THE EFFECT OF RISK MANAGEMENT PRACTICES ON PERFORMANCE OF FIRMS IN THE HOSPITALITY INDUSTRY IN NAIROBI COUNTY, KENYA

GEORGE KALITI

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NOVEMBER, 2015
DECLARATION

This research project is my original work and has not been submitted for examination to any other University.

Signature…………………………… Date………………………………

George Kaliti

This project has been submitted with my authority as the University Supervisor.

Signature…………………………… Date………………………………

Dr Kennedy Okiro

Lecturer,

Department of Finance and Accounting

School of Business

University of Nairobi
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I seize this opportunity to extend my sincere gratitude to hotels and tour operators in Nairobi County for allowing me to carry out a research on the effect of risk management practices on the financial performance of the firm.
DEDICATION

This work is dedicated to the Almighty God for guidance and enabling me to complete this task. I dedicate this project to my parents Mr. and Mrs. Kaliti and friends for their unwavering support, encouragement and their unconditional guidance. I also dedicate this work to my lovely wife Joanne Ayumah. I love you and may God Almighty continue to shower you with everlasting blessings.
# TABLE OF CONTENTS

DECLARATION .............................................................................................................. ii

ACKNOWLEDGEMENTS .......................................................................................... iii

DEDICATION ............................................................................................................... iv

TABLE OF CONTENTS .............................................................................................. v

LIST OF TABLES ...................................................................................................... ix

LIST OF FIGURES ................................................................................................... x

ACRONYMS AND ABBREVIATIONS ....................................................................... xi

ABSTRACT ............................................................................................................... xii

CHAPTER ONE .......................................................................................................... 1

INTRODUCTION ....................................................................................................... 1

1.1 Background to the Study .................................................................................... 1

1.1.1 Risk Management Practices ........................................................................ 2

1.1.2 Financial Performance of firms ................................................................... 3

1.1.3 Risk Management and Financial Performance ........................................... 5

1.1.4 Hospitality Industry in Kenya ....................................................................... 6

1.2 Statement of the Problem ................................................................................... 7

1.3 Objective of the Study ....................................................................................... 9

1.4 Value of the Study ............................................................................................. 10
CHAPTER TWO ........................................................................................................ 11

LITERATURE REVIEW ........................................................................................... 11

2.1 Introduction........................................................................................................ 11

2.2 Theoretical Framework ..................................................................................... 11

  2.2.1 Agency Theory ............................................................................................... 11

  2.2.2 Stakeholders Theory ..................................................................................... 12

  2.2.3 Portfolio Theory ............................................................................................ 13

2.3 Determinants of Financial Performance of Hospitality Firms ...................... 14

  2.3.1 Quality .......................................................................................................... 14

  2.3.2 Governance ................................................................................................... 15

  2.3.3 Leadership ..................................................................................................... 16

  2.3.4 Innovation .................................................................................................... 17

2.4 Empirical Evidence ............................................................................................ 18

CHAPTER THREE .................................................................................................... 22

RESEARCH METHODOLOGY .................................................................................. 22

3.1 Introduction........................................................................................................ 22

3.2 Research Design ............................................................................................... 22

3.3 Target Population .............................................................................................. 23

3.4 Sample ............................................................................................................... 23
3.5 Data collection .............................................................................................................. 24
3.6 Data Analysis .................................................................................................................. 24

CHAPTER FOUR .................................................................................................................. 26
DATA ANALYSIS   INTERPRETATIONS AND PRESENTATIONS................................. 26
4.1 Introduction .................................................................................................................... 26
4.2: Response Rate .............................................................................................................. 26
4.3: Validity and Reliability Analysis ................................................................................. 27
4.4 Profile of the respondents ............................................................................................ 28
   4.4.1 Gender of the respondents ..................................................................................... 28
   4.4.2 Age of the respondents ......................................................................................... 29
   4.4.3: Level of education ............................................................................................... 30
   4.4.4 Years in the Industry ............................................................................................. 31
4.5 Descriptive Statistic ....................................................................................................... 32
4.3 Diagnostic Tests for Regression Assumptions ............................................................. 33
   4.6.1 Correlation Analysis .............................................................................................. 35
   4.6.2 Regression Analysis .............................................................................................. 36
4.7: Summary of the Findings ............................................................................................ 39

CHAPTER FIVE ..................................................................................................................... 40
SUMMARY, CONCLUSIONS AND RECOMMENDATIONS............................................. 40
LIST OF TABLES

Table 4.1: Reliability Coefficients ................................................................. 27
Table 4.2: Age of the respondents ................................................................. 29
Table 4.3: Descriptive Statistics Results ......................................................... 32
Table 4.4: Diagnostic Tests ........................................................................... 34
Table 4.5: Correlation coefficient Organization Resources ......................... 36
Table 4.6: Model Summary ........................................................................... 37
Table 4.7: ANOVA (Analysis of Variance) ..................................................... 37
Table 4.8: Regression Coefficients results .................................................... 38
LIST OF FIGURES

Figure 4.1: Gender response ................................................................. 28

Figure 4.2: Respondent level of education ........................................... 30

Figure 4.3: Years in the industry.............................................................. 31
ACRONYMS AND ABBREVIATIONS

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<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>GMI</td>
<td>Global Markets Institute</td>
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<tr>
<td>ISO</td>
<td>International Organization for Certification</td>
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<tr>
<td>KDF</td>
<td>Kenya Defense Forces</td>
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<tr>
<td>NGO</td>
<td>Non Governmental Organizations</td>
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<td>NPD</td>
<td>New Product Development</td>
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<td>SME</td>
<td>Small and Medium</td>
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<td>SPSS</td>
<td>Statistical Package for Social Sciences</td>
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ABSTRACT

The project research finds out the effect of risk management practices on the financial performance of firms in the hospitality industry in Nairobi county Kenya. The objective of the study is to assess the effect of the risk management practices on the performance of firms in the hospitality industry in Kenya. This study will be significant to tourism firms, general public, students and the government as it will offer valuable contributions from both a theoretical and practical perspective. Theoretically, it will contribute to the general understanding of risk management practices and their effect on organizational performance. There are critical issues and challenges affecting Kenya's competitiveness and sustainability as tourist destination. Hospitality industry in Kenya has had difficult times over the years, particularly a prolonged period of lackluster performance in the 1990s. A post-election period of civil unrest in 2008 and the global economic crisis in 2009 only made inbound international tourism business more challenging. Then in the recent past is the threat of terrorism in which Kenya has lost both its citizens and the tourists to the Al-shabab from Somalia. The study found that risk assessment, risk response, innovation and quality had positive significant effects while internal environment and control activities had positive significant effects on the financial performance of firms in the hospitality industry in Nairobi County. Overall risk management practices accounted for almost all of the variance in financial performance of the firms. Thus, the study concludes that the risk management practices influence the financial performance of firms in the hospitality industry to a very large extent. The study recommends that firms in the hospitality industry in Kenya should employ robust risk management practices as these are likely to influence their financial performance in one way or another, improve on their financial performance, they should focus more on improving how they assess their internal environment and work on control activities as these are likely to enhance financial performance of these firms.
CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The hospitality industry has been identified as one of the most important sectors that have a positive correlation to the country’s economic development. It is one of the major benefits of the development of the hospitality industry in any economy is the provision of employment and a top foreign exchange earner (Kusluvan, 2003). The industry consists of a number of diverse sectors including hotel and restaurant, travel agencies, tour operators, transportation, restaurant, food and beverage, and attractions which require a variety of occupational skills. The hotel industry is a very competitive business in which customers place great emphasis on reliability and timely service delivery. The vision of all such businesses is to provide quality high class services to customers in order to successfully thrive and achieve their mission.

The choice to travel or not is completely in the hands of the paying individual or business as one’s holiday time is commonly viewed as sacrosanct; its time to relax or concentrate on a chosen activity; to be as far as possible stress free; and to enjoy privacy or the company of your choice. Other common motivations of learning, discovery, adventure, or satisfying business, religious and cultural needs are similarly encouraged by the perception of uninterrupted sensory indulgence, or at least overall enjoyment. Holidays are for having fun and any unplanned deviation from that is unwelcome (Kusluvan, 2003). However, hazards of all kinds exist, accidents do happen even on holidays, and there exists a strong ethical imperative on the part on the part of tourism service providers
to ensure that plans are in place to cope with at least the most common uncertainties from natural anthropogenic hazards.

1.1.1 Risk Management Practices

Risk is defined as the uncertainty associated with a future outcome or event (Banks, 2004). Further, risk is a concept that denotes a potential negative impact to an asset or some characteristic of value that may arise from some present process or future event (Douglas and Wildavsky, 1982). Rejda (2008) defines risk management as the process through which an organization identifies loss exposures facing it and selects the most appropriate techniques for treating such exposures.

