavacka et al., 2001). Each industry has many different niches and segments, thereby allowing a focuser to pick a competitively attractive niche suited to its resource strengths and capabilities. Implementation of this strategy provides to firms the integration of a range of activities associated with differentiation and low cost in a target market niche from which the company generates higher profits.

Focus strategies can be based on differentiation or lowest cost. There is much debate as to whether or not a company can have a differentiation and low-cost leadership strategy at the same time (Helms, Clay & Peter, 1997). Harrison and Enz, (2005) argue that a focus strategy emphasizing lowest cost is rare in the hotel industry as it is hard to please a particular guest segment without some form of differentiation.

The significant strategic practices for the focus differentiation strategy include providing specialty products and services, building a positive reputation within the industry, producing products/services for high price markets and extensive training of marketing personnel. According to Tanwar (2013) focus strategy is most suitable for relatively small firms but can be used by any company. As a focus strategy it may be used to select targets that are less vulnerable to substitutes or where a competition is weakest to earn above-average return on investment.

According to Ghemawat (2010), firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well. Some risks of focus strategies include imitation and changes in the target segments. Furthermore, it may be fairly easy for a broad-market cost leader to adapt its product in order to compete directly. Besides, other focusers may be able to carve out sub-segments that they can serve even better.

Magnini, Honeycutt and Hodge (2003) identified six essential factors that can help in exploiting niche markets in hotel industry through the use of data mining, a statistical technique that builds models from vast data bases. They include: creating direct mail campaigns, planning seasonal promotions, planning the timing and placement of ad campaigns, creating personal advertisements, focusing on growing and emerging markets, and helping in room reservations.

2.3.4 Performance Measurement

Performance measurement is a basic element of business management to understand the source of sector's competitiveness and support the implementation of strategies. In general, firm's performance relates to both external and internal factors: external, because firms compete in sectors and markets which influence strategy and results; internal, because firms have to choose strategies to be adopted and, in general, to decide the correct way to operate, to allocate resources in order to manage business functions and reach goals (Bresciani, Thrassou, & Vrontis, 2012).

According to Karsak and Tolga, (2001), it is hazardous to emphasis merely on financial aspects because such performance estimation may mislead managers to overlook other strategic goals. Numerous scholars have recommended that performance measurement must involve both financial and non-financial dimensions (MacDougall & Pike, 2003). Therefore, balanced scorecard (BSC) retained the financial measures and added three non-financial perspectives, namely customer, internal process and learning and growth (Kaplan & Norton, 1992). BSC is the most popular; least criticized, widely accepted and implemented a performance measurement tool (Paranjape, Rossiter, & Pantano, 2006).

Abu-Aliqah (2012) identified the following measurement items; Return on Investment, Sales growth rate, Cash flow from operation, Customer satisfaction, Product quality and Market development. Santoro (2015) identified several parameters for evaluating hotel performance as hotel room value for money, hotel food and beverage value for money, convenience of location, comfort of ambience, and reputation. The results shown above suggest that special attention should be directed to the value factor. In addition to the value for money on hotel accommodation and food, customers are demanding the right combination of product quality, fair prices, and good services. As convenience of location is the prime factor for most businesses, marketing efforts should be emphasized on promoting the accessibility or ease of convenience of a hotel's location.

2.4 Research Gaps

Review of empirical literature reveals that the three Porters generic strategies for enhancing competitiveness of organizations have been applied in different industries. Hilman and Kaliappen (2014) assessed cost leadership strategy and process innovation on hotel performance of Malaysia while Valipour, Birjandi and Honarbakhsh (2012) assessed cost leadership strategy and product differentiation in firms Iran and Acquaah (2011) in Ghana. Rahman, (2011) looks at product differentiation as a competitive business strategy while Tanwar (2013) assessed differentiation against earning above average returns. All the studies have established that application of the porters' generic strategies impacts on competitiveness. However, it is not well known on the comparative impact of each strategy in enhancing firm competitiveness since the studies cited focused on one of two strategies. Besides, it is not known which strategy would produce the highest impact in the hotel industry in Kenya particularly in Nakuru Town which has been a tourist hub in Kenya.

2.5 Conceptual Framework

The study was guided by the conceptual framework in Figure 2.2.

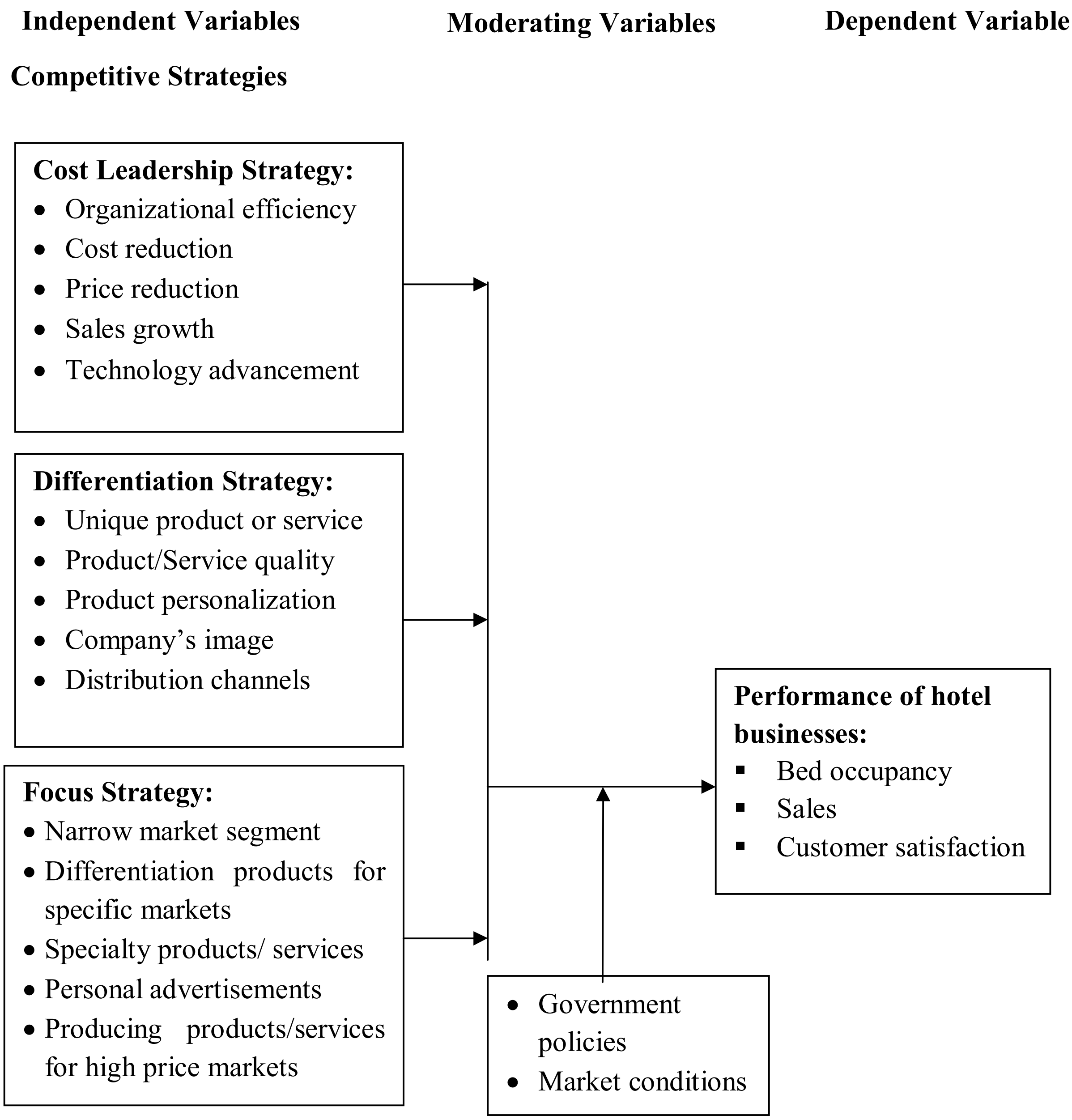

Figure 2.2: Conceptual Framework

Source: Researcher (2016)

The conceptual framework above shows the hypothesized link between that the application of Porter's generic competitive strategies and the performance of hotels in Nakuru. The study seeks therefore to analyze the extent of application of the strategies in relation to performance and compare the effectiveness of these strategies on hotel performance. In analyzing the cost leadership strategy application in hotels, the study will seek to determine hotel's aggressiveness in pricing compared to its competitors, organizational efficiency, application of cost reduction strategies and focus on price reduction. Furthermore, the focus on sales growth, growth of market share and technology advancement was considered as indicators of competitive strategy.

