

**EFFECTS OF GENERAL ELECTIONS ON ROOM REVENUES IN THE
HOTELS IN NAIROBI KENYA**

BY

WILLIAM KIMARI KARIUKI

D63/9601/2018

**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
SCIENCE FINANCE AND INVESTMENTS, SCHOOL OF BUSINESS OF THE
UNIVERSITY OF NAIROBI**

NOVEMBER 2018

DECLARATION

Student's Declaration

This research project is my original work and has not been submitted for a degree at any other university for examination.

Signature.....

Date.....

WILLIAM KIMARI KARIUKI

D63/9601/2018

Supervisor's Declaration

This research project has been submitted for examination with my approval as the university supervisor.

Signature..... Date.....

DR. CYRUS IRAYA

Senior Lecturer,

Department of Finance and Accounting,

School of Business, University of Nairobi

ACKNOWLEDGEMENT

Earnest gratefulness goes to my supervisor, Dr. Cyrus Iraya, for his assistance throughout the project. I really valued his guidance, comments advice and commitment to see me complete the project. May blessings from the Almighty be upon him in all his endeavors. I can't forget to appreciate the dedication from the teaching and non-teaching staff from The University of Nairobi who taught us and also played important roles to see us succeed. I am grateful to family members and friends who have been there for companionship throughout my study. Lots of appreciation goes to Uncle James and my friends colleagues Susan and Steve. May God bless them abundantly. I thank the Almighty Father for his provision of finances, sound health, strength and a strong will to complete the project.

DEDICATION

To my mother (deceased), for the hard work she did to see me succeed.

TABLE OF CONTENTS

ACKNOWLEDGEMENT	iii
DEDICATION	iv
TABLE OF CONTENTS	v
LIST OF TABLES	vii
LIST OF FIGURES	viii
LIST OF ABBREVIATIONS AND ACRONYMS	ix
ABSTRACT	xi
CHAPTER ONE	1
INTRODUCTION	1
1.1 Background of the Study	1
1.1.1 General Elections	2
1.1.2 Room Revenues	3
1.1.3 General Elections and Room Revenues	5
1.1.4 Hotels in Nairobi.....	6
1.2 Research Problem	6
1.3 Research Objective	8
1.4 Value of the Study	8
CHAPTER TWO	9
LITERATURE REVIEW	9
2.1 Introduction.....	9
2.2 Theoretical Literature Review	9
2.2.1 Long Wave Economic Theory	9
2.2.2 Destination Life Cycle Theory.....	10
2.2.3 Political Business Cycle Theory	10
2.3 Determinants of Hotel Revenues	11
2.4 Empirical Literature Review.....	13
2.5 Conceptual Framework.....	15
2.6 Summary of Literature Review.....	15
RESEARCH METHODOLOGY	17
3.1 Research Methodology	17

3.2 Research Design	17
3.3 Population	17
3.4 Data Collection	18
3.5 Data Analysis	18
CHAPTER FOUR.....	21
DATA ANALYSIS, RESULTS AND DISCUSSION.....	21
4.1 Introduction.....	21
4.2 Descriptive statistics	21
4.3 Inferential Statistics	22
4.3.1 Test of Significance of AAR.....	22
4.3.2 Test of Significance of CAAR.....	23
4.4 Discussion of the Findings.....	24
CHAPTER FIVE	26
SUMMARY, CONCLUSION AND RECOMMEDATIONS	26
5.1 Introduction.....	26
5.2 Summary of findings	26
5.3 Conclusion and Recommendations.....	27
5.4 Areas of Further Study.....	28
5.5 Limitations of the Study	28
REFERENCES.....	30
APPENDICES	34
Appendix I: List of Sampled Hotels	34
Appendix II: Data Collection Form	35
Appendix III: AAR and CAAR of Hotels in Nairobi, 2017	39

LIST OF TABLES

Table 4.1: Paired Samples Statistics of AAR	22
Table 4.2: Paired Samples Test of AAR.....	23
Table 4.3: Paired Samples Statistics of CAAR.....	23
Table 4.4: Paired Samples Test of CAAR	24

LIST OF FIGURES

Figure 2.1: Conceptual Framework	15
Figure 3.2: Event Study Graph	18
Figure 4.3: Trend of AAR and CAAR.....	21