Risk management is an essential component of strategic management of an organization. It is an ongoing process of risk assessment through different tools and methods which identify all possible risks, determine which risks are critical to solve as soon as possible and then execute strategies to deal with these risks (Tariqullah and Habib, 2001). An efficient and effective risk management is the need of each and every organization and is one of the key responsibilities of firms in the hospitality industry. However effective risk management boosts the performance of an organization. The past poor performances uncovered shortcomings in the performance and risk management practices with many banks taking on excessive risk with too little regard for long run performance (Sitanta, 2011).
In risk management, a prioritization process must be followed whereby the risk with the greatest loss and greatest probability of occurrence is handled first and risks with lower loss are handled later (Kiochos, 1997, and Stulz, 2003). There is however, no specific model to determine the balance between risks with greatest probability and loss and those with lower loss, making risk management difficult. Banks (2004) notes that the key focus of risk management is controlling, as opposed to eliminating, risk exposures so that all stakeholders are fully aware of how the firm might be impacted.

The firms in the Tourism sector borrow a lot from the risk management process just like other sectors as suggested by Kiochos (1997). According to Kiochos (1997), the risk management process involves four steps: identifying potential losses, evaluating potential losses, selecting appropriate risk management techniques for treating loss exposures and implementing and administering the risk management program. Kimball (2000) concurs that risk management is the human activity which integrates recognition of risk, risk assessment, developing strategies to manage it and mitigation of risk using managerial resources. Generally, a proper risk management process enables a firm to reduce its risk exposure and prepare for survival after any unexpected crisis.

1.1.2 Financial Performance of firms

Performance in general has many different context based definitions. It can be referred to profitability, market standing, and efficiency of operation, financial performance, non-financial performance, and operational performance. In the context of tourism which is the focus of this research, the following three measures of performance have been
considered. A performance indicator is a measure capable of generating a quantified value to indicate the level of performance taking into account single or multiple aspects (Parida and Kumar, 2006). Performance indicators could be used for financial reports, for monitoring the performance of employees, tourist satisfaction, the health safety environment rating and overall equipment effectiveness as well as many other factors. If performance indicators are identified properly then it can provide or identify resource allocation and control, problem areas, the contribution, benchmarking, personnel performance and the contribution to maintenance and overall tourism business objectives. Of the various measures, the three major factors are the operational performance, financial performance and the non-financial performance (Kutucuoglu et al., 2001 and Wordsworth, 2001).

Organizational performance comprises the actual output or results of an organization as measured against its intended outputs. According to Richard et al. (2009) organizational performance should be related to factors such as profitability, improved service delivery, customer satisfaction, market share growth, and improved productivity and sales. Organizational performance is therefore affected by a multiplicity of individuals, group, task, technological, structural, managerial and environmental factors. Individual incompatibilities between the employees and in their groups can adversely affect their work output resulting in decreased performance.
1.1.3 Risk Management and Financial Performance

The main focus of risk management has mainly been on controlling and for regulatory compliance, as opposed to enhancing organizational performance (Banks, 2004). However, this risk management often leads to enhanced performance as regulatory compliance and control of risks enables the organization to save on costs and enhance its productivity. Banks (2004) further suggests that by managing risks, the managers are able to increase the value of the firm through ensuring continued profitability of the firm.

In the 21st century has seen great efforts to risk management. Babbel and Santomero (1996) note that firms in the tourism sector should assess the various types of risks they are exposed to and devise ways of effectively managing them. They further suggest that tourism firms should accept and manage at firm level, only those risks that are uniquely a part of their services. This will reduce the risk exposure. Stulz (1984) suggested that risk management is a viable economic reason why firm managers, might concern themselves with both the expected returns and the distribution of firm revenues around their expected value, hence providing a rationale for aligning firm objective functions in order to avoid risk.

Proper risk management is important in the daily operations of any tourism firm to avoid financial losses and bankruptcy. This is in line with Jolly (1997) contribution that preventing losses through precautionary measures is a key element in reducing risks and consequently, a key driver of overall performance. The efficiency of risk management by
insurance firms will generally influence their performance. Generally, company operations are prone to risks and if the risks are not managed the firm’s performance will be at stake. Firms with efficient risk management structures outperform their peers as they are well prepared for periods after the occurrence of the related risks.

1.1.4 Hospitality Industry in Kenya

Since independence, the hospitality industry has been a source of foreign exchange earnings for Kenya. Kenya provides a good example of an African country which has embraced tourism as an important tool for socio-economic development. In the short-term, Third World Countries in general, and Kenya in particular, viewed the development of tourism as a quick and reliable source of much sought after foreign exchange receipts, job creation and economic growth. However, a critical evaluation of the evolution and development of tourism in Kenya indicates that the country’s tourism industry faces socio-economic problems and structural deficiencies which reduce the industry’s efficacy as a tool for local, regional and national sustainable development (Akama, 1999). Many hotels in Kenya are famous tourist resort centre such as Hilton hotel, Treetops hotel in Aberdares National Park, Safari Park and Masai Mara. The hotels offer superior comfort in luxurious surroundings and highly personalized services. They are characterized with executive rooms, conference rooms, night club bars, fully equipped fitness clubs, swimming pools, shopping villages, outside catering and grounds for outdoor activities.
Kenya is predominantly a nature-based tourism destination with wildlife (concentrated in the southern part of the country) and beaches (along the Indian Ocean) accounting for over 85% of the international tourists visiting the country. Other attractions are based on the physical landscape of the country and the culture of the people. Kenya is arguably one of the major tourist destinations in Africa and prides itself on the abundance of its wildlife especially the ‘Big Five’. Aside from the big game safaris, Kenya has continued to attract travelers with the political peace and tranquility that it has enjoyed over the years. The beautiful scenery such as of beaches, snowy tropical mountain peaks, and the Great Rift Valley also contribute to the influx of world leisure travelers. However, this has since changed with the growing insecurity in both in the country and the world mainly due to internal strife like the ethnic clashes, political instability and terrorism among others (Okemwa 2012). This has results to the adoption of the risk management practices by the government such as the establishment of the tourist police unit, the deployment of the Kenya Defense Forces (KDF) to Somalia and to the border posts among others. This study however seek to determine the risk management practices employed by the industry players including the hotels, conservationist, the government and the tour operators.

1.2 Statement of the Problem

There are critical issues and challenges affecting Kenya's competitiveness and sustainability as tourist destination. Hospitality industry in Kenya has had difficult times over the years, particularly a prolonged period of lackluster performance in the 1990s (Akama, 1999; Ikiara, 2001). Ikiara, for example, describes performance in the 1990s as
erratic. A post-election period of civil unrest in 2008 and the global economic crisis in 2009 only made inbound international tourism business more challenging. Then in the recent past is the threat of terrorism in which Kenya has lost both its citizens and the tourists to the Al-shabab from Somalia. This has resulted to frequent travel advisories from the source countries like British, USA, Australia and Europe in general (Mayaka and Prasad, 2012). This has brought down the tourism sector in Kenya to its lowest point ever. The prolonged poor performance has characterized the last two decades, raising the concern of key stakeholders. The security of the tourist is significant if the industry is to get back to its former glory. It is therefore important to investigate and find out the risk management practices that are being employed and how this has impacted on the performance of the sector.

Previous studies on the performance of the hospitality industry have been on the general factors affecting the performance of the firms in hospitality in Kenya in general. Okemwa (2012) investigated the factors affecting performance of tourism sector in Kenya in which he focused on the Kenya Tourism Board, Bomas of Kenya, Kenya Utalii College and Kenya Wildlife Service. He found that the leading factors were poor marketing strategies and use of technology. Another study by Mayaka and Prasad (2012) looked at the strategic issues and challenges in the hospitality industry in Kenya. The findings were that the firms in Kenya adopted competitive marketing strategies to market Kenya as a tourist destination. The major challenge to the industry were the fluctuating number of tourists due to the insecurity in Kenya. While these studies have highlighted the challenges facing the hospitality industry in Kenya, no study however was done on the
effect of risk management practices on the performance of firms in the hospitality industry in Kenya, hence a need for a study to establish how the risk management practices influenced the performance of the firms in the industry.

