THE EFFECTS OF RISK MANAGEMENT PRACTICES IN PERFORMANCE OF HOTELS IN MOMBASA COUNTY

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DECLARATION

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

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

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DEDICATION

I dedicate this research to my parents beloved parents Mr. and Mrs. Njagi, my son Tyrone and my sister Grace for always giving me the push and a shoulder to lean on when life was tough on me.
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I am grateful to the almighty God for his love and mercies. I appreciate the guidance given to me by Mr. Odipo throughout the research process. I am indebted to my family who have been a source of encouragement. I cannot to forget to thank all the staff of hotels in Mombasa who participated in the study. May God bless you all.
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ABBREVIATIONS AND ACRONYMS

CAPM  Capital Asset Pricing Model
DCF  Discounted Cash Flow
FLES  Front line Employees
GMI  Global Markets Institute
HPWP  High Performance Work Practices
ISO  International Organization for Certification
KAHC  Kenya Association of hotelkeepers’ and caterers
KDF  Kenya Defense Forces
NGO  Non-Governmental Organizations
NPD  New Product Development
SME  Small and Medium
SPSS  Statistical Package for Social Sciences
SVF  Simultaneous Valuation Formula
ABSTRACT

Risk Management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity’s reputation and associated consequences. Effective risk management plays an important role in daily operations of business entities to avoid financial insolvency and bankruptcy. Hospitality industry in Kenya has had difficult times over the years, particularly prolonged period of lackluster performance in the 1990s, a post-election period of civil unrest in 2008 and the global economic crisis in 2008 and threat of terrorism in which Kenya has lost both its citizens and the tourists to the Al-Shahab from Somalia. This has brought down the tourism sector in Kenya to its lowest point ever. The purpose of the study was to evaluate the effect of the risk management practices on the performance of hotels in Mombasa. Descriptive survey design was adopted. The target population was 3, 4 and 5 star hotels in Mombasa County. Middle and top managers were the respondents in the study. Stratified random sampling was used to arrive at a sample of 13 hotels where from each hotel 2 respondents were selected to give the study a sample of 26 participants. Data was collected using self-administered questionnaires. Descriptive statistics were used to organize the findings while correlation analysis was used to determine the magnitude and direction of the relationship between risk management practices and performance of hotels. The study found that Majority (56%) of respondents indicated that their hotel did not have a risk management policy. Majority (66%) of respondents indicated that the risk management policy was reviewed after several years while for 30% it had never been reviewed. Majority (60%) of the respondents in the study indicated that their hotel did not have a risk management department. Majority (65%) of respondents indicated that their hotel used risk avoidance as a risk management technique. 43% indicted cost of the risk control method while 23% indicated statutory requirements as the factors considered when selecting the risk control methods to be used in their hotel. The study concludes that risk management practices have a relationship with performance of hotels. Specifically, proper risk management practices enhance performance of hotels. The study concludes that hotels in Mombasa have poor risk management practices. The study recommends that all hotels should have a risk management policy and employees should be involved from the start in the planning and implementation. The study also recommended that the government through its concerned agencies should enforce statutory requirements of risks management to enhance compliance with risk management.
CHAPTER ONE: INTRODUCTION

1.1 Background of the study

A Hotel means establishment providing accommodation, meals, and other services for travelers and tourists (oxford dictionary). The hotel industry has been identified as one of the most important sectors that have a positive correlation to the country’s economic development. One of the major importance of development of the hotel industry is the creation of employment and a top exchange earner (Kusluvan, 2003).

Enhancing customer perceptions of service quality is an important goal. In order to achieve this employee’s knowledge, skills and investing in human recourses is required. FLEs with HPWPs can generate new ideas for service improvement and deal with customer requests and complaints successfully by offering novel solutions. With this stated, creativity or creative CP and SRP appear to be important aspects of frontline service jobs (Karatepe & Karadas, 2012; Karatepe, Kilic, & Isiksel, 2008).

Holidays are for having fun and any unplanned deviation from that is unwelcomed (Kusluvan, 2003). However, hazards of all kinds exists, accidents do happen even on holidays and there exists a strong ethical imperative on the part of tourism service providers to ensure that plans are in place to cope with at least the most common uncertainties.

1.1.1 Risk management practices

Risk is the uncertainty associated with a future outcome or event (Banks, 2004). Risk is a concept that denotes a potential negative impact to an asset or some characteristics of value that may arise from some present process or future event (Douglas & 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.

Some of the risks a firm faces include; market risks, credit risks, liquidity risks and operational risks (Nocco & Stulz, 2006). Market risk refer to the impacts of on and off-balance sheet positions of a financial institution. The movements in market rates or prices such as interest rates, foreign exchange rates, equity prices, credit spreads and commodity prices result in a loss to earnings and capital ratio (Nocco & Stulz, 2006). Interest rate risk is the potential negative impact on the Net Interest Income and it refers to the vulnerability of an institutions financial condition to the movement in interest rate. Changes in interest rate affect earnings, value of
assets, liability off-balance sheet items and cash flow (Sensarma & Jayadev, 2009). Management of interest rate risk aims at capturing the risks arising from the maturity and re-pricing mismatches and is measured both from the earnings and economic value perspective (Sensarma & Jayadev, 2009).

Credit risk is the potential that a borrower fails to meet the obligations on agreed terms. There is always scope for the borrower to default from his commitments resulting in crystallization of credit risk to the bank. These losses could take the form of outright default or alternatively, losses from changes in portfolio value arising from actual or perceived deterioration in credit quality that is short of default (Nocco & Stulz, 2006). The management of credit risk includes; measurement through credit rating/scoring, quantification through estimate of expected loan losses, pricing on a scientific basis and controlling through effective loan review mechanism and portfolio management (Nocco & Stulz, 2006).