In analyzing the application of differentiation strategy, the study will observe the customer's positive perceptions about the hotel compared to their competitors', presence of unique product or services and excellence in product/service quality. Other indicators that were sought included the level of product personalization, modification in distribution channels and presence of unique product mix.

Focus strategy was measured by determining the hotels deliberate efforts to focus on narrow market segments, and its low cost for specific markets. In addition, the differentiation products for specific markets was determined as well as presence of specialty products/ services. The use of personalized advertisements and producing products/services for high price markets were considered as part of focus strategy. The hotel performance on the other hand was compared using: return on investment, cash flow, sales growth rate and customer satisfaction.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology and procedures that were used in conducting the research. The chapter contains sections on study design, study location, target population, sampling and sample size, data collection instruments, validity and reliability of instruments, data collection and analysis procedure.

3.2 Study Design

The study adopted a descriptive survey research design. Descriptive survey research design according to Kombo and Tromp (2006) is used in collecting information by administering questionnaires to a sample of individuals and is suitable when collecting information on people's attitudes, opinions, habits or any variety of educational or social issues. Mugenda and Mugenda (2003) also points out that descriptive research designs are appropriate in determining and reporting the way things are. This study sought to assess the competitive strategies applied by hotels and their impact on performance. This therefore did not focus on manipulating and parameters and variables but rather analyze the present status of hotel performance and create link with the applied competitive strategies.

3.3 Study Location

The study was carried out in Nakuru Town, Kenya among the hotels operating in the area. Nakuru town was established by the British as part of the white highlands during the colonial era. It received town status in 1904 and municipality in 1952. It is located around 156 km Northwest of Nairobi, 650km from Mombasa and 182km from Kisumu. Nakuru town has about 700,000 inhabitants (Nakuru District Development 2008-2012). Nakuru is a cosmopolitan municipality hosting various races and ethnic groups of Kenya. Most of the municipality's income comes from the MSEs, hotel and tourism, education and agricultural sectors. Nakuru is a host of various tourism destinations include the lake Nakuru National Park, Hyrax hill and the Menengai Crater. Nakuru is also a transit town to other regions such as Uganda, South Sudan, Rwanda and Burundi. The hotel industry in Nakuru has been very vibrant and growing at a very high rate and by 2015, the Town had 74 hotels operational with a total bed capacity of 6122 (Kenya Tourism Board (KTB), 2015). The list is presented on Appendix i.

3.4 Target Population

The target population for the study is defined by Best and Kahn (1998) as all individuals bearing similar characteristics of interest to the researcher. The study sought information on the application of porter's strategies in relation to performance by hotels in Nakuru. Therefore the target population for the study were the hotel managers in Nakuru Town. According to Kenya Tourism Board (KTB), 2015, there were 74 hotels operating in Nakuru by the end of 2015. Thus the study target population was 74 hotel general managers. Hotel managers are responsible for development and execution of competitive strategies in the hotels.

3.5 Sampling and Sample Size

To obtain the desired sample size for the study, Nassiuma (2002) formula used was shown below:

$$n = \frac{Ncv^2}{cv^2 + (N-1)e^2}$$

Where:

n= Sample size

N= Population

C_v = Coefficient of variation (take 0.3)

e= Tolerance at desired level of confidence, take 0.03 at 97% confidence level

Therefore:

$$n = \frac{74 * 0.3^2}{0.3^2 + (74-1)0.03^2}$$

n = 42

Therefore the sample size comprised of 42 hotel managers who are involved in development and execution of competitive strategies. The respondents were selected from the target population using purposive sampling technique.

3.6 Data Collection Instruments

Primary data was collected using closed ended questionnaires prepared by the researcher. Questionnaires allow collection of data from a large number of subjects simultaneously and provide for investigation with an ease of accumulation of data Graveter & Forzano (2003). The questionnaires has four sections; Section A sought general information about the managers and the hotels; Section B sought data on the application of cost leadership strategies in hotels; Section C sought information application of product differentiation strategies in the hotels while Sections D elicited data on the hotels application of focus strategies. Finally Section E sought information on the performance of hotels by looking at the number of guests both local and international, turnover, profitability and growth.

3.7 Validity and Reliability of Instruments

Adams, Jackson, & Marshall (2007) defines validity as the strength of conclusions and inferences of a research, which is dependent on the degree of accuracy in measuring what is intended in the research. To ensure internal, external and construct validity of the research instruments, the study relied on expert advice and judgment. This was provided by research supervisors and lecturers of Kabarak University. Consultations were done in all stages of the study.

Reliability according to Mugenda and Mugenda (2003), is a measure of the degree to which research instruments yield consistent results or data after repeated trials. To improve on reliability in this study, piloting of the questionnaires was done on selected hotels in Naivasha Town. This is a town located within 80 Kilometers from Nakuru and they share a lot of features such as tourist attraction sites as well as administration. Thus it was suitable for piloting. Items in the piloting questionnaires will then be analyzed using Cronbach's reliability coefficient in the statistical package for social scientists (SPSS). The judgment on the reliability of the instruments will be informed by Fraenkel & Wallen (2000) who state that an alpha value of 0.7 and above is considered suitable to make group inferences that are accurate enough. Items found to be unreliable were modified for clarity purposes or removed completely to improve on reliability.

3.8 Data Collection Procedure

To facilitate the data collection, an introductory letter was obtained from the Kabarak University, school of post graduate studies. The researcher visited hotels managers to obtain permission to conduct the study. The target respondents were contacted and arrangements to drop and collect questionnaires be made. The researcher understood the busy schedules of the hotel managers therefore questionnaires were administered using drop and pick later method and sufficient time allowed for the managers to respond. Continuous follow up was also maintained with the respondents for the collection of filled questionnaires.

3.9 Data Analysis Procedure

This study sought for opinions on the relationship between application of competitive strategies and performance of hotels. Based on the research objectives, the research used mainly quantitative data generated from rating the opinions by hotel managers. In descriptive analyzing the data, first a summary of responses was done using descriptive statistics which include frequencies and percentages. Inferential analysis was done to analyze for the relationship between application of competitive strategies and hotel performance. Correlation analysis was used to test the research hypotheses and to determine the relationship between generic strategies and performance of hotels while multiple regression analysis was used to determine the combination of strategies applied by hotels in Nakuru in relation to performance.

The following regression model was used:

$y_i = \beta_0 + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \varepsilon$

Where:

y = is the dependent variable (hotel performance)

β_0 = Constant

x_1 – Application of cost leadership strategy

x_2 – Application of differentiation strategy

x_3 – Application of focus strategy

ε – Error Term NID $(0,\sigma^2)$

$\beta_1, \beta_2, \beta_3$ - are coefficients.

CHAPTER FOUR

DATA ANALYSIS, INTERPRETATIONS AND DISCUSSIONS

4.1 Introduction

This chapter presents the results of data analysis for the study. Findings were presented and discussed based on the research objectives. The researcher distributed 42 questionnaires to hotel managers in Nakuru Town. However, the questionnaires that were filled and returned were 40, 2 were never returned. This implies that the study achieved a questionnaire return rate of 95.2%.

4.2 Respondents Demographic Information

Several demographic characteristics were determined for the hotel managers who took part in the study. These included their gender, age, education level and work experience. The findings are presented and discussed in this sub topic.

4.2.1 Gender of Respodents in Nakuru Town

The study considered gender of hotel managers as either male or female, the boy girl and transgender were not included in the study. This was used to determine whether hotel management staff distribution aligns with the constitutional two thirds gender rule in Kenya. Figure 4.1 shows the findings.