Studies have been done of the importance of risk management in Kenya. Weru (2008) did a study on the assessment of the information systems management practices in Practical Action (International). Muchiti (2009) and Ongechi (2009) did a study on the risk management strategies adopted by commercial banks in lending to SMEs. A study by Onzere (2012) was done on the risk management strategies adopted by Barclays Bank of Kenya to attain optimal performance. However, these studies mainly focused on the financial performance of the firms. Secondly, these studies were mainly surveys (Weru, 2008; Muchiti, 2009 and Ongechi, 2009). While these studies are of importance to the researcher, none of them was done on the effect of risk management practices on performance of firms in the hospitality industry as they were either in the NGO or commercial banks hence a knowledge gap. It is therefore this gap which the researcher seeks to fill by providing answer to the question: what effect does risk management practices have on the performance of hospitality industry in Kenya?

1.3 Objective of the Study

The general objective of the study is to assess the effect of the risk management practices on the performance of firms in the hospitality industry in Kenya.
1.4 Value of the Study

This study will be significant to tourism firms, general public, students and the government as it will offer valuable contributions from both a theoretical and practical perspective. Theoretically, it will contribute to the general understanding of risk management practices and their effect on organizational performance.

The study will enable firms in the tourism sector in Kenya to improve their risk management process and to adopt efficient strategies to improve firm performance through the risk management processes. This will enable the tourism firms to perform better and to grow their businesses and maintain a competitive advantage and make Kenya the most preferred tourist destination.

Apart from benefiting the tourism firms, the tourists, both local and international will benefit from the study through improved tourism services and better management of risks. This will result to superior tourism services.

The study will be helpful to the government in setting regulations on tourism services in Kenya through the Tourism Ministry and Board and safeguarding the resources of the country. Lastly, the study will add to the existing body of knowledge on risk management to benefit academicians and aid further research on risk management in the tourism sector and the hospitality industry.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction

In this section the researcher reviews related literature in the areas of overview of risk management and risk management practices.

2.2 Theoretical Framework

This study will be anchored on three theories namely, agency theory, stakeholders theory and portfolio theory.

2.2.1 Agency Theory

Agency theory originates from the paper of Berle and Means (1932) on the separation between ownership and control in large corporations. According to Jensen and Meckling (1976), the firm can be viewed as a nexus or network of contracts, implicit and explicit, among various parties or stakeholders, such as shareholders, bondholders, employees, and society at large. In modern corporations the shareholders (principals) are widely dispersed and they are not normally involved in the day to day operations and management of their companies rather they hire managers (agent) to manage the corporation on behalf of them (Habbash, 2010). The separation of ownership from management provides the context for the functioning of the agency theory.
In the agency theory, the interests of stakeholders are not always aligned. Agency problems occur when the interests of agents are not aligned with those of principals. Depending on the parties involved in conflicts, agency problems can be categorized as: managerial agency or managerialism (between stockholders and management); debt agency (between stockholders and bondholders); social agency (between private and public sectors); and political agency (between agents of the public sector and the rest of society or taxpayers). The agency theory is about management risk and is therefore beneficial to this study.

2.2.2 Stakeholders Theory

The Stakeholder theory was embedded in the management discipline in 1970 and was gradually developed by Freeman in 1984, which incorporated corporate accountability to a broad range of stakeholders. Wheeler, Colbert and Freeman (2003) argued that the stakeholder theory is derived from a combination of the sociological and organizational disciplines. Indeed, stakeholder theory is less of a formal unified theory and more of a broad research tradition, incorporating philosophy, ethics, political theory, economics, law and organizational science.

Donaldson and Preston (1995) opined that this theory focuses on managerial decision making and the interests of all stakeholders have intrinsic value, and no sets of interests are assumed to dominate the others. Unlike agency theory in which the managers are working and serving the stakeholders, stakeholder theorists suggest that managers in
organizations have a network of relationships to serve the like of the suppliers, employees and business partners. It argued that this group of network is important other than owner-manager employee relationship as in agency theory (Wheeler, et. al, 2003). Hospitality industry is entails dealing with people mainly tourists and customers. The stakeholder theory is therefore important as taking care of the stakeholder need is key strategy for the performance of the hospitality

2.2.3 Portfolio Theory

The author of the modern portfolio theory is Harry Markowitz who introduced the analysis of the portfolios of investments in his article “Portfolio Selection” published in the Journal of Finance in 1952. The new approach presented in this article included portfolio formation by considering the expected rate of return and risk of individual stocks and, crucially, their interrelationship as measured by correlation. Prior to this investors would examine investments individually, build up portfolios of attractive stocks, and not consider how they related to each other. Markowitz showed how it might be possible to better of these simplistic portfolios by taking into account the correlation between the returns on these stocks.

The diversification plays a very important role in the modern portfolio theory. Markowitz approach is viewed as a single period approach: at the beginning of the period the investor must make a decision in what particular securities to invest and hold these
securities until the end of the period. Because a portfolio is a collection of securities, this decision is equivalent to selecting an optimal portfolio from a set of possible portfolios.

2.3 Determinants of Financial Performance of Hospitality Firms

2.3.1 Quality

The key aspect of quality is essentially the extent to which the company is able to meet stakeholder expectations on certain dimensions that have value for them (Saner & Eijkman, 2005). In the vast majority of works that examine this variable, quality is measured by the impact of ISO standards. In essence, the object is to identify the extent to which implementation of such a quality standard has a significant influence on financial performance. The implementation of ISO 9001 standard provides the possibility to align the objectives of the top levels, with the internal processes. With greater visibility into these processes, managers will be able to transform the original goals of quality in a continuous improvement process that will have a positive impact on financial performance.

Quality practices are usually presented as a universal concept, applicable in all contexts and having a large impact on business performance. There is a substantial body of empirical research that provides support for the notion that quality management and practices improve firm performance (Hendricks & Singhal, 1997; Lemak & Reed, 1997; Samson & Terziowski, 1999). The most well-known study of quality practice is the International Quality Study (1992) conducted by Ernst Young and the American Quality Foundation. This study provides evidence that quality management has the highest
impact on performance in firms that already perform well (International Quality Study, 1992). Hendricks & Singhal (1997, 2001) focus their research on quality award winners. They find that many different organizational characteristics impact the benefits of quality practice.

2.3.2 Governance

Corporate governance is very often found in studies oriented toward the organizational performance. One of the most important and often cited studies belongs to Gompers, Ishi & Metrick (2003). They have built an index for measuring corporate governance using a sample of 1,500 U.S. firms in the 90s. This study has demonstrated the existence of a positive relationship between the quality of corporate governance and firm performance. Brown & Caylor (2009) have obtained similar results in their research which is an extension of the research carried out by Gompers et al. Drobetz et al. (2004) also identified a positive impact of corporate governance on the performance of German firms. In Japan, Bauer et al. (2008) using the database provided by GMI, showed that companies with better governance are more efficient than companies with weaker governance by up to 15% annually.

Efficient enterprise governance has been determined to be critical to all economic dealings especially in growing and conversion financial systems (Dharwardkar et al., 2000). Enterprise governance has believed the center stage for improved enterprise overall performance. Enterprise Governance is an appealing idea which is really a structure that protects both the enterprise governance and the control factors of enterprise
governance of an enterprise. Enterprise governance views the whole picture to ensure that ideal objectives are arranged and good control is obtained. However, this is a large task as well as a large opportunity.

2.3.3 Leadership

The leadership variable is also often found in organizational diagnostic models (Weisbord, 1976; Waterman et al., 1980; Burke & Litwin, 2001). The impact of this variable on organizational performance is probably the most obvious of the models’ variables being the object of many studies. We can mention here the study conducted in 1981 by Weiner & Mahoney (1981) who studied the leadership in 193 manufacturing companies. According to this study, managerial practices have a significant impact on two organizational performance components: profitability and share price.

Leadership is one of the key driving forces for improving firm performance. Leaders, as the key decision-makers, determine the acquisition, development, and deployment of organizational resources, the conversion of these resources into valuable products and services, and the delivery of value to organizational stakeholders. Thus, they are potent sources of managerial rents and hence sustained competitive advantage (Rowe, 2001).

Leadership helps organizations achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring employees have the resources needed to get the job done. The level of integration and interdependencies that are needed
for the new work environment as well as global competition require leadership that goes beyond the more basic transactional styles, which involve contingent reinforcement and management-by-exception, to styles that are more intellectually stimulating, inspirational, and charismatic (Avolio 1999, Bass 1997 and Bass & Avolio 1993).

2.3.4 Innovation

The innovative capacity of organizations is a dimension less surprised in organizational diagnostic models although there are numerous studies that have been focused on identifying impact of the innovative. Employing the same definitions of innovation, researchers should identify innovation(s), preferably all of the innovations of an organization, department (ministry) or population/government, whether or not fully implemented; internal impacts, including whether they attracted public, political, and client group praise/criticism; effect on the target issue; whether and how the innovation(s) was of sufficient impact to affect the organization; impact on the role, status, independence and prestige of the organization within the population/government, and the organization’s survival or mortality, at its own level and the levels above it (Glor, 2011).