Liquidity risk is the potential for loss to an institution arising from either its inability to meet its obligations or to fund increases in assets as they fall due without incurring unacceptable costs or losses. Deposits or contributions generally have a much shorter contractual maturity than loans and liquidity management needs to provide a caution to cover anticipated deposit withdrawals. Liquidity is the ability to efficiently accommodate deposit and also reduction in liabilities and to fund the loan growth and possible funding of the off-balance sheet claims. The cash flows are placed in different time budgets based on future likely behavior of assets, liabilities and off-balance sheet items (Al-Tamini & Al-Mazrooei, 2007). A firm should track the impact of pre-payment of loans and premature closure of deposits so as to realistically estimate the cash flow profile (Nocco & Stulz, 2006).

Operational risk is the loss resulting from inadequate or failed internal processes, people and system or from external events (Nocco & Stulz, 2006). According to Dorfman (2007), once risks have been identified and assessed, all techniques to manage the risk fall into these four major categories: risk avoidance, risk abatement, risk allocation and risk retention. Risk avoidance involves not performing an activity that could carry risk. Avoidance may seem attractive when dealing with risks but it also means losing out on the potential gain that accepting the risk would have allowed. Risk abatement is the process of combining loss prevention or loss control to minimize a risk. It is also known as risk optimization or risk reduction. Risk allocation is the
sharing of the risk burden with other parties for example asset allocation to various asset classes i.e. equity, bonds, hedge funds, etc. Risk retention is a good strategy but it is impossible to transfer the risk.

Foreign exchange risk is the risk that a firm may suffer loss as a result of adverse exchange rate movement during a period in which it has an open position, either spot or forward or both in the same foreign currency. 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 & Stulz, 2003). There is however, no specific model to determine the balance between risks with greatest probabilities 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 hotels borrow a lot from the risk management process just like other sectors as suggested by Kiochos (1997). According to Kiochos (1997), the risk management 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 a process in which recognition and assessment of risks begets the developing strategies to manage and mitigate the risk using available managerial resources.

1.1.2 Financial performance of firms

In the context of hotel industry 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 & 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. The three major factors are the operational performance, financial performance and the non-financial performance (Kutucuoglu et al., 2001 & Wordsworth, 2001)

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, and task, technological, structural, managerial and environmental factors.

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). Banks (2004) further suggests that management of risks, stakeholders in the hotel industry can secure value in their investment through continued profitability of the firm.

Babbel & Santomero (1996) note that firms in the hotel sector should assess the magnitude and potential of external and internal risks define ways of effectively managing them. The firms should also put internal mechanisms in place to ensure that weaknesses that are unique to the hotel are manageable hence minimize the risk of exposure. Stulz (1984) suggested that risk management is an economic drive that should guide firm managers to define their concerns in relations to both distributional and expected revenues because they help to maintain an objective course for the firm.

Risk Management helps ensure effective reporting and compliance with laws and regulations, and helps avoid damage to the entity’s reputation and associated consequences. It delivers a current, credible understanding of the risks unique to an organization across a broad spectrum that includes all types of risk (credit risk, operational risk, market risk, liquidity risk and trading risk), lines of business and other key dimensions (SAS, 2014). In sum, Enterprise Risk Management helps an entity get to where it wants to go and avoid pitfalls and surprises along the way (Nocco and Stulz, 2006). Proper risk management is important in the daily operations of any tourism related business because of the turbulent nature of the industry. To avoid financial losses and bankruptcy it is paramount to take a precautionary course according to Jolly (1997). It was believed that corporate risk management is irrelevant to the value of the firm and the arguments in favour of the irrelevance were based on the Capital Asset Pricing Model (Sharpe, 1964; Lintner, 1965; Mossin, 1966) and the Modigliani-Miller theorem (Modigliani and Miller, 1958). One of the most important implications of CAPM is that diversified shareholders should care only about the systematic (market risk) component of total risk. On the surface it would appear that this implies that managers of firms who are acting in the best interests of shareholders
should be indifferent about hedging of risks that are unsystematic (company or industry specific risks). Miller and Modigliani's proposition supports CAPM finding. 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 Hotel industry in Mombasa

The beautiful sceneries of the beaches and suitable climate contribute to the influx of world leisure travelers. However, this has changed with growing insecurity due to internal strife like ethnic clashes, political instability and terrorism among others (Okemwa, 2012). This has resulted to adoption of risk management practices by the government such as KDF to Somali, tourist police unit and border post, among others. This study however seeks to determine the risk management practices employed by the 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 prolonged period of lackluster performance in the 1990s (Akama, 1990; 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 2008 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 Britain, USA, Australia and Europe in general (Mayaka & Prasad, 2012). This has brought down the tourism sector in Kenya to its lowest point ever. The prolonged poor operations have characterized the last two decades, raising the concern of key stakeholders. It is 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 hotel industry have been on the general factors affecting the performance of the firms in hotel 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 out 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 in
Kenya. The findings were that the firms in Kenya adopted competitive marketing strategies to market Kenya as a tourist destination. The major challenges to the industry were the fluctuating number of tourist due to the insecurity in Kenya. While these studies have highlighted the challenges facing the hospitality industry in Kenya, no study was however done on the effect of risk management practices on the performance of hotel industry in Mombasa. 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 Practical Action (International). Muchiti & Ongechi (2009) did a study on the risk management strategies adopted by Barclays Bank of Kenya to attain optimal performance of the firms. Secondly, these studies were mainly surveys (Weru, 2008; Muchiti 2009 & 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 hotel industry as they were either in the NGO or commercial banks hence a knowledge gap. It is therefore this gap which the researcher sought to fill by providing answer to the question: what effect does risk management practices have on the performance of hotel industry especially in Mombasa?