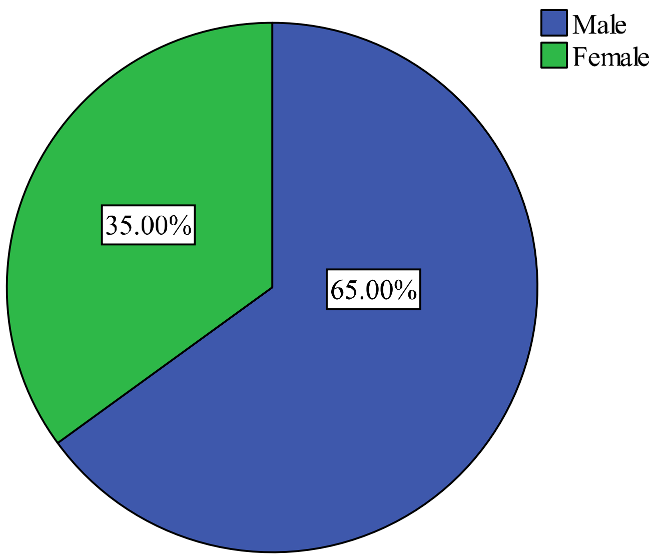

Figure 4.1: Gender of Hotel Managers

From the findings in Figure 4.1, majority 65.0% of the hotel managers were from the male gender while 35.0% were female.

4.2.2 Age of Respondents in Nakuru Town

The age of hotel managers in Nakuru Town was also determined using age brackets of 10 years and disaggregated by gender of the managers. The age plays a critical role in determining the experience of managers at the hotel sector or other sectors. The findings were presented on Table 4.1.

Table 4.1

Age of Respondents in Nakuru Town

			Age				
			25 - 34 Years	**35 - 44 Years**	**45 - 54 Years**	**55 years and Above**	**Total**
Gender	Male	Count	11	11	3	1	26
		% within Gender	42.3%	42.3%	11.5%	3.8%	100.0%
	Female	Count	5	7	2	0	14
		% within Gender	35.7%	50.0%	14.3%	0.0%	100.0%
Total		Count	16	18	5	1	40
		% within Gender	40.0%	45.0%	12.5%	2.5%	100.0%

The distribution of age shows that 45.0% of the hotel managers were aged between 35 – 44 years while 40.0% were aged between 25 – 34 years, 12.5% were aged between 45 – 54 years while only 2.5% were aged above 55 years. The patterns of distribution of various ages were similar across the two genders.

4.2.3 Education Level of Respondents in Nakuru Town

Education level of Hotel Managers in Nakuru Town was determined and disaggregated by their age in Table 4.2. Education level is a key ingredient in determining the competency of staff and their capacity to develop competitive strategies and respond to market as well.

Table 4.2:

Education Level of Respondents

		Education				
		Diploma	**Bachelors**	**Masters**	**Any other**	**Total**
Age	25 - 34 Years	3	11	2	0	16
	35 - 44 Years	10	5	0	3	18
	45 - 54 Years	4	0	1	0	5
	55 years and Above	1	0	0	0	1
Total		18	16	3	3	40
Percent		45.0%	40.0%	7.5%	7.5%	100.0%

The distribution on education level of hotel managers in Table 4.2 shows that 45.0% held diploma while 40.0% held bachelors degree as their highest education level. Masters degree holders were 7.5% of the Hotel Managers population in Nakuru. From the perspective of strategy development, the education level of diploma and bachelors that was widely held by managers raises questions on the ability of managers to develop strategies that can be used to navigate the hotels in a competitive environment without reliance on external capacity.

4.2.4 Experience in Hotel Managers in Nakuru Town

Experience of the hotel managers in the business coupled with the education level was also important and therefore was explored among Hotel Managers in Nakuru Town. The experience of management team is an important factor in determining their capacity to develop and implement competitive strategies. The findings were presented in Table 4.3.

Table 4.3:

Experience in Respondents in Nakuru Town

		Experience				
		1-5 years	**6 - 10 years**	**11 - 15 years**	**Above 15 years**	**Total**
Education	Diploma	2	8	0	8	18
	Bachelors	8	4	4	0	16
	Masters	1	2	0	0	3
	Any other	1	2	0	0	3
Total		12	16	4	8	40
Percent		30.0%	40.0%	10.0%	20.0%	100.0%

The findings on experience show that overall 40.0% of the Hotel Managers had experience between 6 – 10 years while 30.0% had 1-5 years of experience. Further examination of the findings show that out of the diploma holders, 44.4% had experience above 15 years in the Hotel Management while an equal percentage had 6-10 years of experience. For bachelors education holders, 50.0% had 6 – 15 years of experience while 50.0% had 1 – 5 years of experience. Majority of the masters' degree holders (66.7%) had 6 – 10 years of experience. These findings imply that hotels in Nakuru Town tried to match education level and experience in recruitment and promotion of managers where managers with lower education level had higher experience while those with higher education level had lower experience.

4.3 Cost Leadership Strategy in Hotels in Nakuru Town

The broad objective of the study was to evaluate the application of three competitive strategies: cost leadership, product differentiation and focus strategy and its effects on performance of Hotels in Nakuru. The findings are analyzed in two levels: first is the summary of descriptive statistics on the responses by managers by objective. The first objective sought to assess the application of cost leadership strategy; the findings are as shown on Table 4.4.

Table 4.4:

Cost Leadership Strategy in Hotels in Nakuru Town

Statements	**Frequency (Percent)**					χ^2	ρ
	5	**4**	**3**	**2**	**1**		
We offer very competitive prices for our services	17 (42.5)	21 (52.5)	0 (0.0)	0 (0.0)	2 (5.0)	55.9	0.01
We ensure that our operations are very efficient to cut cost	24 (60.0)	12 (30.0)	2 (5.0)	0 (0.0)	2 (5.0)	66.0	0.00
There is minimum wastage of resources in our hotel	16 (40.0)	22 (55.0)	2 (5.0)	0 (0.0)	0 (0.0)	53.1	0.01
All our facilities are utilized to the highest capacity	7 (17.5)	28 (70.0)	3 (7.5)	2 (5.0)	0 (0.0)	49.3	0.01
We do mass production of food and other hotels consumable items	9 (22.5)	21 (52.5)	3 (7.5)	6 (15.0)	1 (2.5)	86.7	0.00
Purchases in our hotel are made on in bulk from competitive sources	13 (32.5)	16 (40.0)	3 (7.5)	8 (20.0)	0 (0.0)	63.4	0.00
We outsource most of the non core functions in our hotel	2 (5.0)	21 (52.5)	3 (7.0%)	9 (22.5)	5 (12.5)	75.7	0.00
The company has invested heavily on training and learning of staff on efficiency	10 (25.0)	23 (57.5)	2 (5.0)	5 (12.5)	0 (0.0)	60.3	0.00
We strive to invest in appropriate technology for our services	13 (32.5)	22 (55.0)	3 (7.5)	2 (5.0)	0 (0.0)	67.1	0.00
We have efficient inventory management systems and procedures.	10 (25.0)	27 (67.5)	0 (0.0)	2 (5.0)	1 (2.5)	70.6	0.00

Key: 1 – Strongly Disagree, 2 –Disagree, 3 – Undecided, 4 –Agree, 5 – Strongly agree.

The findings in Table 4.4 shows that majority of the managers considered that their hotels focused on offering competitive prices for their services, this is based on the opinion of 52.5% of the hotel managers who agreed and 42.5% who strongly agreed. A further analysis using Chi-Square revealed that ($\chi^2 = 55.9$, $\rho = 0.01$) which implies that competitive pricing of services significantly affected hotel performance. In ensuring cost leadership, 60.0% of the hotel managers agreed and 30.0% strongly agreed that they ensured that their operations were very efficient to cut cost. This was also significantly associated with hotel performance ($\chi^2 = 66.0$, $\rho = 0.00$). Another strategy employed in ensuring cost leadership was waste management where 55.0% of the hotel managers agreed while 40.0% strongly agreed that there was minimum wastage of resources in their hotels. Results of a Chi-Square test showed a significant association between minimization of waste and hotel performance ($\chi^2 = 53.1$, $\rho = 0{,}01$). In addition to the strategies cited 70.0% of the hotel managers agreed while 17.5% strongly agreed that the hotel facilities were utilized to the highest capacity. The hotel utilization was also found to have a significant association with hotel performance ($\chi^2 = 49.3$, $\rho = 0{,}01$) meaning that hotels that had maximum utilization of their capacities recorded significantly better performance.

Concerning the use of mass production in hotels, 52.5% of the hotel managers surveyed agreed that their hotels produced food in mass while 22.5% strongly agreed. This implies that mass production was practiced in 75.0% of the hotels. Besides, the use of mass production was significantly associated with hotel performance ($\chi^2 = 86.7$, $\rho = 0.00$). Bulk purchases from competitive sources were also widely used in hotels; 40.0% of the hotel managers agreed while 32.5% strongly agreed to its usage in their hotels. This strategy was also contributed significantly towards hotel performance ($\chi^2 = 63.4$, $\rho = 0.00$).