Research on the implications of being innovative organizations should describe the impact of the innovation(s) on the issue the innovation was introduced to address and on the fate of individual innovations, innovators and organizations. It should consider whether there was an impact on the population and the geographic and organizational communities. Research should seek out innovation case studies where there is a plausible
link between an organization being innovative and surviving/disappearing. These should be matched with case studies of normal organizations. Organizations should thus be studied in sets of four cases innovations whose organizations survived/disappeared and normal organizations which survived/disappeared.

2.4 Empirical Evidence

A number of studies have been conducted on risk management. This section will review the empirical studies in view of the study. Yusuwan et al., (2008) focused on identifying the level of awareness of risk management in their study on the risk management practices on construction project companies in Klang Valley, Malaysia. They undertook to examine the policies undertaken when dealing with risks in a construction project and identifying the problems and challenges in risk management. For this study, they employed questionnaire survey and interviews to study 27 public and private companies operating in Klang Valley. The study found out that 44.4%, 29.6%, 14.8% and 11.1% had occasionally heard, heard and attended training, practiced risk management and never heard about risk management respectively. Their studies concluded that risk management positively contributes to the productivity and financial performance.

A number of prior studies have pointed out that risk management in general is an important contributor to new product development program success: For example, Mu et al. (2009) show that risk management strategies targeting technological, organizational and marketing risk factors improve NPD performance individually and interactively. The study by Jacob and Kwak (2003) highlights the positive contribution of risk management
to improve project selection, review and resource allocation of NPD projects. In their investigation of over 100 technology-related projects, Raz et al. (2002) show that the use of risk management practices contribute to project success.

Wirthlin (2009) used empirical data to model the US defense acquisition system as three interdependent processes: budgeting (how much and when to buy), requirements development (why and what to buy), and acquisition (how to buy). He argued that if flexibility is valued, e.g. being able to start programs at will, rush things through, jump ahead of other programs in development cycle, then the system must be able to deal with the funding instability that ensues. If transparency is valued, then the system must maintain process reviews and levels of approval and accept expensive use of calendar time. If quality is valued, then expect program delays and cost increases to develop and mature the necessary technologies, or deliver the expected capabilities, etc.

Muli (2003) conducted an investigative study on the management of property risks in Kenya using a case study of the insurance sector. Questionnaires were distributed to a sample of 18 insurance companies out of a total of 36. An interview was conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Due to the exploratory nature of the study, a qualitative analysis of the available data was adopted. The study found that although risk management is consciously present in Kenyan insurance business, there still lacks a clear understanding of the discipline in the industry. The study recommended computerization and general improvement of their information systems.
Kithinji (2010) studied credit risk management and profitability of commercial banks in Kenya to assess the degree to which the credit risk management in practice had significantly contribute to high profits in commercial banks of Kenya. Data on the amount of credit, level of non-performing loans and profits were collected for the period 2004 to 2008. The results of the study showed that, there was no relationship between profits, amount of credit and the level of nonperforming loans. A regression model was used to elaborate the results which showed that there was no significance relationship between the banks profit and credit risk management proxied by level of Nonperforming Loans and Loans and Advances/Total assets.

Kinyua (2010) conducted a study on the assessment of risks as a component of corporate strategy in selected life insurance firms in Kenya. The research employed a descriptive survey design. The population of the study consisted of only 23 insurance firms involved in life insurance. The findings of the study indicated that the top three risks faced by insurance firms were competitor risk, regulation and de-regulation risk and industry economics risk respectively. Competitor risk was characterized by companies competing for the restricted market which was not made any better by the worsening economic situation. Given the reality of risks to company strategy, this study recommended that insurance firms further enhance the deployment of strategic planning tools that give the firms an outside-in perspective of the strategic planning process.
2.5 Summary of Literature Review

Although performance is influenced by a combination of factors facing the firm, a review of the literature provides evidence as to why firms should concern themselves with risk management. Vaughan and Vaughan (2008), provide a compelling reason for risk management by firms. They assert that the primary goal of risk management by firms is for survival. Risk management guarantees the continuity of the firm as an operating entity, hence ensuring that the firm is not prevented from attaining all its other goals through losses that might arise from pure risks. It is evident that the decisions made by managers affect the risks and performance of tourism firms. This then emphasizes the need for a proper risk management strategy to direct the goals and interests of management to the interests of the organization. This then leads to the development of a risk management program to meet the strategies of an organization.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In this chapter, the researcher describes the methods that will be used and how the study will be conducted. The chapter covers research design, population, samples and sampling techniques, research instruments, methods of data collection and analysis.

3.2 Research Design

The study adopted a descriptive research design. According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon. Descriptive survey designs are used in preliminary and exploratory studies to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. The choice of the descriptive survey research design is based on the fact that in the study, the research is interested on the state of affairs already existing in the field and no variable would be manipulated. This study therefore was able to generalize the findings to a larger population. The main focus of this study will be quantitative. However some qualitative approach will be used in order to gain a better understanding and possibly enable a better and more insightful interpretation of the results from the quantitative study.
3.3 Target Population

Target population is defined as a complete set of cases or elements with some common observable characteristics of a particular nature distinct from other population. Mugenda and Mugenda (2003) notes that a population is a well defined set of people, services, elements, events, group of things or households that are being investigated. The target population was the hotel and restaurants in Nairobi. According to the Ministry of Trade and Tourism (2015), there are approximately 37 hotels and restaurants in Nairobi. The study also targeted the 243 tour operating firms registered with the Kenya Association of Tour Operators (KATO).

3.4 Sample

Gray (2009) defines a sample as a part or section of a population to be studied. All the 37 hotels and restaurants were studied due to manageability of the population. Due to the fact that the study mainly dealt with the management, the study only targeted all levels of management. Purposive sampling was therefore used to select operations managers from the hotels. Purposive sampling assumed that with good judgment and right strategy, elements can be handpicked and developed as representative of a population (Hoyle, Harris and Jude, 2002).

The study used simple random sampling to select 73 tour operating firms which represents 30% of the population. According to Gay and Airasen (2003) a sample size of between 20% and 30% of the total population is representative. Therefore the sample size fell within the recommended range. The researcher then used purposive sampling to
select the operations managers from the sampled firms. This brought the sample size to
110.

Table 3.1: Sample Size

<table>
<thead>
<tr>
<th></th>
<th>Population</th>
<th>Sample</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hotels and Restaurants</td>
<td>37</td>
<td>37</td>
<td>100</td>
</tr>
<tr>
<td>Tour Operating firms</td>
<td>243</td>
<td>73</td>
<td>30</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>280</strong></td>
<td><strong>110</strong></td>
<td><strong>39.3</strong></td>
</tr>
</tbody>
</table>

3.5 Data collection

The study used both primary and secondary data. The study used secondary data to
collect data on the profitability of the firms. Questionnaires were used to collect the
primary data on the risk assessment, risk response, innovation and quality. The study
equally used the questionnaires to collect data customer satisfaction. The questionnaires
will have both structured closed and open-ended questions. Open-ended questions will
give an in-depth information while closed ended will seek specific information from the
respondents. Questionnaires will be dropped and picked from respondents at a time
agreed with the researcher.

3.6 Data Analysis

Collected data will be edited for accuracy, consistency and completeness. Raw data will
be keyed on a worksheet in Microsoft Excel and computer software known as Statistical
Package for Social Sciences (SPSS) which will be the tools of analysis. Raw data will be analyzed quantitatively and statistically. Data will be analyzed using descriptive statistics (Frequency distribution and measures of the central tendency). Findings will be interpreted and inferences made and presented using pie charts, tables and percentages. In order to establish the relation to performance the study shall be established for three years (2012-2014).

The study will also use Ordinary Least Squares regression analysis to test the relationship between performance and the risk management practices. The study will use the following model.

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon \]

\( Y \) = Performance which will be measured using return on Assets (ROA)

\[ \text{ROA} = \frac{\text{net income}}{\text{total assets}}. \]

\( \beta_0 \) = Constant \( \beta_1, \beta_2 & \beta_3 \) = Coefficients

\( X_1 \) = Risk assessment – by identifying sensible measures of control and the market mechanism

\( X_2 \) = Risk response – by the number of successful projects

\( X_4 \) = Innovation will be measured by number of new products/ packages offered by the firms in every year.

\( X_3 \) = Quality will be measured by use of customer response in reference to customer’s feedback forms.