1.3 Objective of the study
To evaluate the effect of the risk management practices on the performance of hotels in Mombasa.

1.4 Value of the study
This study is paramount to the major stakeholders of the tourism and hospitality industry especially in providing critical financial guidelines to effective management of the business. The general understanding of performance of risk management practices becomes clear to the managers through this study.

Firms in the Kenyan tourism industry will benefit from an incisive look into risk matters thus enable them to acknowledge risk management processes as necessary structures that improve the firm. Risk management will enable the players in the market to be alive to past trends in the industry and assemble strategies that can steer the industry comfortable during peak and low seasons.
The government is another player that will benefit from the study in its quest to institute regulations that promotes local players in the tourism industry. For example, subsidizing marketing and campaigns for the local players.

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 hotel industry.
CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction
This chapter concentrates on the review of various studies conducted on risk management and risk management practices on performance of hotels. Areas to be reviewed include risk management practices, risk management process risk identification and risk analysis. The research seeks research gap available.

2.2 Theoretical Frame work
The approach of risk management involves studying the various ways through which businesses raise and manage finances including allocating resources to projects and evaluating the risk and risk factors associated with that business (Sarkis, 1998). Three theories will be reviewed in this chapter and include agency, stakeholder, and portfolio theories.

2.2.1 Agency Theory
Agency theory extends the analysis of the firm to include separation of ownership and control, and managerial motivation. In the field of corporate risk management agency issues have been shown to influence managerial attitudes toward risk taking and hedging (Smith and Stulz 1985). This theory explains a possible mismatch of interest between shareholders, management and debt holders due to asymmetries in earning distribution, which can result in the firm taking too much risk or not engaging in positive net value projects. Consequently, agency theory implies that defined hedging policies can have important influence on firm value (Fite and Pfeilderer, 2005). Agency theory provides strong support for hedging as a response to mismatch between managerial incentives and shareholders’ interests.

Conflicting interests in agency relationships between managers and shareholders motivate the use of derivatives. Most senior managers have a highly undiversified financial position because they derive substantial (monetary and non-monetary) income from their employment by the firm. According to Stulz (1990), risk aversion cause managers to deviate from acting purely in the best interest of shareholders by expending resources to hedge diversifiable risk. The time horizon managers and shareholders may also differ because management compensation is tied to short-term accounting measures. These conflicts of interests can be mitigated by corporate risk
management if compensation schemes appropriately link managers pay to the stock price of the firm.

This suggests that use of stock option plans in a corporation can be a determinant of corporate hedging. Executive stock options can be effectively reducing a manager’s risk aversion and thus lower the propensity for using derivatives to decrease idiosyncratic risk. The agency theory is thus build around a relationship where managers align the business interests with those of the shareholders thereby promoting financial performance.

2.2.2 Stakeholder Theory
Stakeholder theory was developed by Freeman (1984) as an instrument for business management but has since evolved into a grounded theory that is sufficient in explaining risk management. The focus of this theory is the determinant of corporate policy and its influence on the balance of stakeholder interests. The extension of implicit contract theory from employment to other contracts including sales and financing (Cornell and Shapiro, 1987) is an avenue to effective risk management.

Since corporate risk management practices lead to a reduction in the expected costs, and company value risks (Klimczak, 2005), stakeholder theory thus provides a better insight into rationale for better risk management. Investigations of financial distress hypothesis (Smith & Stulz, 1985) provide only indirect evidence. This theory plays a key role in risk management by offering a broad look into the importance of customer trust and financial distress cost to hotels.

The stakeholder theory emphasizes the need for risk management in hotels and its importance in improving the value of the company, however does not indicate the influence of risk management on the financial performance and the resulting relationship between the two variables apart from suggesting that risk management leads to growth in company value.

2.2.3 Portfolio Theory
The modern portfolio theory is among the works Harry Markowitz who pioneered the different investment portfolios as discussed in this article’s Portfolio selection. 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 investor 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 Hotels.

2.3.1 Quality

The aspect of quality is essential in hotel industry and refers to the extent in which the business is able to meet key stakeholder expectations means that represents value for them (Sanner & Wijkman, 2005). In the vast majority of works that examine this variable, quality is measured by the impact of ISO standards. The implementation of quality standards has an impact in the financial and risk management of a firm. ISO 9001 for example, enables a firm to align their objectives with internal processes that can help them realize their goals. With these processes, managers are able to map out strategies that guarantee quality services and effective management of risks in the firm.

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 & Terziovski, 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
There is a direct relationship between corporate governance and performance of the firm in terms of profitability, quality of service and risk management as seen in studies on organizational performance. In studies done Gompers, Ishi & Metrick (2003), the results were developed into an index than can reliably measure corporate governance following a study on 1500 US firms in the early 90s. In another extension of a research conducted by Gompers et al. Dro betz et al. (2004), it became apparent that positive corporate governance was attributed to the high standard of services in German firms. In the Japanese business environment, Bauer et al. (2008) used information from a database centre provided by GMI to demonstrate that good governance was the reason other organizations were efficient than others by margins in the region of 15%.

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 Centre stage for improved enterprise overall performance. 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). Leadership is critical to way an organization makes critical decisions on financial performance and risk management. From the study of leadership among 1993 manufacturing companies by Weiner & Mahoney (1981), it came out that leadership is the number one influence on system of management which translates to 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 critical in a technology driven business environment. The organization should focus on integrating objective innovation to manage risks by forecasting future financial and performance trends. By employing the same definitions of innovation, researchers should identify all innovation(s), from organization, department (ministry) or population/ government. They should then evaluate the on the basis of Whether they are fully implemented, the internal impacts, including whether they attracted public, political, and client group praise/criticism and the effect on the target issue.