Business process outsourcing strategy for non core functions in hotels was also examined and found to be applied in over half of the hotels studies; 52.5% agreed while 5.0% strongly agreed that outsourcing was practiced in their hotels. Further examination also showed that use of outsourcing strategy contributed significantly to the hotel performance ($\chi^2 = 75.7$, $\rho = 0.00$). Staff training strategy was also practiced in a larger proportion of hotels in Nakuru to enhance hotels competitiveness in 82.5% of the hotels. This is according to the opinion of 57.5% of the hotel managers who agreed and 25.0% who strongly agreed that their companies have invested heavily on training and learning of staff on efficiency. Training for efficiency too was found to have a significant association (χ^2 = 60.3, ρ= 0.00). With hotel performance meaning that hotels that heavily trained their staff on efficiency recorded significantly better performance. This was in line with Bordean, Borza, Nistor, & Mitra (2010) who cited the use of business process outsourcing in enhancing performance.

Investing in technology is also a key strategy employed in enhancing cost leadership in organizations. In the hotel industry in Nakuru Town, 55.0% of the hotel managers agreed while 32.5% strongly agree that their hotels strived to invest in appropriate technology for enhanced service delivery. Investing in technology in hotels was also found to have a significant association with hotel performance in Nakuru Town (χ^2 = 67.1, ρ= 0.00). Bordean, Borza, Nistor, & Mitra (2010) also identified investment in technology as a key cost leadership strategy. The last strategy that was examined on cost leadership was related to efficient inventory management. The findings revealed that 92.5% of the Hotel Managers were in agreement that efficient inventory management systems and procedures were used; 67.5% agreed while 25.0% strongly agreed. The Chi Square test results (χ^2 = 70.6, ρ= 0.00).also showed that the use of efficient inventory management systems and procedures was also found to have a significant impact on hotel performance

4.4 Differentiation Strategy in Hotels in Nakuru Town

The second objective of the study sought to determine how differentiation strategy affected performance of Hotels in Nakuru Town. Table 4.5 presents the findings on the differentiation strategies applied by hotels and a further Chi square examination on whether differentiation affected hotel performance.

Table 4.5

Differentiation Strategy in Hotels in Nakuru Town

Statements	**Frequency (Percent)**					χ^2	ρ
	5	**4**	**3**	**2**	**1**		
We have created unique image for our customers	25 (62.5)	13 (32.5)	0 (0.0)	0 (0.0)	2 (5.0)	49.0	0.01
Our services are perceived to be of high value	15 (37.5)	22 (55.0)	1 (2.5)	2 (5.0)	0 (0.0)	67.5	0.00
We offer personalized room services for our customers	11 (27.5)	28 (70.0)	1 (2.5)	0 (0.0)	0 (0.0)	16.8	0.26
Our services are designed with very high quality	13 (32.5)	23 (57.5)	2 (5.0)	2 (5.0)	0 (0.0)	75.7	0.00
We have total quality management systems in place	11 (27.5)	28 (70.0)	0 (0.0)	1 (2.5)	0 (0.0)	30.3	0.01
Our hotel is accredited for international quality standards	9 (22.5)	20 (50.0)	4 (10.5)	4 (10.5	3 (7.5)	88.3	0.00
Our hotel is classified by the Kenya Tourism Board for quality	13 (32.5)	22 (55.0)	2 (5.0%)	0 (0.0)	3 (7.5)	29.7	0.10
We offer a product mix product that is unique compared to our competitors	13 (32.5)	27 (67.5)	0 (0.0)	0 (0.0)	0 (0.0)	14.9	0.04
We have unique distribution channels to reach our customers	7 (17.5)	27 (67.5)	0 (0.0))	6 (15.0)	0 (0.0)	51.5	0.00

Key: 1 – Strongly Disagree, 2 –Disagree, 3 – Undecided, 4 –Agree, 5 – Strongly agree.

The first differentiation strategy item assessed was on building the image of hotels. Image building was widely applied since 62.5% of the hotel managers surveyed strongly agreed while 32.5% agree that building image was a key focus in their hotels. This strategy was also significantly associated with hotel performance in a Chi Square analysis (χ^2 = 49.0, ρ= 0.01). This shows that building a strong customer image significantly contributed in enhancing hotel performance in Nakuru Town. Concentration on services perceived to be of high value in hotels was also explored as a differentiation strategy in hotels in Nakuru Town. The findings revealed that indeed a large proportion of hotels (92.5%) focused on services and products perceived to be of higher value to differentiate them from the mass market. This was based on the opinion of 55.0% of the managers who agreed and 37.5% who strongly agreed. The focus on premium services in hotels was found to have a significant association with hotels performance (χ^2 = 67.5, ρ= 0.01). This finding collaborate with Enz (2011), who identified offering products or services that customers perceive to be different and better than the offerings of the competition as a differentiation strategy.

Personalization of services was also explored in Hotels in Nakuru Town in which majority of the hotel managers conceded to use of this strategy; 70.0% agreed while 27.5% strongly agreed that personalization was used in their hotels. However a further examination on the use of personalization revealed that it did not have a statistically significant association with hotel performance (χ^2 = 16.8, ρ= 0.26). Quality was also a key differentiation factor considered in hotels according to 90.0% of the managers; 57.5% agreed while 32.5% strongly agreed that their services are designed with very high quality consideration. Differentiation on basis of quality was found to have a significant effect on performance of hotels in Nakuru Town (χ^2 = 75.7, ρ= 0.00).

On quality aspects, a high majority of hotel managers indicated that they had quality management systems in place; 70.0% agreed while 27.5% strongly agreed to having total quality systems. Investing in quality management systems was found to be a key differentiation aspect that contributed to enhancing performance of hotels in Nakuru Town (χ^2 = 30.3, ρ= 0.01). This was in line with Shammot (2011) who identified focus on quality as key differentiation strategy. Majority of the hotels (72.5%) also strived to obtain international quality accreditation to differentiate themselves from others according to 50.0% of the managers who agreed and 22.5% who strongly agreed. International quality accreditation was also found to have a significant association (χ^2 = 88.3, ρ= 0.00) with on hotel performance.

The study also sought to determine whether hotel classification by the Kenya Tourism board was used as a differentiation strategy and whether this contributed towards enhancing hotels performance. According to the responses of the hotel managers, 55.0% agreed and 32.5% strongly agreed that their hotel were duly classified by the Kenya Tourism Board. However, hotel classification by the Kenya Tourism board did not have a significant association with its performance ($\chi^2 = 29.7$, $\rho = 0.10$). Offering a mix products and services that were unique compared to competitors' were also examined and found out that all the managers considered their product mix unique since 67.5% agreed while 32.5% strongly agreed.

Offering unique products was found to have a weak though significant association with hotel performance compared to the other differentiation strategies in the study ($\chi^2 = 14.9$, $\rho = 0.04$). The study finally considered the use of unique distribution channels as a differentiation strategy among hotels in Nakuru Town and found out that majority of the hotels (85.0%) considered the use of unique distribution channels for their services; 67.5% agreed while 17.5% strongly agreed. The use of unique distribution channels was also associated with better hotel performance ($\chi^2 = 51.5$, $\rho = 0.00$) meaning that use of innovative service distribution channel was a unique differentiation strategy that enhanced hotel performance. According to Rahman, (2011) product differentiation helps firms to gain a competitive advantage by increasing the perceived value of their products and services relative to the perceived value of other firm's products and services.

4.5 Focus Strategy in Hotels in Nakuru Town

The third objective of the study sought to analyze the effects of focus strategy o performance of hotels in Nakuru. Focus strategy according to Porter (1980) refers to a competitive strategy that involves serving a particular target market segment very well. Therefore in this objective focus strategy was analyzed in the context of establishment and service of market niches by hotels. The findings are presented in Table 4.6 on the application of focus strategies in hotels in Nakuru. A further examination to determine the association between the focus strategies used and hotel performance is done using Chi Square test for association.