\( \epsilon \) = Error term
CHAPTER FOUR

DATA ANALYSIS  INTERPRETATIONS AND PRESENTATIONS

4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. Descriptive and inferential statistics have been used to discuss the findings of the study.

4.2: Response Rate

![Pie chart showing response rate]

The study targeted a sample size of 110 respondents from which 85 filled in and returned the questionnaires making a response rate of 77%. This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick & Bowen (1996) recommended a response rate of 70%. According to Mugenda & Mugenda (2003), a response rate of 50

Figure 4.1: Response rate

The study targeted a sample size of 110 respondents from which 85 filled in and returned the questionnaires making a response rate of 77%. This response rate was satisfactory to make conclusions for the study. Weisberg, Krosnick & Bowen (1996) recommended a response rate of 70%. According to Mugenda & Mugenda (2003), a response rate of 50
percent is adequate for analysis and reporting; a rate of 60 percent is good and a response rate of 70 percent and over is excellent. Based on the assertion, the response rate was considered to be very good.

4.3: Validity and Reliability Analysis

Reliability of the questionnaire was evaluated through Cronbach’s Alpha which measures the internal consistency. Cronbach’s alpha was calculated by application of SPSS version 20 for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted at 0.5 significance level from dichotomous and or multi-point formatted questionnaires or scales. A higher value shows a more reliable generated scale. Cooper & Schindler (2008) have indicated 0.7 to be an acceptable reliability coefficient. Table 3 shows that job description had the highest reliability (α=0.814) followed by Job satisfaction (α=0.803), Career growth (α=0.803), then reward strategies (α = 0.765). This illustrates that all the five scales were reliable as their reliability values exceeded the prescribed threshold of 0.7 (Mugenda & Mugenda, 2008).

Table 4.1: Reliability Coefficients

<table>
<thead>
<tr>
<th>Scale</th>
<th>Cronbach's Alpha</th>
<th>Number of items</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>0.784</td>
<td>4</td>
</tr>
<tr>
<td>Risk Response</td>
<td>0.769</td>
<td>4</td>
</tr>
<tr>
<td>Innovation</td>
<td>0.814</td>
<td>4</td>
</tr>
<tr>
<td>Quality</td>
<td>0.823</td>
<td>4</td>
</tr>
</tbody>
</table>
4.4 Profile of the respondents

4.4.1 Gender of the respondents

The study found it paramount to determine the respondents’ gender in order to ascertain whether there was gender parity in the positions indicated by the respondents. The findings of the study

![Gender response](image)

**Figure 4.1: Gender response**

According to the analysis it was evident that majority of the respondents were male which represented 58.82% while 41.18% were female. It can therefore be deduced that males were the most dominant gender from the response of the respondents but the
disparity between the male and female respondents is not sufficient to create any gender biasness in the study.

4.4.2 Age of the respondents

Table 4.2: Age of the respondents

<table>
<thead>
<tr>
<th>Age of the respondents</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than 25 years</td>
<td>5</td>
<td>5.88%</td>
</tr>
<tr>
<td>25-30 years</td>
<td>6</td>
<td>7.05%</td>
</tr>
<tr>
<td>31-40 years</td>
<td>44</td>
<td>51.76%</td>
</tr>
<tr>
<td>41-50 years</td>
<td>18</td>
<td>21.18%</td>
</tr>
<tr>
<td>Over 50 years</td>
<td>12</td>
<td>14.12%</td>
</tr>
<tr>
<td>Total</td>
<td>85</td>
<td>100%</td>
</tr>
</tbody>
</table>

The respondents were required to indicate their age where the study findings indicated that majority (51.76%) indicated that they were aged between 31-40 years. This was calculated from a frequency of 44 respondents. This was closely followed by respondents (21.18%) who indicated that they were aged between 41-50 years. The analysis of the findings also indicated that 14.12% of the respondents were aged over 50 years old. The findings further noted that 7.05% were aged between 25-30 years old. The least frequency (5) indicated that they less than 25 years of age. From these findings therefore it can be inferred that the respondents were old enough to provide valuable information pertaining to the effects of risk management practices on performance of firms in the hospitality industry in Nairobi County.
4.4.3: Level of education

This section sought to determine the level of education and the results were as shown in figure 4.3 below

**Figure 4.2: Respondent level of education**

The study requested the respondent to indicate their highest level of education. From the findings it was established that 56.47% of the respondent indicated their highest level as the University degree, 38.82% of the respondent indicated their highest level was a college diploma, 3.53% of the respondents indicated their highest level of education as O level education, while the least percentage 3.33% of the respondents stated that their highest level of education was a certificate. This is an indication that most of the respondents focused in this study had university degree as their highest level of education and therefore had the knowledge to fully assess the effects of risk management practices on performance of firms in the hospitality industry in Nairobi County.
4.4.4 Years in the Industry

![Bar chart showing years in the industry](chart.png)

**Figure 4.3: Years in the industry**

This section sought to determine the length of time the respondents had been in the industry. The results were as shown in figure 4.4. From the findings, a majority (51.76%) of the respondents indicated to be in the hospitality industry for a period of 6-10 years, 38.82% of the respondents indicated that they had been in service for a period of over 10 years. Closely after were respondents (7.06%) who stated that they had been in the industry for a period of 3-5 years. The least frequency was of respondents who indicated that they had been in operation for a period of less than 3 years. This is implies that majority of the respondents engaged in this study had a clear understanding of the effects of risk management practices on performance of firms in the hospitality industry in Nairobi County. The findings revealed that majority of the respondents had been in the
hospitality industry for over 6 years hence perceived to be in a better position to provide credible and relevant answers to the study research questions.

4.5 Descriptive Statistic

The study sought to establish the effect of risk management practices on performance of firms listed in the hospitality industry in Nairobi County. The respondents were asked to Rate how they felt about different variables related to performance in a five point Likert scale. Table 4.1 gives the summary statistics of the main variables that have been included in the model including: minimum, maximum, mean, standard deviation, skewness, kurtosis and Jarque-Bera test for normality.

Table 4.3: Descriptive Statistics Results

<table>
<thead>
<tr>
<th></th>
<th>Risk Assessment</th>
<th>Risk Response</th>
<th>Innovation</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mean</td>
<td>8.00</td>
<td>0.4994</td>
<td>2.043</td>
<td>3.319</td>
</tr>
<tr>
<td>Median</td>
<td>9.00</td>
<td>0.913</td>
<td>0.646</td>
<td>1.213</td>
</tr>
<tr>
<td>Maximum</td>
<td>12.00</td>
<td>0.312</td>
<td>4.831</td>
<td>4.183</td>
</tr>
<tr>
<td>Minimum</td>
<td>7.00</td>
<td>0.191</td>
<td>0.000</td>
<td>1.224</td>
</tr>
<tr>
<td>Std. Dev.</td>
<td>2.62</td>
<td>0.331</td>
<td>0.078</td>
<td>0.238</td>
</tr>
<tr>
<td>Skewness</td>
<td>0.045</td>
<td>0.829</td>
<td>0.9979</td>
<td>0.698</td>
</tr>
<tr>
<td>Kurtosis</td>
<td>2.034</td>
<td>3.223</td>
<td>3.567</td>
<td>2.314</td>
</tr>
</tbody>
</table>
The results showed that risk identification had a mean of 8.00 with a minimum of 7.00, a maximum of 12.00, skewness 0.045 and kurtosis of +2.034. Comparatively, Risk assessments had a mean of .4994, minimum of .312, maximum of .191, skewness of 0.829 and kurtosis of +3.223. Risk response had a mean of 2.043, minimum of 0.000, maximum of 4.831, and skewness of 0.698 and kurtosis of 3.567. In addition Innovation had a mean of 3.319, minimum of 1.224, maximum of 4.183, skewness of 0.698 and kurtosis of +2.314.

Analysis of skewness shows that all the variables are asymmetrical to the right around its mean. Additionally, 'risk response and innovation' are highly peaked compared to other repressors. Jarque-Bera is a test statistic for testing whether the series is normally distributed. It measures the difference of the skewness and kurtosis of the series with those from the normal distribution using the null hypothesis of a normal distribution. A small probability value leads to the rejection of the null hypothesis of a normal distribution. Jarque-Bera test for normality shows that all variables are normally distributed.