Research should seek out innovations case studies where there is a clear link between an organization being innovative as opposed to surviving, and match them with the 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.

2.3.5 Room Occupancy
Room occupancy is the measure of the efficiency of supply and absorption rate of the available capacity on a timely basis. The common measures used are the ratio of room nights available to the ratio of room nights sold. The accounting system in hospitality industry traditionally define total occupancy as the ratio of utilized space to space available. (American Hotel & Motel Association, 1996). According to a research conducted by Slattery (2002), there is a trend that is synonymous with most hotels in which measurements of occupancy is flawed resulting in a combination of understated rooms available and overstated rooms in use. This results in falsified occupancy percentage and a false reflection of room supply efficiency.

2.3.6 Average Daily Rate
This is the average value for daily room demand over a given period and is equivalent to the ratio of room’s turnover to room nights sold, all these for a given period. In circumstances where
room’s turnover and nights sold are not secure the average value for daily rate is not accurate and remains unreliable in determining the room demand value (Slattery, 2002).

2.3.7 Revenue per available room
RevPAR is the measure of the balance between hotel capacity supply and demand and can be calculated in two (2) ways:

- Average daily room rate multiplied by room occupancy percentage, or
- Rooms’ turnover divided by room nights available.

Conceptually, it is an effective indicator of hotel room supply and demand performance. However, there are practical limitations and flaws in the measurement of the above indicator, and players have tended to adopt different interpretations in the compilation of data. For instance, many players ignore the following factors:

- Space being serviced
- Spaced reserved for firm’s employees,
- For seasonal resorts, unutilized spaced during low seasons,

All of the above treatments tend to have the effect of depressing the total number of room nights available, thus producing an inflated RevPAR and unrealistic. In other instances, complimentary rooms given to high rollers of casino hotels and room nights redeemed by members of hotel loyalty programs tend to inflate the data on room nights sold, thus inflating the RevPAR (Slattery, 2002).

2.3.8 Hotel Valuation and Pricing
The recent surge in hotel business, local and international is an indication of favorable business environment and the growing chain of international hotels settling in the Kenyan market is sufficient demonstration.

The increase in tourism and business travel in recent decades pre-empted a growth in national and international hotel chains, and the emergence of global chains. The growth has not only occurred in the number of chains, but also in their size, brought about on the one hand by a range of mergers. Acquisitions and takeovers on the other hand through a combination of franchising, management contracts and joint venture agreements has resulted in a significant increase in the choice and diversity of segmented hotel products available to the consumer (Nilsson et. al 2001).
Literature review on the topic of real estate valuation commenced with a study on valuation framework for hotels and business entities. The purpose of a valuation is to assess the market value in order to determine a selling price at which a property is expected to change hands on the open market (RICS, 1994; Andrew & Schmidgall, 1993). The market value for hotels includes four major components (Lesser, 1992), -

• The land
• Buildings
• Contents
• The business value

Valuation is done using three main approaches; Nilsson 2001; Alpert, 1971): -

a) Cost approach

The cost approach essentially emphasizes asset replacement (i.e. rebuilding costs, less an allowance for depreciation, and is not concerned with what the market is prepared to pay of the value of future net incomes that a hotel may be able to generate. This method does not account for a hotel’s value, either in terms of property or as a business, as it only concentrates on the reproduction costs.

b) Sales comparison approach

The sales comparison approach is concerned with what the market has (recently) been prepared to pay for a similar hotel property, without consideration as to the cost of replacement or future income-generation potential. This approach relies heavily on current market conditions and, therefore, normally requires adjustments in order to compensate for differences between comparable hotels.

c) Income capitalization approach

The income capitalization approach attempts to relate the wealth-generating capacity of the hotel to its value. This approach includes procedures comparable to those employed by the hotel investors who constitute the market place, and is generally considered to be the most appropriate for the determination of hotel valuations.

Nilsson ET. Al (2001) concluded that while practicing hotel valuers and many international hotel investors and financiers appear to place greater emphasis on the income-based income capitalization methods derived through DCF Analysis or SVF process, they normally take one or both of the other methods into account, especially in a more volatile or changing market. This
enables the open market value of a hotel to be derived in a way that places the primary weight on the capitalization of future net income, while recognizing the effects and ensuring that the costs of developing a hotel of equal utility are not out of balance.

Vandell (2007) used a historical perspective to trace the evolution of the academic discipline of real estate and in turn used the resulting lessons to provide insights to the likely future evolution of the field. The author observed that real estate valuation field went through a phase of reintegration with the underlying disciplines during 1970s to 1990s.

2.3.9 Competition

Economist in the past have had varied approach to determining the extent of competition in the tourism industry. The initial approach made attempts to derive measurement of competition and performance of firms by studying the market structure of the industry. This approach is mainly associated with Bain (1956) quoted in Hoch Hauser (2004). Competition is however, associated with the market share and the concentration of firms in the same industry. The emergence of anti-competition behaviors against small players is attributed to the presence of fewer firms with concentrated market shares. This market situation is consistent with free market where government interference is limited. Established firms in the industry have more advantage compared to smaller players tend to dictate the prices voluntarily to manage competition.

This structure conduct-performance approach gives an insight to regulators on the major driving forces in the market.

Blundell-Wignall, Atkinson and Lee (2008) proposed an alternative approach to competitive behavior and examined the revenue and cost structures of companies, using the framework of perfect competition as the reference position. Under perfect competition, most firms in the industry fail to absorb extra cost arising from uncertainties in the market. To make up for this cost rise, firms transfer a substantial part of the extra cost to output cost making the input least affected in pricing and costing. The contrast of this set up is the monopolistic market environment where a rise in input prices results in a reduction of output prices, a small rise in costs, and shrinkage of total revenue. This forces firms under marginal profit returns to exit.
While not all firms performing poorly will leave, many of them will be forced by unfair competition.