Table 4.6:

Focus Strategy in Hotels in Nakuru Town

Statements	Frequency (Percent)					χ^2	ρ
	5	**4**	**3**	**2**	**1**		
We focus and exploit untapped narrow market segments in our services	7 (17.5)	23 (57.5)	4 (10.0)	6 (15.0)	0 (0.0)	55.8	0.00
We conduct regular market research to identify target customers	7 (17.5)	22 (55.0)	2 (5.0)	8 (20.0)	1 (2.5)	62.4	0.00
We have developed different products for specific markets	4 (10.0)	22 (55.0)	4 (10.0)	6 (15.0)	4 (10.0)	70.6	0.00
Our focus in the market is on narrow segments with good growth potential	8 (20.0)	21 (52.5)	4 (10.0)	7 (17.5)	0 (0.0)	80.1	0.00
We ensure that we build high customer loyalty	17 (42.5)	20 (50.0)	1 (2.5)	0 (0.0)	2 (5.0)	60.6	0.00
Our market niches are suited to segments where we have resource strengths and capabilities	16 (40.0)	19 (47.5)	3 (7.5)	2 (5.0)	0 (0.0)	60.9	0.00
We have developed specialty services for specific customers	12 (30.0)	14 (35.0)	2 (5.0%)	11 (27.5)	1 (2.5)	71.0	0.00
We have invested a lot in building a positive reputation	19 (47.5)	17 (42.5)	1 (2.5)	1 (2.5)	2 (5.0)	62.3	0.00
Our hotel provides extensive training of our marketing personnel	8 (20.0)	16 (40.0)	9 (22.5)	5 (12.5)	2 (5.0)	58.6	0.01
We have created direct mail services for our customers	21 (52.5)	12 (30.0)	3 (7.5)	4 (10.0)	0 (0.0)	67.9	0.00
We hold seasonal promotions for our services	6 (15.0)	20 (50.0)	6 (15.0)	6 (15.0)	2 (5.0)	60.7	0.00
We have personal advertisements sent to our customers	8 (20.0)	15 (37.5)	7 (17.5)	8 (20.0)	2 (5.0)	55.7	0.01
We prefer focusing emerging markets	6 (15.0)	30 (75.0)	3 (7.5)	0 (0.0	1 (2.5)	41.0	0.01

Key: 1 – Strongly Disagree, 2 –Disagree, 3 – Undecided, 4 –Agree, 5 – Strongly agree.

Various focus strategies were analyzed in Table 4.6 based on the opinion of Hotel Managers in Nakuru Town. First, the study sought to determine hotels efforts to focus on untapped market segments and the findings revealed that 75% of the managers were in agreement that their hotels focused on untapped market segments; 57.5% agreed while 17.5% strongly agreed. This shows that a high proportion of hotels in Nakuru Town strived for find and exploit untapped markets. This strategy was significantly associated with hotels performance (χ^2 = 55.8, ρ= 0.00) meaning that focusing on untapped markets contributed towards enhancing performance of hotels.

Regular market research practice was also assessed as a preliquisite for identification of market gaps in Hotels. According to the findings, 55.0% of the managers who participated in the study agreed while 17.5% strongly agreed that their hotels conducted regular market surveys. This implies that 72.5% of the hotels conducted market surveys against 22.5% who didn't. In addition, regular market surveys was closely associated with hotel performance (χ^2 = 62.4, ρ= 0.00) which implies that hotels which conducted regular market surveys recorded significantly better performance compared to those which didn't.

Niche market product development strategy was also observed among hotels according to 55.0% of the managers agreed and 10.0% strongly agreed that the practice was adopted in their hotels. This implied that the strategy was embraced in 65.0% of the hotels in Nakuru Town. Further chi Square analysis revealed that niche product development had a positive and significant association with hotel performance (χ^2 = 70.6, ρ= 0.00). Focus strategy was also embraced by hotels through focusing in narrow markets segments with good growth potential according to 52.5% of the managers who agreed and 20.0% who strongly agreed. This had a strong significant positive association with hotel performance (χ^2 = 80.1, ρ= 0.00).

Majority of the hotels (92.5%) focus on building high levels of customer loyalty from their market niches according to 50.0% of the managers who agreed and 42.5% who strongly agreed. The focus on building customer loyalty too has significant association with hotel performance (χ^2 = 60.6, ρ= 0.00) in Nakuru Town. The market niches by majority of the hotels are suited to segments whose needs correspond to hotel strengths in most (87.5%) of the hotels surveyed. This can be seen from the opinion of the hotel managers where 47.5% agreed and 40.0% strongly agreed that the practice was present in their hotels. This also shows that majority of the hotels either consciously or unconsciously performed SWOT analysis which informed their strategy development. Further examination using chi-square on the synergy between niche markets needs and hotel strengths shows that this significantly (χ^2 = 60.9, ρ= 0.00) contributed in enhancing performance of Hotels in Nakuru Town.

In the application of niche focus strategy 65.0% of the hotel managers agreed to the development of specialty products and services for their customers, 35.0% agreed while 30.0% strongly agreed against 27.5% who disagreed and 2.5% who strongly disagreed that their hotels have developed specialty services for specific customers. Developing specialty products and services for niche markets were also associated with hotel performance in a chi square test where (χ^2 = 71.0, ρ= 0.00).

Majority of the hotels have also invested in building high reputation in their niche markets this was cited by 47.5% of the managers who strongly agreed and 42.5% who agreed. The strategy of establishing strong reputation too was associated with performance of hotels (χ^2 = 62.3, ρ= 0.00). Majority of the hotel managers also revealed that their hotels provided extensive training to their marketing personnel. This opinion was upheld by 40.0% of the managers who agreed and 20.0% who strongly agreed. Market trainings are known to enhance the capacity of the sales team to better identify and reach niche markets. Market training strategies were also found to have a significant association with hotel performance in Nakuru Town (χ^2 = 58.6, ρ= 0.01).

Other strategies employed in serving market niches in hotels in Nakuru town include the use of direct mail services to customers which was applied in 82.5% of the hotels surveyed, holding seasonal promotions for niche seasonal products applied in 65.0% of the hotels and personalized advertisements sent to customers applied in 57.5%. Focusing on new and emerging markets was also highly embraced as a focus strategy in 90.0% of all the hotels surveyed. The use of direct mail services, seasonal promotions, personalized advertisements and the focusing on new and emerging markets were all found to have a significant association with hotel performance which implies that these strategies contributed positively and significantly in enhancing hotel performance.

4.6 Hotel Performance

The broad objective of the study was to assess the competitive strategies employed by hotels in Nakuru Town and compare how they influenced performance of Hotels. Performance of hotels was therefore assessed based on five key performance indicators namely: bed occupancy, conferences held, return on investment, sales growth and customer satisfaction basing on a period of past 5 years. Santoro (2015) identified several parameters for evaluating hotel performance as hotel room value for money, hotel food and beverage value for money, convenience of location, comfort of ambience, and reputation. Table 4.7 shows the summary of scored on the performance indicators.

Table 4.7

Hotel Performance in the Last 5 Years

Statements	**Frequency (Percent)**				
	Greatly improved	**Improved**	**Remained the same**	**Declined**	**Greatly declined**
Bed occupancy	17 (42.5)	19 (47.5)	2 (5.0)	2 (5.0)	0 (0.0)
Conferences held	7 (17.5)	23 (57.5)	9 (22.5)	1 (2.5)	0 (0.0)
Return on Investment	7 (17.5)	29 (72.5)	2 (5.0)	2 (5.0)	0 (0.0)
Sales growth	11 (27.5)	27 (67.5)	2 (5.0)	0 (0.0)	0 (0.0)
Customer satisfaction	18 (45.0)	20 (50.0)	2 (5.0)	0 (0.0)	0 (0.0)

According to the findings in Table 4.7, majority of the hotels on Nakuru recorded improvement in bed occupancy in the last five years since 47.5% cited improved bed occupancy while 42.5% cited that bed occupancy greatly improved; 5.0% of the hotels however reported declining bed occupancy in the same period. With regards to conferences held in the last 5 years, 57.5% of the hotels reported improved conferences while 17.5% reported great improvement in conferences. This implies that 75.0% of the hotels in Nakuru Town of had improved performance in conference while 2.5% recorded declining number of conferences. Return on investment was also rated high in the last 5 years where 72.5% of the hotels recorded improved returns while 17.5% had return on investment greatly improve. However, 5.0% recorded decline in returns on investment.