LIST OF ABBREVIATIONS AND ACRONYMNS

AAR	Average Abnormal Returns
ADR	Average Daily Rate
AR	Abnormal Returns
CAAR	Cumulative Average Abnormal Returns
GDP	Gross Domestic Product
KAHC	Kenya Association of Hotels and Caterers
KATA	Kenya Association of Travel Agents
KATO	Kenya Association of Tour Operators
KHRC	Kenya Human Rights Commission
KIPPRA	Kenya Institute for Public Policy Research and Analysis
KNCCI	Kenya National Chamber Of Commerce and Industry
KTB	Kenya Tourism Board
MoT	Ministry of Tourism
NCRC	National Crime Research Centre
KNBS	Kenya National Bureau of Statistics
NGOs	Non-Governmental Organizations
NSE	Nairobi Securities Exchange
PESTEL	Political, Environmental, Socio-Cultural, Economic and Legal

PwC	PricewaterhouseCoopers
RevPAR	Revenue per Available Room
TRA	Tourism and Regulatory Authority
UN	United Nations
WTTC	World Travel & Tourism Council

ABSTRACT

Hotel room revenues are the best indicators of how the hospitality industry is doing in financial aspects. General electioneering periods in Kenya are usually a turning point in the industry. This study intended to assess the effects of Kenyan general elections in Nairobi County. Daily secondary data was collected from 8 hotels one month prior and one month after a two month electioneering period. Daily revenue of the rooms was taken. SPSS v20 was used to analyze the data. The study adopted an event study where from one month before and a month after the electioneering period was done. The electioneering period was taken to be one month before and one month after the election date. The AAR and the CAAR were derived from the resulting AR that was obtained from daily actual and expected returns. AAR and CAAR were plotted on a graph. Paired t-tests for both AAR and CAAR were done. From the analysis done, the CAAR graph went up immediately after the election period before falling 30 days after the election date. This indicates there were negative average abnormal returns after the election period of 30 days after election date. The general elections affects the room revenues of hotels as the room returns changed with the election date. The t-test showed that room revenues during the period before the election period was different from the period after the general election period. In this case the hotels performed poorly because room revenues fell drastically after the general elections. The study concluded that general elections do affect room revenues of hotels in Nairobi negatively. The study recommends that hotels adopt a communication strategy that informs all their clients and assures them of their security during elections. It also recommends that the government and its agencies come up with policies that ensure that there is peace thus ensuring a stable environment for hospitality business. It also recommends that hotel operators plan their finances as they anticipate low business volumes during electioneering periods.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

The hospitality and travel sector is very important to Kenya as a country. It supported about 1.1million jobs in the year 2017, which was about 9% of total employment, with a projected rise of 3.1% by 2018 (PwC, 2018). The hospitality industry in Kenya is usually combined with the travel sector since both of them operate hand in hand and effects to one affects the other. Nairobi, the capital city of Kenya, is the main hub of the industry in the country and the whole region of East Africa. Kenya holds a general election every 5 years, with the last one being held in 2017. Elections years in Kenya usually elicit political tensions because of the highly charged contestations (UN, 2017).They resultantly affect the performance of the economy, with the hotel room revenues in Nairobi affected too. This means that it is hard to ignore the effects of an electioneering period in the hotels sector in Nairobi.

Drazen (2001) wrote about changes business cycles during elections. He noted that GDP per capita changes with the political patterns in most countries. Kenya's GDP growth declined to 4.9% in 2017 from 5.8% in 2016 mostly attributed to the general election that year. According to the 16th annual KAHC (Kenya Association of Hotels and Caterers), the hospitality and travel sectors produce 14% of the national GDP, 12% of total employment. Globally, one in every 10 jobs is linked to travel and tourism. (WTTC, 2017)

Traditional science opines that most aspects in business are usually predictable, and statistical models can be used to predict what will or might happen in the future.

However, Lorenz (1972) illustrated how abrupt changes in some factors could alter the expected results in what he called the Chaos Theory.

Kenya's general elections usually have a big impact on the room revenues, though the impact ranges from one hotel to the other, and from election to the other, with the changing numbers of tourists. The number of tourists received in Kenya at different areas dropped by 20-60% 2017 as compared to 2016 during the period ranging from July to September, according to the KIPPRA (2017).Hotels in Nairobi mainly depend on international tourists for room revenues, although local and regional tourists cannot be ignored too.