The approach by many competitors is to make each other believe their strategies are not offensive to others. This aspect is demonstrated by the ease to make entry into the industry in contrast to the trouble in pricing strategies and establishing a market share (Brigham & Philip, 2004). Under monopolistic competition output is determined when the average cost curve is tangential to the average revenue curve. Such situations are not profitable to the companies since long-run average costs contribute to the output price.

Most firms are operating under minimum cost, which brings the theory of monopolistic competition to suggest that the industry is flooded. This shows that most players are not operating at optimum capacity a situation which forces many firms to exit as opposed to when the environment was operating normally. The impact of too many players in financial terms is low return on assets. Finance theory suggests that a higher return from a given amount of resources available may only be accessed by investing in riskier assets. This implies that firms in the hotel industry have to take greater risk. When this situation is applied to an active operation, it would mean that firms can only recoup their investment by reorganizing their portfolios to tend towards more investment in riskier markets. The asset risk materializes in the form of market and credit risks (Connor, 2000).

2.4 Empirical Evidence

There are different past research studies conducted on risk management. However, in this section the focus will be on the empirical studies in risk management. Yusuwan et al., (2008) focused on determining the level of awareness of risk management. The area of focus in the economy was construction project companies in Klang Valley, Malaysia. For this study, questionnaire survey and interviews were used to study the views of 27 public and private companies operating in Klang Valley. The outcome of the study was 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. The conclusion cutting across the studies summarizes risk management as a positive contributor of financial productivity in firms.

The development and roll out of new products target competitive environment have a financial aspect that is an appendage of some risk. 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 contributes to project success.

Muli (2003) conducted an investigative study on risk management for the Kenyan property market using a case study of the insurance sector. The researcher approached the study using Questionnaires on 18 insurance companies out of a total of 36 and two interviews. The interviews were conducted with the Commissioner of Insurance and the Honorary Secretary to the Institute of Loss Adjusters and Risk Surveyors. Since the data from the study were substantially consistent with the general market

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 proxies 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
This chapter describes the method that will be used and how the study will be conducted. It captures research design, population of study, sampling techniques, methods of data collection and analysis.

3.2 Research Design
According to Cooper and Schindler (2003) a descriptive study is concerned with finding out the what, where and how of a phenomenon which is to be adopted. Descriptive survey designs are used to allow researchers to gather information, summarize, present and interpret for the purpose of clarification. In the study, the researcher is interested on the state of affairs already existing in the field and no variable would be manipulated, hence increasing larger population study. The focus of the study was quantitative, with qualitative approach 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
The target population was 3, 4 and 5 star hotels in Mombasa County. Middle and top managers were the respondents in the study since they were involving in decision making and daily organization operations. According to the Kenya Association of hotelkeepers’ and caterers (KAHC) there were approximately 47 hotels as shown in Table 3.1.

Table 3.1 Target Population

<table>
<thead>
<tr>
<th>Category (Star)</th>
<th>Number of hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 star</td>
<td>11</td>
</tr>
<tr>
<td>4 star</td>
<td>18</td>
</tr>
<tr>
<td>3 star</td>
<td>18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
</tr>
</tbody>
</table>

Source: KAHC, 2016
3.4 Sampling

Stratified random sampling of 30% was used to arrive at a sample of 13 hotels as shown in Table 3.2.

Table 3.2 Sampling frame

<table>
<thead>
<tr>
<th>Category (Star)</th>
<th>Number of hotels</th>
<th>Number of sampled hotels</th>
</tr>
</thead>
<tbody>
<tr>
<td>5 star</td>
<td>11</td>
<td>3</td>
</tr>
<tr>
<td>4 star</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td>3 star</td>
<td>18</td>
<td>5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>47</strong></td>
<td><strong>13</strong></td>
</tr>
</tbody>
</table>

From each hotel 2 respondents were selected to give the study a sample of 26 participants.

3.5 Data Collection

Primary data was used in the study. Primary data was collected through questionnaires. The questionnaires were dropped to relevant line managers of hotels. Questionnaires should collect both quantitative and qualitative data. Questionnaires were used to collect the primary data on the risk assessment management practices. The questionnaires had both structured closed and open-ended questions.

3.6 Data Analysis

The research employed descriptive statistics to analyze the data. It is argued by Mugenda and Mugenda (210) that descriptive statistics enable the researcher to get meaningful description of scores and measurements for the study through the uses of few indices and statistics. The data obtained from the questionnaires was edited and then coded for the purposes of data analysis. It was further summarized using descriptive statistics which usually included frequencies and percentages. Correlation analysis were used to establish the strength and direction of relationships.
CHAPTER FOUR: DATA ANALYSIS AND INTERPRETATION

4.1 Introduction
This chapter presents the findings of the study. It includes the response rate, characteristics of respondents and findings on the study variables. The findings are presented in form of tables and charts. The purpose of the study was to evaluate the effect of the risk management practices on the performance of hotels in Mombasa.

4.2 Response rate
Questionnaires were distributed to 26 middle level and top level managers of Hotel establishments in Mombasa. A totally of 23 questionnaires were returned duly filled and fit for analysis. This represents a response rate of 88% which is higher than the 70% recommended by Mugenda and Mugenda (2012) and above 80% as recommended by Fincham (2008).