<table>
<thead>
<tr>
<th>Jarque-Bera</th>
<th>4.582</th>
<th>13.311</th>
<th>20.416</th>
<th>11.488</th>
</tr>
</thead>
<tbody>
<tr>
<td>Observations</td>
<td>315</td>
<td>315</td>
<td>315</td>
<td>315</td>
</tr>
</tbody>
</table>

4.3 Diagnostic Tests for Regression Assumptions

The preferred regression model was subjected to a number of diagnostic tests to evaluate the validity of the model. The diagnostic tests included: Breusch-Pagan test for
heteroskedasticity and White Heteroskedasticity Test (LM) for constant variance of residual over time, the ARCH (Autoregressive conditional heteroscedasticity) test which detects the problem of heteroscedasticity and Ramsey RESET test for the specification of the regression. Further regression and correlation analysis were used to establish the relationship between the independent and the dependent variables. Control variables i.e. risk identification, risk assessment; risk response and innovation were incorporated to determine the changes in coefficient of determination (R² change). The results were presented in Table 4.4 below.

**Table 4.4: Diagnostic Tests**

<table>
<thead>
<tr>
<th>Test</th>
<th>F-statistics</th>
<th>Probability</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ramsey RESET Test:</td>
<td>1.760507</td>
<td>0.163014</td>
</tr>
<tr>
<td>White Heteroskedasticity Test:</td>
<td>2.125333</td>
<td>0.079932</td>
</tr>
<tr>
<td>ARCH Test:</td>
<td>1.185552</td>
<td>0.324352</td>
</tr>
<tr>
<td>Breusch-Pagan Test for Heteroskedasticity</td>
<td></td>
<td></td>
</tr>
<tr>
<td>LM Test:</td>
<td>1.12472</td>
<td>0.573265</td>
</tr>
</tbody>
</table>
Table 4.2 shows that the parameters of the regression analysis were stable and the model can be used for estimation at 5 percent confidence level. The Ramsey RESET Test for model specification, ARCH Test and White Heteroskedasticity Test for constant variance of residuals and Breusch-Godfrey Serial Correlation LM Test for serially correlated residuals used the null hypothesis of good fit (specification, heteroskedasticity, and non-autocorrelated against the alternative hypothesis of model mis-specification, heteroskedasticity, and autocorrelated respectively. All the probability values were less than F-statistics coefficients at 5 percent level of significance and therefore the null hypothesis was not rejected. The diagnostic test outcomes were therefore satisfactory.

4.6.1 Correlation Analysis

The Pearson product-moment correlation coefficient (or Pearson correlation coefficient for short) is a measure of the strength of a linear association between two variables and is denoted by r. The Pearson correlation coefficient, r, can take a range of values from +1 to -1. A value of 0 indicates that there is no association between the two variables. A value greater than 0 indicates a positive association, that is, as the value of one variable increases so does the value of the other variable. A value less than 0 indicates a negative association, that is, as the value of one variable increases the value of the other variable decreases.
Table 4.5: Correlation coefficient Organization Resources

<table>
<thead>
<tr>
<th></th>
<th>Risk Assessment</th>
<th>Risk response</th>
<th>Innovation</th>
<th>Quality</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk Assessment</td>
<td>1</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Risk Response</td>
<td>0.8345</td>
<td>1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Innovation</td>
<td>0.8507</td>
<td>0.8679</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Quality</td>
<td>0.7612</td>
<td>0.8163</td>
<td>0.7568</td>
<td>1</td>
</tr>
</tbody>
</table>

The study in table 10, show that all the predictor variables were shown to have a positive association between them at a significant level of 0.05 and hence included in the analysis. There was strong positive relationship between risk assessment and risk response (correlation coefficient 0.8679), Risk identification and risk response (correlation coefficient 0.8507), risk identification and risk assessment (correlation coefficient 0.8345), risk identification and Innovation (correlation coefficient 0.7612) and risk assessment and Innovation (correlation coefficient 0.8163). The study thus established a significantly strong relationship between the risk management practices and performance of firms in the hospitality industry.

4.6.2 Regression Analysis

The following are the results of regression analysis.
Table 4.6: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.413(^a)</td>
<td>.171</td>
<td>-.061</td>
<td>.475764</td>
</tr>
</tbody>
</table>

a. *Predictors*: (Constant), risk assessment, risk response, Innovation and Quality

b. *Dependent Variable*: Performance of firms

Analysis in table above shows that the coefficient of determination (the percentage variation in the dependent variable being explained by the changes in the independent variables) R square equals 0.171, that is, risk identification, risk assessment, risk response and innovation. The Analysis of Variance (ANOVA) was used to check how well the model fits the data. The results are presented in table 4.12.

Table 4.7: ANOVA (Analysis of Variance)

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>Df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Regression</td>
<td>0.492</td>
<td>4</td>
<td>.123</td>
<td>.678</td>
</tr>
<tr>
<td></td>
<td>Residual</td>
<td>14.96</td>
<td>80</td>
<td>.177</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>14.652</td>
<td>84</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

b. *Predictors*: (Constant, Risk assessment, risk response, innovation and quality)

da. *Dependent Variable*: Performance
The F statistic is the regression mean square (MSR) divided by the residual mean square (MSE). Since the significance value of the F statistic is small (0.000 smaller than say 0.05) then the predictors variables risk assessment, risk response, Innovation and quality explain the variation in the dependent variable which is performance of firms in the hospitality industry.

Consequently, we accept the Hypothesis that all the population values for the regression coefficients are not 0. Contrary, if the significance value of F was larger than 0.05 then the independent variables would not explain the variation in the dependent variable, and the null hypothesis that all the population values for the regression coefficients are 0 should have been accepted. The regression output of most interest is the following table of coefficients and associated output:

| Model | Unstandardized Coefficients | Standardized Coefficients | | |
|-------|----------------------------|---------------------------|---|---|---|---|
|       | B                          | Std. Error                | Beta | T  | Sig. |
| 1     | (Constant)                 | 0.864                     | 0.103 | 5.379 | 0.000 |
|       | Risk Assessment            | 0.035                     | 0.046 | 0.185 | 2.236 | 0.055 |
|       | Risk Response              | 0.049                     | 0.020 | 0.186 | 1.764 | 0.0450 |
|       | Innovation                 | 0.041                     | 0.045 | 0.138 | 1.376 | 0.0453 |
|       | Quality                    | 0.043                     | 0.022 | 0.173 | 1.202 | 0.0388 |

a. Dependent Variable: Performance of firms
From the Regression results in table below, the multiple linear regression model finally appear as

\[ Y = 0.864 + 0.035X1 + 0.049X2 + 0.041X3 + 0.043X4 \]

4.7: Summary of the Findings

The multiple linear regression models indicate that all the independent variables have positive coefficient. The regression results above reveal that there is a positive relationship between dependent variable (performance) and independent variables (Risk assessment, Risk response, Innovation and quality). From the findings, a unit change in risk assessment results in 0.035 units increase in the performance of firms in the hospitality industry. A unit increase in risk response results in 0.049 units increase in performance. A unit change in innovation results in 0.041 unit increase in performance. A unit change in quality results 0.043 unit increase in performance. The t statistics helps in determining the relative importance of each variable in the model. As a guide regarding useful predictors, we look for t values well below -0.5 or above +0.5. In this case, the most important variable was risk assessment, risk response, innovation, respectively.
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1: Introduction

The purpose of this study was to assess the effect of risk management practices on performance of firms in the hospitality industry. The objectives of the study included: To assess the effect of the risk management practices on the performance of firms in the hospitality industry in Kenya. Accordingly, research questions were formulated in line with the research objectives, which the researcher set out to look for answers. With a sample size of 110 respondents, selected using purposive sampling, the researcher used questionnaires to gather information related to the study. The study findings were analyzed, presented and interpreted. This chapter therefore presents discussions of the study findings, conclusion and recommendations on important issues that arose from the study and finally recommends areas for further research work.

5.2: Summary of Findings

This section sought to determine the level of education and from the findings it was established that 56.47% of the respondent indicated their highest level as the University degree, 38.82% of the respondent indicated their highest level was a college diploma. This was an indication that most of the respondents focused in the study had university degree as their highest level of education and therefore had the knowledge to fully assess the effects of risk management practices on performance of firms in the hospitality industry in Nairobi County.
From the findings, a majority (51.76%) of the respondents indicated to be in the hospitality industry for a period of 6-10 years, 38.82% of the respondents indicated that they had been in service for a period of over 10 years. This implied that majority of the respondents engaged in the study had a clear understanding of the effects of risk management practices on performance of firms in the hospitality industry in Nairobi County.