Overall sales growth also improved in majority of the hotels surveyed since 67.5% of the managers reported that sales improved while 27.5% greatly improved. None of the hotels recorded overall decline in sales. In terms of customer satisfaction levels, majority of managers reported improvement in customer satisfaction levels where 50.0% cited improved satisfaction while 45.0% cited greatly improved customer satisfaction. None of the managers reported decline in customer satisfaction levels in their hotels. From the performance data of hotels it can be seen that in Nakuru Town, despite the turbulence in the tourism sector in Kenya, hotels have performed well mainly from the bed occupancy rates recorded as well as conferences. Consequently, this has enhanced growth in sales and return on investment as well. The high rate of return on investment perhaps explains the high rate of growth of new hotels established in the region. Investing in Nakuru therefore remains to be a strategic move for investors in the hotel industry.

4.7 Effects of Competitive Strategies and Hotel Performance

The broad objective for the study was to assess the relationship between competitive strategies employed and performance of hotels in Nakuru Town Kenya. The previous sections have explored the competitive strategies employed by hotels in Nakuru grouped in to three categories: cost leadership, differentiation and focus strategies. This section attempts to establish the link between the boarder strategies and hotel performance by testing the study hypothesis as well as through statistical modeling.

4.7.1 Linear Regression Analysis

The hypotheses for the study were tested by subjecting the findings on the application of cost leadership strategy and performance of hotels to a linear regression analysis's. The acceptance criteria was based on significance level of $\rho = 0.01$.

The first hypothesis stated that:

HO_1: *Cost leadership has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.*

This was tested using a linear regression analysis between the average score on cost leadership and hotel performance. The results of regression analysis are presented on tables 4.8 a,b,c.

Table 4.8 .a.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.696[a]	.485	.472	.36647

a. Predictors: (Constant), Cost leadership

The result revealed the coefficient of determination $R^2 = 0.472$ which implies that cost leadership accounted for 47.2% of the variations observed in the performance of hotels in Nakuru Town

Table 4.9 . b.

ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.808	1	4.808	35.797	.000[a]
	Residual	5.103	38	.134		
	Total	9.911	39			

a. Predictors: (Constant), Cost leadership

b. Dependent Variable: Hotel performance

The ANOVA statistics on Table 4.8b shows that the model was significant in explaining the variations observed since ($F_{(1,38)} = 35.797$, $\rho < 0.05$). The model coefficients are presented on Table 4.8.c.

Table 4.10 . c.

Regression Results

Model		**Unstandardized Coefficients**		**Standardized Coefficients**		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	1.681	.419		4.010	.000
	Cost leadership	.621	.104	.696	5.983	.000

a. Dependent Variable: Hotel performance

The results of regression analysis on Table 4.8c revealed that holding all other factors constant, a unit change in the application of cost leadership strategies would result to 0.621 times in the change in variations observed in hotel performance ($\beta = 0.621$, $\rho < 0.05$). This implies a positive and significant relationship between application of cost leadership strategy and performance of hotels in Nakuru. Therefore the study rejects H_{01} that cost leadership has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.

These findings corroborate with that of Acquaah (2011) in Ghana who revealed that cost leadership strategy resulted in improvements in efficiencies, cost and price reduction, increase in sales growth and market shares, thus leading to high performance. Lo (2012) also found a similar relationship in hotels in China and so was Hilman & Kaliappen (2014) in Malaysian hotel industry. Cost leadership was a business strategy that assists the firms to be low cost producer by increasing internal efficiencies and refining the utilization of all the resources effectively than the rivals therefore achieving better performance.

The second hypothesis stated that:

HO_2: *Product differentiation has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.*

This hypothesis was tested by performing a linear regression analysis between the average scores on differentiation strategies and hotel performance. The results of regression analysis are presented on tables 4.9 a,b,c.

Table 4. 11 .a.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.747[a]	.558	.546	.33954

a. Predictors: (Constant), Differentiation

According to the model summary on Table 4.9 a, the results show that the coefficient of determination $R^2 = 0.546$ which implies that differentiation strategies accounted for 54.6% of the variations observed in the performance of hotels in Nakuru Town. The model significance was tested on Table 4.9 b.

Table 4. 12. b.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	5.530	1	5.530	47.969	.000[a]
	Residual	4.381	38	.115		
	Total	9.911	39			

a. Predictors: (Constant), Differentiation

b. Dependent Variable: Hotel performance

The ANOVA statistics results on Table 4.9 b shows that the model was significant in explaining the variations observed since ($F_{(1,38)} = 47.969$, $\rho < 0.05$). The model coefficients are presented on Table 4.9.c

Table 4. 13. c.

Regression Results

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	.560	.523		1.070	.291
	Differentiation	.869	.126	.747	6.926	.000

a. Dependent Variable: Hotel performance

Regression coefficients on Table 4.9 c showed that holding all other factors constant at Zero, applying differentiation strategies contributed to 0.747 variations observed in hotel performance. This shows the presence of a strong, positive and significant relationship between application of differentiation strategy and performance of hotels in Nakuru ($\beta = 0.747$, $\rho < 0.05$). This implies that hotels which applied differentiation strategy recorded a significantly higher performance compared to those which didn't use differentiation. The study therefore rejects H_{02} that product differentiation has a no statistical significant effect on performance of Hotels in Nakuru Town, Kenya. These results were upheld in other studies such as Nolega, Oloko, William & Oteki (2015) at the Kenya Seed Company and that of Dirisu, Iyiola, Ibidunni (2013) at Unilever in Nigeria. According to According to Tanwar (2013) differentiation strategy is more likely to generate higher profits than is a low cost strategy because differentiation creates a better entry barrier.

The third hypotheses stated that:

HO_3: *Focus strategy has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.*

The hypothesis was tested using a linear regression analysis between the average score on application of focus strategies and hotel performance. The results of regression analysis are presented on tables 4.10 a,b,c.

Table 4. 14: a.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.682[a]	.466	.452	.37327

a. Predictors: (Constant), Focus strategy

The model summary results on Table 4.10 a, shows that the coefficient of determination $R^2 = 0.452$ which implies that focus strategies accounted for 45.2% of the variations observed in the performance of hotels in Nakuru Town. The model significance was tested on Table 4.10 b.

Table 4. 15: b.

ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	4.616	1	4.616	33.133	.000[a]
	Residual	5.295	38	.139		
	Total	9.911	39			

a. Predictors: (Constant), Focus strategy

b. Dependent Variable: Hotel performance

The ANOVA statistics results on Table 4.10 b shows that the model was significant in explaining the variations observed since ($F_{(1,38)} = 33.133$, $\rho < 0.05$). The model coefficients are presented on Table 4.10.c

Table 4. 16: c.

Regression Results

Model		Unstandardized Coefficients B	Unstandardized Coefficients Std. Error	Standardized Coefficients Beta	t	Sig.
1	(Constant)	2.179	.350		6.223	.000
	Focus strategy	.519	.090	.682	5.756	.000

a. Dependent Variable: Hotel performance

Regression coefficients in the results of the regression analysis in Table 4.10 c shows that holding all other factors at zero applying one unit of focus strategies would result to 0.519 times change in hotel performance. This implies a positive and significant relationship between application of differentiation strategy and performance of hotels in Nakuru ($\beta = 0.519$, $\rho < 0.05$). This implies that the use of differentiation strategy in hotels led to a significant improvement in performance of Hotels in Nakuru Town, Kenya. The study therefore rejects H_{03} that focus strategy has no statistical significant effect on performance of Hotels in Nakuru Town, Kenya.

The positive relationship between focus strategy corroborates with the findings by Ghemawat (2010), that firms that succeed in a focus strategy are able to tailor a broad range of product development strengths to a relatively narrow market segment that they know very well therefore record good performance. Tanwar (2013) also identified that focus strategy was most suitable for relatively small firms but can be used by any company. Magnini, et al. (2003) identified six essential factors that can help in exploiting niche markets in hotel industry such as creating direct mail campaigns, planning seasonal promotions, planning the timing and placement of ad campaigns, creating personal advertisements, focusing on growing and emerging markets, and helping in room reservations. All these strategies were found to be applied in some hotels in Nakuru Town Kenya leading to performance improvement.

4.7.2 Correlation Analysis

In order to test for the relationship between independent variables, the study performed a co linearity tests between the variables as shown on the results in Table 4.11.