4.3 Socio-demographic characteristics of respondents
The socio-demographic characteristics of respondents in the study were assessed. This included gender, age, level of education and working experience. The findings are presented in Table 4.1

<table>
<thead>
<tr>
<th>Table 4.1 Socio-demographic characteristics of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Characteristic</td>
</tr>
<tr>
<td>Gender</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Age (years)</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Level of education</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td>Working experience</td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
<tr>
<td></td>
</tr>
</tbody>
</table>
The findings show that majority (68%) of respondents in the study were female. This shows that there was gender disparity among the top and middle level managers in hotels in Mombasa with men being underrepresented. Majority (62%) of respondents were aged between 26 and 35 years while those aged under 25 years were 30%. This shows that majority of top and middle level managers in hotels in Mombasa were relatively young with most of them being under 35 years. Majority (72%) of respondents in the study had acquired a bachelor’s degree. The findings indicated that the respondents in the study were highly educated since all of them had acquired post-secondary education. The findings also show that majority (64%) of respondents had a working experience of between 3 and 5 years while 22% had a working experience of over 3 years. The findings therefore show that majority of respondents in the study had acquired adequate working experience to enable them respond to questions on risk management.

4.4 Hotels profile
The characteristics of hotels in the study were also assessed. This involved age of hotel, rating, number of branches, number of rooms, occupancy rate and profitability.

Table 4.2 Characteristics of participating hotels

<table>
<thead>
<tr>
<th>Characteristic</th>
<th>Category</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Age of hotel (years)</td>
<td>&gt;10</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>11-20</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>21-30</td>
<td>3</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>31-40</td>
<td>3</td>
<td>23</td>
</tr>
<tr>
<td></td>
<td>&gt;40</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Hotel rating (star)</td>
<td>3</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>4</td>
<td>5</td>
<td>38</td>
</tr>
<tr>
<td></td>
<td>5</td>
<td>3</td>
<td>24</td>
</tr>
<tr>
<td></td>
<td>Total</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Hotel branches</td>
<td>0</td>
<td>6</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1</td>
<td>4</td>
<td>76</td>
</tr>
<tr>
<td></td>
<td>2</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>&gt;3</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>Over 3</td>
<td>13</td>
<td>100</td>
</tr>
<tr>
<td>Number of rooms</td>
<td>&gt;100</td>
<td>1</td>
<td>8</td>
</tr>
<tr>
<td></td>
<td>101-250</td>
<td>2</td>
<td>15</td>
</tr>
<tr>
<td></td>
<td>251-500</td>
<td>6</td>
<td>46</td>
</tr>
</tbody>
</table>
Findings in Table 4.1 show that 38% of hotels in the study had been in operation for between 11 and 20 years. Hotels aged between 21 and 30 years were 23% while an equal number (23%) were aged between 31 and 40 years. Thirty-eight percent of the hotels were 3 star while an equal number (38%) were four star. The findings show that 46% of the hotels had between 251 and 500 rooms while 15% had between 101 and 250 rooms.

At the time of the study, majority (54%) of hotels had an average occupancy rate of less than 25%. Majority (54%) of hotels had also made between 11 and 50m million Kenya shillings in profits in the previous financial year.

4.5 Risk management practices
The study sought to find out the common risk management practices among hotels in the study.

4.5.1 Amount of risks faced by hotels
The respondents in the study were asked to rate the amount of risks faced by their hotels. Findings in Table 4.3 shows that

<table>
<thead>
<tr>
<th>Amount of risks</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Very high</td>
<td>10</td>
<td>43</td>
</tr>
<tr>
<td>High</td>
<td>10</td>
<td>43</td>
</tr>
<tr>
<td>Fair</td>
<td>3</td>
<td>14</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>

Table 4.3 Amount of risks faced by hotels
4.5.2 Type of risks faced by hotels

Participants were asked to describe some of the risks faced by hotels. 44% of respondents cited financial risks, security risks were mentioned by 24% while 22% indicated market risks.

![Type of risks faced by hotels](image)

**Figure 4.1 Type of risks faced by hotels**

4.5.3 Most important risks faced by hotels

Respondents in the study were asked to indicate the most important risk faced by their hotel. Findings in Table 4.4 show that financial risk was indicated by 48% while 30% indicated market risks.

**Table 4.4 Most important risks faced by hotels**

<table>
<thead>
<tr>
<th>Risk</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial</td>
<td>11</td>
<td>48</td>
</tr>
<tr>
<td>Security</td>
<td>5</td>
<td>22</td>
</tr>
<tr>
<td>Market</td>
<td>7</td>
<td>30</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>
4.5.4 Effect of risks on performance of hotels

Majority (65%) of respondents indicated that performance of their hotel was affected to a great extent by the risks they faced.

![Figure 4.2 Effect of risks on performance of hotels]

4.5.5 Risk management policy

Respondents in the study were asked to indicate whether their hotel had a risk management policy. Majority (56%) of respondents indicated that their hotel did not have a risk management policy.

![Figure 4.3 Risk management policy]
4.5.6 Review of risk management policy

The respondents were asked to indicate the frequency with which the risk management policy was reviewed. Majority (66%) of respondents indicated that the risk management policy was reviewed after several years while for 30% it had never been reviewed.

![Graph showing frequency of review]

**Figure 4.4 Review of risk management policy**

4.5.7 Involvement of employees in risk management

Majority (58%) of the respondents disagreed that junior employees were involved in formulation/implementing of risk management policy. Majority agreed that employees are trained on implementing of risk management policy

<table>
<thead>
<tr>
<th>Table 4.5 Involvement of employees in risk management</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
</tr>
<tr>
<td><strong>Junior employees are involved in formulation/implementing of risk management policy</strong></td>
</tr>
<tr>
<td>Employees are trained on implementing risk management policy</td>
</tr>
</tbody>
</table>
4.5.8 Risk management department

Majority (60%) of the respondents in the study indicated that their hotel did not have a risk management department.