1.1.1 General Elections

Merriam-Webster (2018) defines a general election as an election that is held at regular intervals, with a sizeable number of key political positions being filled by elected candidates. General elections in Kenya are held at intervals of five years. They are usually held on the second Tuesday of August of the election year, with the last one held on 8th august 2018.However, the presidential results were challenged in court and repeat of the same held on the 26th of October the same year, amid skirmishes(IFES 2017). The president and the county governors are only eligible to vie twice rest is a maximum of 2-five year term. Other than the seat of the governor, all the others do not have limits as to how long they can serve. The repeat election only affected the presidential position.

According to National Crime Research Centre (NCRC, 2018), the election period was marred by violence and a lot of damage of property and losses of life happened. The exact extent of the economic damage is yet to be known. The violence provoked some international tourists and travelers to avoid visiting the country with some of the

countries issuing travel advisories to their citizenry thereby affecting the tourism sector which is a key source of hotel guests. Kirugu (2012) noted that election cycles and not earnings are currently the key drivers of financial markets around the world.

By its very nature Kenyan the duration of electioneering spans are hard to determine (Daily Nation, 2017), but a sample of thirty days prior and thirty days after the election period can be taken. A month before and another after the period will be put into focus. This would represent the electioneering period and an analysis of the effects on the hotel room revenues done. The thirty days prior to the day can be used to measure the effect of the highly charged campaigns, with the thirty days after measuring the effects of the reactions of both the winners and the losers of the process. This makes the period of attention two months. According to rates from the KNBS, the year 2007-2008 period that was marred by the post-election violence after the December 27,2007 elections had the largest ever recorded sharp slump in tourist arrivals to the country, with the number of tourists reducing to 1,203,200 in2008 as compared to 1,817,600:- the previous year. According to the Business Daily of 15th February 2018, the number of tourist arrivals in 2017 was 23.6 per cent lower than that of 2011. Tourist arrivals are a major boost to bed occupancy and room revenue in hotels.

1.1.2 Room Revenues

Room revenues refer to the number of rooms that are booked/ occupied and paid for or most likely to be paid for. A metric called RevPAR (revenue per available room) is used to measure room performance in the hotel industry (Kett & Younes, 2003). Another measure, called ADR for average daily rate refers to the mean revenues from the rooms in a hotel. It is important to note that hotels have rooms that differ in terms of quality and

hence the facilities in the rooms are likely to be charged differently. Investopedia puts it that RevPAR can also be calculated by dividing the total revenues divided by the number of rooms available during the duration of measure. RevPAR usually increases with an increase in a hotel's room occupancy rate.

The managers of a hotel can use RevPAR in planning, forecasting and making decisions on the properties of the hotel. Maintenance costs per room also increase with the occupancy, hence RevPAR may determine the cost of making rooms available for occupancy, and makes decision making easier for the same reason. For example, it may help them know which groups to target to improve their finances during the period. Furthermore, the information may be important to the industry players to gauge their performance against each other. Policymakers and tax authorities may use the information to make laws and regulations and decide on imposition of taxes in the industry respectively.

Most hotels have rooms that differ in terms of quality and amenities, hence total revenues may differ even if the total occupancy rate is the same with another comparable hotel. Lower standard rooms are usually charged lower rates while premium and standard rooms attract higher charges. To have the numbers make financial sense, we take the average revenues from the hotel and multiply it with the number of rooms occupied for a specific period of time, say per day, week, month, year or per a couple of years. For this case, the revenues to be looked at will be two months, each on either side of 2017 general election date, that is, on 8th of August. The changes in the revenues will be noted from the reports.

1.1.3 General Elections and Room Revenues

Bouchaud and Potters (2000) noted that haphazardness is a result of deficient knowledge of reality. Lack of substantial information stands in the way of a perfect prediction of the future.

The general elections have a direct effect on businesses that operate in an economy, more so in Kenya. They are the butterflies in the chaos theory in Chapter Two. Hotels and their operations cannot be left out, and in Nairobi, the rooms usually get shocks during the electioneering periods. Post-election violence scares away tourists and travelers. According to the Long Wave Theory, every industry has its turning points (Freeman, 1996). The hospitality industry may have its cycles determined by the month of the year, but election years are cycles of their own because they override the effects of the other aspects.