Table 4. 171:

Correlations between Generic Strategies and Hotel Performance

		Cost Leadership	Differentiation	Focus Strategy	Hotel performance
Cost leadership	Pearson Correlation	1			
	Sig. (2-tailed)				
	N	40			
Differentiation	Pearson Correlation	.733**			
	Sig. (2-tailed)	.000			
	N	40	40		
Focus strategy	Pearson Correlation	.736**	.719**		
	Sig. (2-tailed)	.000	.000		
	N	40	40	40	
Hotel performance	Pearson Correlation	.696**	.747**	.682**	1
	Sig. (2-tailed)	.000	.000	.000	
	N	40	40	40	40

**. Correlation is significant at the 0.01 level (2-tailed).

The test results on Table 4.11 showed high level of dependence between independent variables where ($r = 0.733$, $\rho < 0.05$) between cost leadership and differentiation strategies. Furthermore the correlation between cost leadership and focus strategy revealed ($r = 0.736$, $\rho < 0.05$) while focus and differentiation strategy revealed ($r = 0.719$, $\rho < 0.05$).

4.7.3 Multiple Regression Analysis

The general purpose of multiple regression is to learn more about the relationship between several independent or predictor variables and a dependent or criterion variable. It is used to make predictions on criterion variable based on changes in the predictor variables. In this study average scores all the three competitive strategies applied by Hotels in Nakuru were subjected to multiple regression analysis against the average score on hotel performance. The results of regression analysis are presented on Table 4.10. a,b &c.

Table 4.182.a.

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.788[a]	.622	.590	.32275

a. Predictors: (Constant), Focus strategy, Differentiation, Cost leadership

The coefficient of determination (R^2) explains the extent to which changes in the dependent variable can be explained by the change in the independent variables or the percentage of variation in the dependent variable (hotel performance) that is explained by all three independent variables (cost leadership strategy, differentiation strategy and focus strategy). The adjusted R Square The adjusted R-squared shows the explanatory power of regression model which implies the model has an explanatory power of 59.0%. The regression model summary on in Table 4.10 a shows an R^2= 0.622 which implied that the use of the three competitive strategies accounted for 62.2% of the variations in performance of Hotels in Nakuru Town.

Table 4.19 .b.

ANOVA Statistics

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	6.161	3	2.054	19.716	.000[a]
	Residual	3.750	36	.104		
	Total	9.911	39			

a. Predictors: (Constant), Focus strategy, Differentiation, Cost leadership

b. Dependent Variable: Hotel performance

ANOVA tests on Table 4.10 b, were used to test the model significance in explaining the relationship. The results ($F_{(3,36)} = 19.716$, $\rho < 0.05$) shows that the model significantly explains the relationships under investigation. Regression coefficients and the results as shown on the Table 4.10 c.

Table 4. 20.c.

Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients			Collinearity Statistics	
		B	Std. Error	Beta	t	Sig.	Tolerance	VIF
1	(Constant)	.665	.506		1.313	.197		
	Cost leadership	.207	.150	.232	1.379	.176	.373	2.684
	Differentiation	.504	.190	.433	2.648	.012	.393	2.547
	Focus strategy	.152	.125	.200	1.217	.231	.388	2.577

a. Dependent Variable: Hotel performance

The beta coefficients on Table 4.10 c shows that holding all other factors constant at zero a unit increment in the use of cost leadership strategy alone would result to 0.207 times improvement in performance of a hotel business in Nakuru. On the other hand, holding all other factors constant at zero, a unit increment in the implementation of differentiation strategies would result in 0.504 improvement in hotel performance while holding other factors constant at zero, a unit increment in implementation of focus strategy would result at 0.152 times improvement in Hotel performance. This infers that implementing one type of strategy alone would not have much change in performance of hotels. However, a combination of strategies would synergize. Although the VIF in all the three variables is above 1 and below 10, the strong correlation between the independent variables and the dependent variables in the correlation analysis implies the possibility of multicolinearity between generic strategies which affects.

Thus the relationship between competitive strategies and hotel performance in Nakuru Town can be expressed using the model: Hotel performance = 0.665 + 0.207 cost leadership strategy + 0.504 differentiation strategy + 0.152 focus strategy.

The above results are consistent with that of Valipour, Birjandi & Honarbakhsh, (2012) in Iranian firms which revealed that a positive relationship exists between financial leverage and performance; and if the companies chose Product differentiation strategies rather than cost leadership strategy, this relationship was more positive. If the company chose cost leadership strategy; the company's performance increases. While if the company chose product differentiation strategy; the company's performance increases. It shows that the Iranian companies tend to choose cost leadership strategy as Business strategy. Such results however weren't consistent with the results of Jermias (2008) who showed that there was a negative relationship between financial leverage and performance. Besides, if the companies chose Product differentiation strategies rather than cost leadership strategy, this relationship would be more negative.

The lack of clarity on the separation of strategies is not new in research. According to Martina (2007) literature review has attempted to identify, present, and summarize the existing research of the topic in order to clarify what is being argued in the research field on the trade-off between cost leadership and differentiation. Identified literature has been classified according to school of thought, that is, whether strategies are believed to be mutually exclusive or potentially combinable. Yet a fundamental element to the discussion is the definition of the concept combination strategy or mixed or combined strategy. Although it is presumed that a combined strategy contains both elements generally associated with cost leadership and with differentiation strategy, the definition remains vague and permits a range of interpretations.

Martina (2007) focused on cost leadership and differentiation strategies without consideration to the focus strategy. Occasionally it is specified that the two strategies must be adopted simultaneously for instance while White (1986) on the other hand suggests that firms may externally focus on opportunities to differentiate while being internally oriented towards cost reduction. Mixed strategies according to White (1986) is achieved through the sequential rather than simultaneous attention to the different organizational requirements of these different business strategies.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMEDATIONS

5.1 Introduction

The chapter presents a summary of the findings for the study, conclusions and recommendations. Recommendations for further research are also suggested.

5.2 Summary of Findings

The summary of findings consolidates and presents in brief the main findings of the study. The summaries are organized based on the research objectives. The first objective of the study was to assess the effect of cost leadership on performance of Hotels in Nakuru Town, Kenya. The findings of the study revealed various strategies applied by hotels in their quest for cost leadership in Nakuru Town. Hotels focused on offering competitive prices for their services, enhancing operations efficiency to cut cost, waste reductions and management, ensuring highest capacity utilization, mass production and bulk purchases from competitive sources. Other strategies employed included: business process outsourcing, staff training and investing in technology. Besides, hotels focused on efficiency in inventory management. All the strategies applied were found to have significant positive effect on hotel performance individually and collectively. However, they worked well in combination with differentiation and focus strategies.

The second objective of the study was to establish how product differentiation strategies affected performance of Hotels in Nakuru Town, Kenya. The study found out that various strategies were applied by hotels in their efforts to differentiate themselves from competitors such as: creating unique image for our customers, focusing on high value products, offering personalized room services, focus on high quality services and implementing total quality management systems. In addition hotels sought to be accredited for international quality standards as well as getting classified by the Kenya Tourism Board. Hotels also concentrated on offering a product mix product that was unique as well as unique distribution channels. Majority of the strategies were found to be closely associated with hotel performance except for the strategies to offer personalized room services and classification by the Kenya

Tourism Board. Differentiation strategies were found to have the highest effect on hotel performance compared to cost reduction and focus strategies.

The third objective of the study was to determine the effect focus strategy on performance of Hotels in Nakuru Town, Kenya. The study explored various niche focus strategies and found out that the most commonly applied focus strategies included: focusing and exploiting untapped narrow market segments, conducting regular market research, development of different products for specific markets, focusing on the market in narrow segments with good growth potential and building high customer loyalty. Besides, hotels also focused on market niches suited to segments where they had resource strengths and capabilities, developed specialty services for specific customers and invested a lot in building a positive reputation. Further in enhancing their competitiveness hotels focused on extensive training for their marketing personnel, direct mail services, seasonal promotions for their services, personal advertisements sent to our customers and focusing emerging markets. All the focus strategies applied were found to have significant effects on hotel performance. However, alone focus strategy was found to have the least contribution to hotel performance compared to cost leadership and differentiation.

5.3 Conclusions

The study concludes that cost reduction strategies play a significant role in enhancing competitiveness and performance of hotels in Nakuru Town through enhancing efficiency in operations. However independently cost reduction strategies could not work alone without the reinforcement of other strategies.

From the findings, it was also established that differentiation strategies applied by hotels had the highest effect on hotels performance both independently and when applied collectively. Out of the three strategies, differentiation was observed to have significant effect on hotel performance when applied alone.

Hotels in Nakuru Town also focused on niche market segments in enhancing their competitiveness. Niche market strategies were found to contribute to enhancing performance of Hotels in Nakuru. However, independently they had the least contribution.