![Pie chart showing 68% No, 32% Yes](image)

**Figure 4.5 Risk management department**

4.5.9 Risk management techniques used

Majority (65%) of respondents indicated that their hotel used risk avoidance as a risk management technique.

**Table 4.6 Risk management techniques used**

<table>
<thead>
<tr>
<th>Risk management technique</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk avoidance</td>
<td>13</td>
<td>65</td>
</tr>
<tr>
<td>Risk allocation</td>
<td>3</td>
<td>15</td>
</tr>
<tr>
<td>Risk retention</td>
<td>4</td>
<td>20</td>
</tr>
<tr>
<td>Total</td>
<td>20</td>
<td>100</td>
</tr>
</tbody>
</table>
4.5.10 Factors considered in selecting risk control method

Respondents in the study were asked to indicate the factors considered when selecting the risk control methods to be used in their hotel. 43% indicted cost of the risk control method while 23% indicated statutory requirements as shown in Table 4.7.

Table 4.7 Factors considered in selecting risk control method

<table>
<thead>
<tr>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statutory requirements</td>
<td>5</td>
</tr>
<tr>
<td>Cost of the risk control method</td>
<td>10</td>
</tr>
<tr>
<td>Estimated loss from the risk</td>
<td>4</td>
</tr>
<tr>
<td>Frequency of the risk occurring</td>
<td>4</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
</tr>
</tbody>
</table>

4.5.11 Risk management in hotel activities

The respondents in the study were asked whether they considered risk management in all the hotel activities. Findings in Table 4.8 show that majority (82%) of the respondents agreed that their hotels considered risk management in all the hotel activities.

Table 4.8 Risk management in hotel activities

<table>
<thead>
<tr>
<th>Response</th>
<th>Frequency</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Strongly agree</td>
<td>15</td>
<td>65</td>
</tr>
<tr>
<td>Agree</td>
<td>4</td>
<td>17</td>
</tr>
<tr>
<td>Uncertain</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Disagree</td>
<td>2</td>
<td>9</td>
</tr>
<tr>
<td>Total</td>
<td>23</td>
<td>100</td>
</tr>
</tbody>
</table>
4.5.12 Challenges faced by hotels in risk management

Respondents in the study were asked to indicate the challenges they faced in risk management. Majority (56%) of the respondents indicated financial constraints while 34% indicated the threat of emerging risks.

![Figure 4.6 Challenges faced by hotels in risk management](image)

4.6 Effect of risk management practices on performance of hotels

To evaluate the effect of risk management practices on performance of hotels, the study carried out correlation analyses between various practices and performance of hotels as indicated by occupancy rate. The findings are presented in Table 4.9

<table>
<thead>
<tr>
<th>Practice</th>
<th>Pearson correlation coefficient (r)</th>
<th>Significance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risk management policy</td>
<td>0.63</td>
<td>0.043</td>
</tr>
<tr>
<td>Frequency of review of risk management policy</td>
<td>0.55</td>
<td>0.44</td>
</tr>
<tr>
<td>Involvement of employees</td>
<td>0.58</td>
<td>0.06</td>
</tr>
<tr>
<td>Training of employees</td>
<td>0.70</td>
<td>0.000</td>
</tr>
<tr>
<td>Risk management department</td>
<td>0.68</td>
<td>0.019</td>
</tr>
<tr>
<td>Risk management techniques</td>
<td>0.72</td>
<td>0.003</td>
</tr>
</tbody>
</table>
Findings in Table 4.9 indicate that having a risk management policy had a strong positive correlation \( (r=0.63, p<0.05) \) with performance of the hotel. The frequency of review of the risk management policy also had a strong positive correlation \( (r=0.72, p<0.05) \) with performance of the hotel. Involvement of employees in formulation/ implementing of risk management policy had moderate positive correlation \( (r=0.58, p>0.005) \) with performance of the hotel. Training of employees of risk management had a strong positive correlation \( (r=0.70, p<0.05) \) with performance of the hotel. Having a risk management department had a moderate positive correlation \( (r=0.53, p<0.005) \) with performance of the hotel. Risk management techniques had a strong positive correlation \( (r=0.72, p<0.05) \) with performance of the hotel. The findings therefore show that risk management practices had a strong positive correlation with performance of hotels. In other words, hotels which had many risks management practices such as risk policy, risk department and training of employees observed greater performance. These findings are in agreement with Nocco and Stulz (2006) who indicated that proper risk management is important in the daily operations of any tourism to avoid financial losses and bankruptcy. The findings are also in agreement with 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.
CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction
This chapter presents a summary of findings on the effect of the risk management practices on the performance of hotels in Mombasa. A conclusion discussing the general findings of the research is highlighted followed by recommendation based on the findings of the study. The limitations of the study and suggestions on areas of further research are discussed at the end of the chapter.

5.2 Summary
The purpose of the study was to evaluate the effect of the risk management practices on the performance of hotels in Mombasa. Descriptive survey design was adopted. The target population was 3, 4 and 5 star hotels in Mombasa County. Middle and top managers were the respondents in the study. Stratified random sampling was used to arrive at a sample of 13 hotels where from each hotel 2 respondents were selected to give the study a sample of 26 participants. Data was collected using self-administered questionnaires. Descriptive statistics were used to organize the findings while correlation analysis were used to establish the magnitude and direction of the relationship between risk management practices and performance of hotels.