The economic surveys by KNBS always give the estimated figures of tourist arrivals and the industry and revenue in general terms. This project aims at narrowing down the effect of the 2017 general elections on room revenues on hotels based in Nairobi and its outskirts. There is no available report that connected the general elections to the room occupancy and room revenue in Nairobi that the author has given a concern in his research.

1.1.4Hotels in Nairobi

According to the Tourism and Regulatory Authority (Kenya), there are a total of 44registered hotels in Nairobi. Registration is done by it on behalf of the government for regulation purposes. The registered hotels range from 2-star to 5-star. Nairobi has eight 2-star hotels, fourteen 3-star hotels, thirteen 4-star hotels, and ten 5-star hotels. Room occupancy rate differs from one hotel to another. General elections in Kenya have their fair share on the businesses in the city with more parts and areas affected than others. Of late, there have been elections that have been followed by violence and political conflict which eventually affect the business climate. The dynamics more or less influence or tend to influence the process of customer decision making.

Although there was a 15.8 per cent growth in the bed nights taken up in 2017in comparison with 2016 (KNBS, 2018), the electioneering months did affect the room operates across hotels in Nairobi. However, the growth was attributed to other factors such as the aggressive marketing to showcase Kenya as a destination of choice. Although the tourist arrival rates improved it is important to note that the lengthy election period in 2017 had its effects on the performance of rooms, which the project wishes to establish. The other reasons for reduced room revenues and occupancy would be the travel advisories issued by foreign governments to their countries inhabitants visiting the county.

1.2Research Problem

As in many other countries, political and civil strife usually have their effects on the hospitality and travel industry.

For instance in 2017, like in previous elections since independence, most Kenyans voted along ethnic lines in support of ethnic “Big Men” at the helm of national political leadership (KNHRC, 2018). Kenya’s economy is regularly dependent on rain fed agriculture, hydro energy generation and tourism (Haradhen, Kumer&Mohajan, 2013). There was a drop in tourist arrivals, both domestic and foreign, affecting the room occupancy and room revenues in Nairobi which cannot be ignored.

Elections in Kenya bring a lot of tension and uncertainty regarding the future, with the elections held on 2007 and 2017 nearly bringing the country closer to the brink of a civil war, which could utterly bring down the hospitality industry. The economic growth of the country is usually reduced during this time. It is important to note that the election period was longer as compared to the election held in the year 2013, with the first presidential election that was held in 8th of August 2017 nullified by the Supreme Court, and another one, amid more political tension held in October 26 the same year. The political tension dragged itself into the beginning of 2018.

This research aimed to show the effects of the 2017 general elections in Kenya, particularly the hotels in Nairobi with a report indicating how the room occupancy and room revenues changed during the period. The hotels were able to plan on how they will approach election periods in the future, having a view of their past effects on room revenues at hand at hand. It also helped those in the government plan and see how they can avert the low economic performance in tourism industry. The researcher intended to find out the effects of the general elections in Kenya to room revenues on the hotels in Nairobi.

1.3 Research Objective

The objective of this study was to appraise the effects of general elections on room revenues in the hotels in Nairobi Kenya.

1.4 Value of the Study

Forecasting and actually planning for an electioneering year in Kenya cannot be ignored, that is in general terms. In particular, hotels in Nairobi cannot sit and wait for the period to come without prior planning and forecasting. The main reason is because the 5-star hotels are not expected to be affected as much. Electioneering periods have some advantage in that high caliber observer groups and intercontinental organizations prefer to reside in the hotels for the better part of the period. In addition, internal organizations that are entire part of the electoral body or other local NGOs also prefer to reside mostly in the 5-star hotels.

With slowed economic activities and reduced tourism activities, the bed occupancy and revenues tend to be affected by a big margin in the 3-star and 4-star hotels. The study intends to provoke the players in the hotel industry and provide relevant information and how they can plan for the similar future periods. It aims at helping do an analysis on the bed occupancy and the changes the average room revenues. Nairobi, being the capital city of the county and the seat of the government would have its hotels use some past available information to forecast their room occupancy and room revenue. It would also assist them to be creative on how to stay afloat businesswise during this period.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter will look at both the theoretical and empirical literature on the Kenyan general elections to their effects on the room revenue performance in hotels in Nairobi.