5.4 Recommendations

Cost reduction strategies have been found to significantly affect performance of Hotels in Nakuru Town, Kenya. Therefore hotel managers and strategists in the region should strive to understand the correct choice of cost reduction strategies that work best in their hotels along with complimenting differentiation and focus strategies to optimize their performance.

Differentiation strategies have the highest effect on performance of hotels either implemented independently or alongside other strategies. Therefore hotel managers should emphasize on use of differentiation strategies.

Niche market strategies have been identified as significant in ensuring better performance of Hotels in Nakuru Town. Hotel managers and strategists should therefore seek to understand the specific Niche focus strategies that apply in their hotel settings by evaluating their own internal resources and strengths to exploit them.

5.5 Suggestions for Further Research

Niche market strategies have been found to have a significant effect on performance of businesses, however in the current study niche markets have the least yet significant effect. There is therefore need to a study to compare the prerequisites to the application of these strategies in the hotel industry to achieve maximum effect.

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APPENDICES

Appendix 1: Letter of Introduction

Kelvin Aengwo,

P.O. Box 2333- 20100

Nakuru,

3rd July, 2016.

TO WHOM IT MAY CONCERN

RE: RESEARCH

I am a student at Kabarak University, Nakuru pursuing a degree in Master of Business Administration. I kindly ask you to provide information regarding this questionnaire to enable me carry out a research titled "**AN ASSESMENT OF COMPETITIVE STRATEGIES ON PERFORMANCE OF HOTEL BUSINESSES IN NAKURU TOWN, KENYA"**

The information you will provide will be treated confidentially and will be used for research purpose only.

Your assistance will be highly appreciated.

Yours Faithfully,

KELVIN AENGWO

Appendix 3: Questionnaire

Part A: Demographic Information

1. Indicate your gender.

Male [ ] Female [ ]

2. What is your Age?

25-34 years [ ] 35-44 years [ ] 45-54 years [ ] 55 years and above [ ]

3. Kindly indicate your highest academic qualification

Diploma	[ ]	Bachelors Degree	[ ]
Masters Degree	[ ]	Any other (please specify)	[ ]

5. For how long have you been working in hotel management in Nakuru Town?

1-5 years	[ ]	6- 10 years	[ ]
11- 15 years	[ ]	Above 15 years	[ ]

Part B: **Cost Leadership**

The following questions are designed to assess the application of porters generic strategies in your hotel. Indicate your answer on the level to which you agree or disagree with the statements. Express your agreement using the weights of 1 – 5 where 1 – Strongly Disagree, 2 –Disagree, 3 – Undecided, 4 –Agree, 5 – Strongly agree.

Cost Leadership Strategy	**5**	**4**	**3**	**2**	**1**
6. We offer very competitive prices for our services					
7. We ensure that our operations are very efficient to cut cost					
8. There is minimum wastage of resources in our hotel					
9. All our facilities are utilized to the highest capacity					
10. We do mass production of food and other hotels consumable items					
11. Purchases in our hotel are made on in bulk from competitive sources					

12. We outsource most of the non core functions in our hotel					
13. The company has invested heavily on training and learning of staff on efficiency					
14. We strive to invest in appropriate technology for our services					
15. We have efficient inventory management systems and procedures.					

Part C: Differentiation Strategy

Differentiation Strategy	**5**	**4**	**3**	**2**	**1**
16. We have created unique image for our customers					
17. Our services are perceived to be of high value					
18. We offer personalized room services for our customers					
19. Our services are designed with very high quality					
20. We have total quality management systems in place					
21. Our hotel is accredited for international quality standards					
22. Our hotel is classified by the Kenya Tourism Board for quality					
23. We offer a product mix product that is unique compared to our competitors					
24. We have unique distribution channels to reach our customers					

Part D: Focus Strategy

Focus Strategy	**5**	**4**	**3**	**2**	**1**
25. We focus and exploit untapped narrow market segments in our services					
26. We conduct regular market research to identify target customers					

27. We have developed different products for specific markets					
28. Our focus in the market is on narrow segments with good growth potential					
29. We ensure that we build high customer loyalty					
30. Our market niches are suited to segments where we have resource strengths and capabilities					
31. We have developed specialty services for specific customers					
32. We have invested a lot in building a positive reputation					
33. Our hotel provides extensive training of our marketing personnel					
34. We have created direct mail services for our customers					
35. We hold seasonal promotions for our services					
36. We have personal advertisements sent to our customers					
37. We prefer focusing emerging markets					

Part E: Hotel Performance

How would you rate your hotel performance on the following performance aspects in the past 5 years.

Performance	Greatly improved	Improved	Remained the same	Declined	Greatly declined
38. Bed occupancy					
39. Conferences held					
40. Return on Investment					
41. Sales growth					
42. Customer satisfaction					

Thank You

Appendix 3: List of Hotels in Nakuru Town

HOTEL	
1.	Apex resort
2.	Brians Guest House
3.	Brownie's guest House
4.	Capital hill lodge
5.	Carnation Hotel
6.	Chester Hotel
7.	Cool Rivers Hotel
8.	Eagle palace hotel
9.	El Bethel Guest House
10.	Emboita hotel
11.	En-Korika Ceder Valley GuestHouse
12.	Flamingo Guest House
13.	Flamingo Hill Tented Camp
14.	Geranium Hotel
15.	Glane Hotel
16.	Golden palace Hotel
17.	Graceland Hotel
18.	Hillcourt Resort and spa
19.	Hotel Bison
20.	Hotel Citymax
21.	Hotel Edllane
22.	Hotel Genevieve Ltd
23.	Hotel jams
24.	Hotel Marvin
25.	Hotel waterbuck
26.	Jambo Place Guest House
27.	Jarika county Lodge
28.	Jumuia Guest House Nakuru
29.	Kaka Guest House
30.	Kenlands Hilux Inn

31.	Kivu Retreat
32.	Lake Nakuru Flamingo Lodge
33.	Lake Nakuru Lodge
34.	Lake Nakuru Sopa Lodge
35.	Lanet Matfam Resort
36.	Leopard View Hotel
37.	Luxury suites
38.	Maire Hotel
39.	Mama's Guest House
40.	Marlin guest Resort
41.	Mau Springs County Hotel
42.	Mbweha Camp Lake Nakuru
43.	Merica Hotel
44.	Miale the Hotel
45.	Midland Hotel
46.	Milele Resort
47.	Milimani Suites
48.	Murius guest House
49.	Nakuru Milimani Guest House
50.	Nuru palace hotel
51.	Pandora Hotel
52.	Pekars Lodge
53.	Pelican lodge
54.	Peniel Guest House
55.	Red Rhino Furnished Apartments
56.	Rhino campsite
57.	Roberts Camp
58.	Ronella Cottages
59.	Salama Resort
60.	Sarova Lion Hill Game lodge
61.	Sheerdrop Kenya
62.	Signature sports Hotel

63.	Sleepway Cottages
64.	The Heros Hotel
65.	The Legacy Hotel and Suits
66.	The Samsos Guest Resort
67.	Top Cliff Lodge
68.	Tumaini Conference Center
69.	Ufanisi resort Section 58
70.	Vegas court
71.	Viena Hotel
72.	View point Lodge
73.	Zilian Park Hotel
74.	Ziwa bush lodge

Source: KTB (2016)

Appendix 4: Authorization Letter

SCHOOL OF BUSINESS & ECONOMICS

P.O. Private Bag. 20157
Kabarak, KENYA
Email: kkibet@kabarak.ac.ke

Tel: 020-2035181
Fax: 254-51-343529/343012
www.kabarak.ac.ke

25th August, 2016

To Whom It May Concern:

Dear Sir/Madam,

RE: KELVIN AENGWO – GMB/NE/0499/05/12

This is to confirm that the above named is a bonafide student of Kabarak University pursuing a Master of Business Administration (Strategic Management Option).

Kelvin has completed his coursework and currently carrying out a study on "*An Assessment of Competitive Strategies on Performance of Hotel Businesses in Nakuru Town, Kenya.*"

Your assistance will be highly appreciated.

Thank you.

Yours faithfully,

KABARAK UNIVERSITY
DEPT. - OF B & ES
P. O. Box 3270
NAKURU

KIBET KIRUI
MBA COORDINATOR

Kabarak University Moral Code
As members of Kabarak University family, we purpose at all times and all places, to set apart in one's heart, Jesus as Lord.
(1 Peter 3:15)