The findings showed that majority (86%) of respondents indicated that the amount of risks were high. Financial risk was indicated by 48% as the most important risk while 30% indicated market risks. Majority (56%) of respondents indicated that their hotel did not have a risk management policy. Majority (66%) of respondents indicated that the risk management policy was reviewed after several years while for 30% it had never been reviewed. Majority (58%) of the respondents disagreed that junior employees were involved in formulation/implementing of risk management policy. Majority agreed that employees are trained on implementing of risk management policy. Majority (60%) of the respondents in the study indicated that their hotel did not have a risk management department. Majority (65%) of respondents indicated that their hotel used risk avoidance as a risk management technique. 43% indicted cost of the risk control method while 23% indicated statutory requirements as the factors considered when selecting the risk control methods to be used in their hotel.
Correlation analysis revealed that having a risk management policy had a positive correlation ($r=0.63$, $p<0.05$) with performance of the hotel. The frequency of review of the risk management policy also had a strong positive correlation ($r=0.72$, $p<0.05$) with performance of the hotel. Involvement of employees in formulation/implementing of risk management policy had moderate positive correlation ($r=0.58$, $p>0.005$) with performance of the hotel. Training of employees of risk management had a strong positive correlation ($r=0.70$, $p<0.05$) with performance of the hotel. Having a risk management department had a moderate positive correlation ($r=0.53$, $p<0.005$) with performance of the hotel. Risk management techniques had a strong positive correlation ($r=0.72$, $p<0.05$) with performance of the hotel.

5.3 Conclusion

The study concludes that risk management practices have a relationship with performance of hotels. Specifically, proper risk management practices enhance performance of hotels. In particular, having a risk management policy, frequently reviewing the policy, involvement of employees in its formulation and implementation, training of employees, having a risk management department and using recommended risk management techniques promotes performance of hotels. The study concludes that hotels in Mombasa have poor risk management practices. This is because very few of the have risk management policies and departments. In addition, employees are involved in the implementation of the same. Some hotels also have not trained employees on risk management. Majority of hotels also do not comply with statutory requirements of risk management in hotels.

5.4 Recommendations

The study recommends that all hotels should have a risk management policy. Hotels can hire risk management experts to guide them in formulation and execution of these policies. Employees should be involved from the start in the planning and implementation of the risk management policy. This will motivate them to see risk management as their responsibility for their own good and that of the hotel. Hotels should select risk management techniques that are in line with the risks they are facing. The government through its concerned agencies should enforce statutory requirements of risks management to enhance compliance with risk management.
5.5 Limitations of the study
The main limitation of this study was in its descriptive survey design. This design can only establish association but not causality between risk management practices and performance of hotels. Geographically, only hotels in Mombasa were considered. The study used a small sample size and junior employees were not involved in the study. The findings of the study were self-reported and therefore some information may have been exaggerated or misreported.

5.6 Suggestions for further study
A similar study should be carried out with a larger sample size and involve employees. Observation technique should be employed in future studies to collect more reliable information. Similar studies should be carried out in other parts of the country for comparative purposes.
REFERENCES


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APPENDICES

Appendix I: Questionnaire

The purpose of this study is to collect data that will assist in determining the risk management practices and how they affect the financial performance of the hotel industry. Kindly complete the questionnaire, information provided will be confidential and used for the purpose of the study only. (Use tick ‘✓’ to indicate your answer.)

SECTION I: PART A: RESPONDENTS BIO DATA

1. What is your gender?
   - Male [ ]
   - Female [ ]

2. What is your age?
   - Less than 25 years [ ]
   - 25 – 35 years [ ]
   - 36 -46 years [ ]
   - Over 47 years [ ]

3. What is your level of education?
   - O level [ ]
   - College [ ]
   - University [ ]
   - Post University [ ]

4. How long have you worked in the hotel?
   - Less than 3 years [ ]
   - 3 – 5 years [ ]
   - 6 – 10 years [ ]
   - Over 10 years [ ]

PART B: Hotel profile

5. For how long has this hotel been in operation?
   
   …………………………… years

6. What is the star rating of your hotel?
   
   ……………………………

7. How many branches does this hotel have?
   
   ……………………………
8. How many rooms does the hotel have?

.........................

9. What is the average rate of occupancy?

.........................

10. What was the profitability in the last financial year?

.........................

PART B: RISK MANAGEMENT PRACTICES IN HOTELS INDUSTRY

11. How would you rate the amount of risks faced by the hotel?

Very high [    ] High [    ] Fair [    ] Low [    ] Very low [    ]

12. What are some risks faced by your hotel in its operations?

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13. Which risk is considered most important by the hotel?

........................................................................................................

14. To what extent have risks affected the performance of your organization?

Very great extent [    ] Great extent [    ] No extent [    ] Small extent [    ] Very small extent [    ]

15. Does the hotel have a risk management policy?

Yes [    ] No [    ]

16. How often do you review your risk policy?

Quarterly [    ] Semi-annually [    ] Annually [    ] Others specify [    ] .........................

17. Junior employees are involved in formulation/implementing of risk management policy?

Strongly agree [    ] Agree [    ] Undecided [    ] Disagree [    ] Strongly disagree [    ]

18. Employees are trained on implementing of risk management policy

Strongly agree [    ] Agree [    ] Undecided [    ] Disagree [    ] Strongly disagree [    ]
19. Does the hotel have a risk management department?

Yes [ ] No [ ]

20. What kind of risk management techniques does the hotel use?

Risk avoidance [ ] Risk abatement [ ] Risk allocation [ ] Risk retention [ ]

21. What factors do you consider when selecting the risk control methods to be used?

Statutory requirements [ ] Cost of the risk control method [ ] Estimated loss from the risk [ ] Frequency of the risk occurring [ ]

22. The hotel considers risk Management in all its activities

Strongly agree [ ] Agree [ ] Undecided [ ] Disagree [ ] strongly disagree [ ]

23. What are some of the challenges faced by the hotel in implementing risk management?

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