2.2 Theoretical Literature Review

Findings arrived at here will come from already existing theories. Being theories from the past, they will have no practical application. However, they will inform the direction of the study.

2.2.1 Long Wave Economic Theory

It is very possible to come up with a pattern like that of the trade life cycle. If we start at the trough stage of the long wave, the most significant feature for the business executive is the low capital base which follows a sustained period of economic adversity featuring weak selling process, low profits and a difficult financial climate.

In the Kenyan election cycle, it is positive to draw similar patterns on most industries in the economy. The hospitality industry included. An important use of the long wave is to identify and determine key turning points in an economic cycle, and not to overemphasize short term influences. The hotel industry has its own turning points, and more so in Nairobi whenever the country holds its general elections every 5 years. Lower room revenues are always common phenomenon whenever the country holds general elections.

2.2.2 Destination Life Cycle Theory

Destinations which tourists visit are dynamic (Butler, 2011). The concepts explain the stages through which tourist destinations go through. The stages were listed as below.

Discovery stage: A number of people explore an area. They later inform their friends about it. As time goes, the friends visit the place, while the local people seizing the opportunities to benefit economically. Growth and development stages: The facilities assembled by the locals get more utilized. The locals get used to the tourists and expand by building more hotels, resorts, restaurants among others. Success stage: There is full utilization of the resources tourism becomes the key economic activity. Some resentment of the visitors by the locals begins to set in.

Locals feel that their culture is under threat at stagnation stage: The tourists become used to what was attracting them at first. Tourists are finding new destinations. The tourism supporting activities go out of fashion. Economic decline sets in. There is a lot of underutilization of the resources due to reduced or no economic activities that are happening. Decline or rejuvenation: The hotel or other similar facility can either go into decline or rejuvenate to adapt more or new sustainable aspects based on the reducing clientele numbers. This theory can be used to explain the reduction of hospitality services offered by hotels in Nairobi. From the available data, some hotels have business reduced by half, indicating that they are at the decline stage.

2.2.3 Political Business Cycle Theory

Nordhaus (1975) was the author of this theory. He noted that regardless of their political leanings, office holders will make laws that increase their chances of being re-elected. Resultantly, they will try to manipulate business cycles during the electioneering seasons.

They will make decisions that will ensure that the economy follows expansionary policies that are unsustainable. Harsh actions aimed at curbing the resultant inflation will have to follow at the start of the new official term. It is important to note that strategy- induced cycles in real activity will be fleeting if the economic analysis is rational (Alesina, 1987; Rogoff, 1990).

2.3 Determinants of Hotel Revenues

As observed so far, elections and political activities do affect the room revenues in Nairobi hotels. They are a turning point in the hospitality industry. However, there are other factors that one likely to lower room revenues in individual hotels. The determinants vary in their very nature. They may be internal or external. Internal factors are company-centric and particular to a certain hotel. They many include human resource factors, structural (buildings and their contents), company policies, hotel facilities etc. external factors are the ones that the company has no control over. They may include harsh weather e.g. presence of hurricanes, economic slowdown, a recession etc.

Human resource factors can affect room revenues earned or to be earned. The hotel industry is very sensitive to human psychology (Herzog, 1963). The managers must always ensure that the members of staff who serve the guests are motivated, disciplined and are adequately provided with the facilities that they need in their work. May substandard or unexpected service to a guest may be very detrimental, especially in this era of social media and globalization. It's not a wonder to find negative comments about a hotel in a hospitality industry e.g. trip adviser among others. This may reduce room occupancy and hence room revenue.

Company policies also determine whether a hotel will adapt some to changes to fight off competition from both existing and upcoming hotels (Mathews, 2000). Matthew's interest was to find out if a hotel would cope well with the external environment, more so competing hotels. According to him, the facilities need to be improved to keep the rooms at par with those of the competitors. For instances, the news that 14 new hotels would open in Kenya should serve as a call for managers and owners to ensure that they have policies that can help them adapt to the increasing competition.

The physical and digital structures in place can determine whether a hotel's rooms will remain competitive. It is the duty of hotel's management to adapt to the new end upcoming technologies for use in the hospitality industry (Qawariq, 2012). In his study on hotel structures, he indicated that the structure and design of a hotel's premise is as important for competition as is its location. This has been a frontier for competition in the industry. Things like annotation of processes, from booking a room, reception, service and clearance have been evolving every day. Paperwork is reducing, and the expectations of the hotel bookers are rising. This is putting pressure on the management to keep in touch or suffer revenue wise, with ever treats of stop closure not far.