The results from the descriptive statistic showed that risk assessment had a mean of 8.00 with a minimum of 7.00, a maximum of 12.00, skewness 0.045 and kurtosis of +2.034. Comparatively, Risk response had a mean of .4994, minimum of .312, maximum of .191, skewness of 0.829 and kurtosis of +3.223. Innovation had a mean of 2.043, minimum of 0.000, maximum of 4.831, and skewness of 0.698 and kurtosis of 3.567. In addition Innovation had a mean of 3.319, minimum of 1.224, maximum of 4.183, skewness of 0.698 and kurtosis of +2.314. From the findings in the regression coefficients, a unit change in risk assessment results in 0.035 units increase in the performance of firms in the hospitality industry. A unit increase in risk response results in 0.049 units increase in performance. A unit change in innovation results in 0.041 unit increase in performance. A unit change in quality results 0.043 unit increase in performance.

The study noted that leadership helps organizations achieve their current objectives more efficiently by linking job performance to valued rewards and by ensuring employees have the resources needed to get the job done. It was noted that the level of integration and interdependencies that are needed for the new work environment as well as global competition require leadership that goes beyond the more basic transactional styles,
which involve contingent reinforcement and management-by-exception, to risk management skills such as risk assessment, risk response, innovation and quality.

5.3: Conclusion

The study examined the effect of risk management practices on performance of firms in the hospitality industry in Nairobi County. The study found that risk assessment, risk response, innovation and quality had positive significant effects while internal environment and control activities had positive significant effects on the financial performance of firms in the hospitality industry in Nairobi County. Overall risk management practices accounted for almost all of the variance in financial performance of the firms. Thus, the study concludes that the risk management practices influence the financial performance of firms in the hospitality industry to a very large extent.

5.4 Recommendations for Policy

The study makes a number of recommendations. First, the study recommends that firms in the hospitality industry firms in Kenya should employ robust risk management practices as these are likely to influence their financial performance in one way or another.

Secondly, the study recommends that in order for firms in the hospitality industry to improve on their financial performance, they should focus more on improving how they assess their internal environment and work on control activities as these are likely to enhance financial performance of these firms.
5.5 Limitations of the Study

The researcher encountered quite a number of challenges related to the research and most particularly during the process of data collection. Due to inadequate resources, the researcher conducted this research under constraints of finances and therefore collected data from one urban center. Some respondents were biased while giving information due to reasons such as victimization in the event the research findings turned sour. Lack of cooperation is undoubtedly the greatest challenge that was witnessed by the researcher. Respondents were naturally suspicious and uneasy when directed to cooperate in a study that they were not aware of its consequence. To further calm and set at ease the respondents, the researcher explained the nature of the study and its intended purpose and that it was purely an academic undertaking and that information divulged would be held in confidentiality by the researcher.

5.6 Suggestions for Further Research

There is need for more studies in this area to examine how risk management practices influences financial performance of firms in Kenya. This can be done by including all other financial institutions in Kenya and by conducting a panel regression analysis. More studies should be done to examine other factors that may influence performance of firms in the hospitality industry. This study assessed how risk management practices can influence performance and more studies need to examine other factors that may influence firm performance.

It is also important that future research examine the issue of risk management practices deeply by examining the risk management practices in organisations and the trends in the
risk management practices. This will inform policy makers on what areas need changes for the risk management practices to be effective.
REFERENCES


Thomas, P., (2009). *Strategic Management*. Course at Chalmers University of Technology


APPENDICES

APPENDIX I: QUESTIONNAIRE

SECTION I: PART A: RESPONDENTS BIO DATA

1. What is your gender? Male [ ] Female [ ]
2. What is your age? Less than 25 years [ ] 25 – 30 years [ ] 31 – 40 years [ ] 41 – 50 years [ ] Over 50 years [ ]
3. What is your level of education? O level [ ] College [ ] University [ ] Post University [ ]
4. How long have you been in the industry? Less than 3 years [ ] 3 – 5 years [ ] 6 – 10 years [ ] Over 10 years [ ]

PART B: RISK ASSESSMENT

5. How are you working with risks? ________________________________

6. Assuming that you have identified a number of risks, how would you prioritize them ________________________________

__________________________________________________________

__________________________________________________________

__________________________________________________________

7. Do you use any methods to analyze risks? Yes [ ] No [ ]

a. If yes, what methods? ________________________________

b. If no, what are the reasons of not using any methods? ____________________
8. To what extent has risk assessment affected the performance of your organization? Not at all [ ] Small extent [ ] Moderate extent [ ] Great extent [ ] Very great extent [ ]

9. State in your opinion, how risk assessment has affected the performance of the organizations?____________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

PART C: RISK RESPONSE

10. What action do you usually take against risks? ____________________________

11. What action would you take to the identified risks in the project?

12. To what extent has risk assessment affected the performance of your organization? Not at all [ ] Small extent [ ] Moderate extent [ ] Great extent [ ] Very great extent [ ]

13. State in your opinion, how risk assessment has affected the performance of the organizations?____________________________________________________
_________________________________________________________________
_________________________________________________________________
_________________________________________________________________

PART D: INNOVATION

1. Do innovations affect performance of firms in the hospitality industry? ____________________________
2. What action would you take to ensure that your firm remains on edge in innovations?

3. To what extent do you think innovations affect the performance of your organization?
   - Not at all [ ]
   - Small extent [ ]
   - Moderate extent [ ]
   - Great extent [ ]
   - Very great extent [ ]

4. State in your opinion, how innovations have affected the performance of the organizations?

PART D: QUALITY

1. The key aspect of quality is essentially the extent to which the company is able to meet stakeholder expectations on certain dimensions that have value for them.
   - Strongly Disagree [ ]
   - Disagree [ ]
2. What action would you take to ensure that your firm quality of product is up to the expectations of your respondents?

__________________________________________________________________
__________________________________________________________________
__________________________________________________________________

3. To what extent does quality of products affect the performance of your organization?

   Not at all [ ]
   Small extent [ ]
   Moderate extent [ ]
   Great extent [ ]
   Very great extent [ ]

4. State in your opinion, how can you improve the quality of products and services in your firm?

   ________________________________________________________________
   ________________________________________________________________
   ________________________________________________________________

51
SECTION II: PERFORMANCE OF FIRMS

Please provide your organization’s Net Income after Tax in KES for the last three years by ticking appropriately

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Zero</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-250 Million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>250-500 Million</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 500 Million</td>
<td></td>
<td></td>
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</tr>
</tbody>
</table>

Please provide the reduction in cost achieved by your organization (%) for the last three years by ticking appropriately

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Less than Zero (%)</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>0-5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 10%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Market Share (%)  

Please indicate the proportion of your market share your organization commands in the industry by ticking appropriately. Please tick one

<table>
<thead>
<tr>
<th>Year</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>0-5%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5-10%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10-15%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>15-20%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Above 20%</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Thank you for your cooperation!
APPENDIX II: LIST OF HOTELS

1. Ambassadeur
2. Boma Inn
3. Boulevard Hotel
4. Crowne Plaza
5. Eka Hotel
6. Fairview
7. Grand Regency/CTC
8. Hemingways Nairobi
9. Holiday Inn
10. Hotel County
11. Hotel Inter-Continental
12. Jakaranda Hotel
13. Kasarani
14. Land Mark (Jacaranda)
15. Lenana Mount
16. Marble Arch
17. Meridian Court
18. Nairobi Hilton
19. Nairobi Serena
20. Ngong Hills
21. Oakwood
22. Ole-Sereni Hotel
23. Panafric Hotel
24. Safari Park
25. Sagret Hotels
26. Sankara
27. Silver Springs
28. Six Eighty
29. Southern Sun Mayfair Nairobi
30. Sport View
31. The Nairobi Safari Club
32. The Norfolk
33. The Stanley
34. Tribe – The Village Market Hotel
35. Utalii
36. Villa Rosa - Kempinski
37. Windsor Club
APPENDIX III: LIST OF TOUR FIRMS

1. Aardwolf Africa Adventure Safaris Ltd
2. Abercrombie & Kent Ltd
3. Acacia Holidays Ltd
4. Access Africa Safaris LTD
5. Adventure African Jungle Ltd
6. Affable Tours & Safaris (E.A)
7. Africa Bound Safaris (K) Ltd
8. Africa Calling Safaris Ltd
9. Africa Last Minute Ltd - Msa
10. Africa Point Ltd
11. Africa Untamed Wilderness Adventures Ltd
12. Africa Viza Travel Services Ltd
13. Africabs Tours Ltd
14. African Dew Tours & Travel Ltd
15. African Eco-Safaris
16. African Home Adventure Ltd
17. African Horizons Travel & Safaris Ltd
18. African Memorable Safaris - Msa
19. African Quest Safaris Ltd
20. African Road Safaris
22. African Safari Destinations Ltd
23. African Safari Diani Adventures - Msa
25. Afriqueen Adventure Ltd
26. All Seasons Safaris and Tours
27. All Time Safaris Ltd
28. Allamanda Safaris
29. Aloha Tours & Safaris
30. Amazing Tours & Travel Ltd
31. Anste Tours & Travel Limited
32. Aramati Safaris
33. Archers Tours & Travel Ltd.
34. As You Like It (Safaris) Ltd
35. AsaRay Tours Ltd - Msa
36. Asili Adventure Safaris
37. Aslan Adventure Tours & Travel Ltd
38. Australken Tours & Travel Ltd
39. Baisy Oryx Tours Travel & Safaris
40. Balloon Safaris Ltd
41. BCD Travel
42. Benroso Safaris Ltd
43. Big Five Tours & Safaris Ltd
44. Big Safari Services Ltd
45. Bill Winter Safaris
46. Blue Wave Ltd
47. Boma Travel Services Ltd
48. Bongo Asili Cultural Travels
49. Brisma World Tours and Travel
50. Brogibro Company Ltd
51. Bunson Travel Service Ltd
52. Bush and Beyond Ltd
53. Bush Company Ltd
54. BushBlazers Tours Travel & Safaris Ltd
55. Call of Africa Safaris
56. Camp Kenya Ltd
57. Campofrio Safaris Ltd
58. Catalyst Travels Ltd
59. Chameleon Tours
60. Charleston Travel Ltd
61. Cheli & Peacock Ltd
62. CKC Tours & Travel
63. Classic Safaris
64. Coast Adventure Safaris
65. Conference & Travel Logistics Ltd
66. Coral Spirit Ltd
67. Cosmic Safaris Ltd
68. Cottars Safaris Services Ltd
69. Cotts Travel & Tours Ltd
70. David Tours & Car Hire-Msa
71. Deans Travel Centre Ltd-Msa
72. Destination Kenya Ltd
73. Destination Mombasa
74. Discover Kenya Safaris Ltd
75. Diwaka Tours & Travel Ltd
76. DK Grand Safaris & Tours Ltd
77. Domino Di Doriano
78. Dream Kenya Safaris
79. Duara Safaris Ltd
80. Duma Africa Treks & Safaris
81. Earth Tours & Travel Ltd.
82. East Africa Adventures Tours & Safaris
83. East African Eagle (K) ltd
84. East African Wildlife Safaris
85. Easy Go Safaris Ltd
86. Eco Adventures Limited
87. El Molo Tours & Travel
88. Elite Travel Services Ltd
89. Enchanting Africa Ltd
90. Essenia Safari Experts Ltd
91. Exotic Destinations Ltd-Msa
92. Express Travel Group
93. Eyes on Africa Adventure Safaris Ltd
94. Farid Kings Tours & Safaris
95. Favour Tours & Safaris
96. Fidex Car Hire Ltd
97. Flight & Safaris International Ltd
98. Flying Dove Tours & Travel Ltd
99. Four by Four Safaris Ltd
100. Frate Tours Ltd
101. Fredlink Company Ltd-Msa
102. Game Viewers Adventures Limited
103. Gametrackers (K) Ltd
104. Gamewatchers Safaris Ltd
105. GAT Safaris
106. Glory Car Hire Tours & Safaris Ltd.
107. Go Africa Safaris and Travel
108. Go Africa Travel Ltd.
109. Gofan Safaris
110. Golden Holidays & Travel Company
111. Helinas Safaris Ltd
112. Holidee in Africa Consulting Ltd
113. Hotel Adventure Travel Ltd
114. Ideal Tours & Travel
115. Impact Adventure Travel
116. Incentive Travel Ltd
117. Intra Safaris Ltd-Msa
118. Jade Sea Journeys Ltd
119. Jambo Travel House Limited
120. Jawamu Tours & Safaris
121. JMAR Safaris Ltd
122. Jocky Tours & Safaris
123. Jungle Beach Safaris Ltd
124. K.P.S.G.A
125. Kenia Tours & Safaris
126. Kenor Safaris Ltd
127. Kenya Beach Travel Ltd-Msa
128. Ker & Downey Safaris Ltd
129. Ketas Safaris
130. Ketty Tours Travel & Safaris Ltd
131. Kibo Slopes & Safaris Ltd
132. Kimbla Mantana (K) Ltd
133. Kinazini Funzi Dhow Safaris-Msa
134. Kisima Tours & Safaris
135. Kobo Safaris Ltd
136. Kosen Safaris Africa Ltd
137. Kuja Safaris
138. Kuldips Touring Company-Msa
139. Leboo Safari Tours Ltd
140. Linderberg Holidays & Safaris
141. Location Africa Films Ltd
142. Lowis & Leakey Ltd
143. Magical Spots Tours
144. Maniago Safaris Ltd
145. Mara Gates Safaris Ltd
146. Marble Travel
147. Maridadi Safaris Ltd
148. Masikio Ltd
149. Mathews Safaris
150. Mbango Safaris East Africa Ltd
151. Mighty Tours and Travel Ltd
152. Migrants Safaris (East Africa) Ltd
153. Mini Cabs Tours & Safaris
154. Mombasa Air Safari Ltd-Msa
155. Natural World Msa Safaris-Msa
156. Nature Expeditions Africa
157. New Kenya Travel And Tours Safaris Ltd
158. Origins Safaris
159. Out of Africa Collection Ltd
160. Pal - Davis Adventures Kenya
161. Papa Musili Safaris LTD
162. PEAK East Africa Ltd
163. Peaks & Safaris Africa
164. Penfam Tours & Travel
165. Phoenix Safaris (K) Ltd
166. Pollman's Tours & Safaris Ltd-Msa
167. Real Africa LTD
168. Reny Safaris Ltd
169. Rhino Safaris Ltd
170. Rickshaw Travels (Kenya) Ltd
171. Robin Hurt Safaris Ltd
172. Rollard Tours & Car Rental Ltd
173. Rucini Dhow Ventures
174. Safari Mania Ltd
175. Safari Trails Limited
176. Safari Travel Kenya Ltd
177. Safaris Unlimited (Africa) Ltd
178. Saleva Africa Tours Ltd.
179. Sameco Tours
180. Savage Wilderness Safaris
181. Scenic Treasures Ltd
182. Selective Safaris
183. Sentinel Safaris Ltd
184. Serene East Africa Safaris Ltd
185. Shades of Africa Tours & Safaris
186. Shanzu Kenya Super Safaris
187. Shian Tours & Travel Ltd
188. Shimoni Aqua Ventures
189. Silver Africa Tours & Safaris Ltd.
190. Silverback Travel Group
191. Silverbird Adventure Tours & Travel
192. Silverbird Travel Plus Ltd
193. Skyview Of Africa ltd
194. Soin Africa Safaris
195. Solly Safaris Ltd
196. Somak Travel Ltd
197. Southern Cross Safaris (Mombasa)Ltd
198. Southern Cross Safaris Limited
199. Southern Sky Safaris
200. Speedbird Travel & Safaris
201. Sportsmen's Safaris & Tours
202. Spot Kenya Safaris
203. Steenbok Safaris & Car Hire
204. Steps Adventures Ltd
205. Sunworld Safaris Ltd
206. Supreme Safaris Ltd
207. Tamimi Kenya Ltd
208. The Safari and Conservation Co. Ltd
209. The Safari Collection Ltd
210. The Safari Company Management Ltd
211. The Scott Travel Group Ltd
212. Topcats Safaris Ltd
213. Tourist Maps Kenya LTD
214. Trails of Africa Tours & Safaris
215. Transworld Safaris (K) Ltd.
216. Travel 'n Style
217. Travel Affairs Ltd
218. Travel Connections Ltd
219. Travel Creations Ltd
220. Travel Shoppe
221. Travel Wild East Africa LTD
222. Trevaron Travel & Tours Ltd
223. Tripple Tours & Travel Ltd
224. Tusker Safaris Ltd-Msa
225. Twiga Car Hire & Tours Ltd
226. Ulf Aschan Safaris Ltd
227. Uniglobe Northline Travel Ltd
228. Unik Car Hire & Safaris-Msa
229. Valentin Investment Co (MSA) Ltd
230. Vintage Africa Ltd
231. Wild Destinations Ltd
232. Wild Times Ltd
233. Wild Trek Safaris Ltd
234. Wild Vision Adventures Ltd
235. Wild Waters Ltd
236. Wildlife Safari (K) Ltd
237. Wildlife Sun Safaris
238. Woni Safaris Ltd
239. WT Safaris Ltd
240. Xcellent Wildlife Paradise - Holidays and Safaris

241. Zaira Tours & Travel Co. Ltd

242. Zirkuli Expeditions Ltd

243. Zoar Tours and Safaris