The places with harsh natural disasters may record reduced revenues. For instance, when a country is hit by a hurricane, or extreme cold and snowing, cloud dusts or even earthquakes, its hotels are expected to have reduced revelers and resultantly low room revenues. Economic meltdowns like recessions of a source country are likely to affect the hotel room occupancy in the destination cities. The hotel rooms usually have nothing to do to change the situation with the potential tourists negatively affected financially

making tourist visits becomes difficult. Other factors may include terrorist attacks, travel advisories, ethnic clashes etc.

2.4 Empirical Literature Review

Neumayer (2014) did a study on the effects of political instigated aggressions on tourism based on changing econometric assessments across many countries. This study will give a general quantitative observation of the impact of various forms of political activities on tourist arrivals. The study will use a fixed-effects panel, which allows for after-effects of political volatile activities on tourism. In the model specifications, we find that politically motivated violent events negatively impact upon tourist arrivals.

The study takes the elections as a source of violence which affects the performance of firms in the hospitality and tourism industry. The study relates to the study in that it studies the general elections and how it affects firms like hotels. However the study does not specifically relate general elections to hotel revenues which is the purpose of this study.

Moricz and Sjöholm (2014) studied the impact of elections on the economy in Indonesia. This study empirically estimated the effect of the elections on Indonesia's economic growth. Their conclusion was that the elections did not have an economic impact in that country. This study, despite focusing on elections it relates the elections to economic growth while the current study is based on room revenues of hotels.

Idewa (2016) conducted a research on the same in Kenya. A descriptive research design that targeted travel agents, tour operators, Ministry of Tourism (MoT), hotel and allied workers, KATA, KATO, KTB and airline personnel. The study used 150 respondents as a

sample size. A questionnaire was employed to collect the data. The collected data was analyzed with aid of SPSS Version 23.0. It revealed that elections and claims that resulted from it like vote rigging and fraud on the results that gave use to disputes was negatively and significantly correlated to visiting national parks/reserves. Reduction in tourist activities leads to low demand for rooms in hotels that operate from an area. This resultantly led to reduced new revenues. The study is limited to tourism industry and tourist arrivals. The study relates to the study in that it studies the effect of elections on the tourism industry. However the current study relates elections to room revenues in hotels which make it different from the study.

Zainabu (2014) did a study of the same on the stock market returns. She analyzed the stock market returns during electioneering periods in Kenya. The study was for the period between 1997 and 2013. The NSE index performance during this period was analyzed and the performance of the NSE index during election years compared to non-election years. Descriptive research design was applied. From the analysis and the research findings, it was noted that the market returns are usually influenced by elections in a way. This study is limited to stock returns while the current study is limited to room revenues. The study relates to the current study in that it assesses the effect of general elections.

Mayaka and Prasad (2012) did analyze some major issues and challenges in tourism in Kenya. The study found that there were low hotel bookings during the 2007 elections and the beginning of 2008. The study was limited to the challenges and strategic issues with general elections being one of the issues. This study established whether general elections affected the tourism industry which indirectly affects the hotel industry. However the study did not relate the general elections to room revenues.

Kigera (2016) did a similar study but targeted international hotel chains. The study found that a positive influence of general elections exists on performance of International Chain Hotels. This study was limited to International Hotels. This study related to the current study in that it related general elections as one of the variables of political environment and performance of International Chain Hotels. However, this study was specific to room revenues which is one of the measures of performance of hotels. The current study was also based on hotels in Nanyuki, both local and international.

2.5 Conceptual Framework

This study focused on the effects of general elections on room revenues in the hotels in Nairobi. The relationship between the variables is presented in form of a conceptual framework. The dependent variable was room revenue while the independent variable is general election. The conceptual framework is shown in figure 2.1:



Figure 2.1: Conceptual Framework

2.6 Summary of Literature Review

Any form violence, be it political or otherwise, is bad for the economy. It will lead to reduced room revenues. Room revenues are sensitive to elections in many countries of the world. Any kind of mayhem creates a sense of a feeling of insecurity on the part of

tourists, hence they will avoid places where it exists. Terrorism, wars, armed political struggle for power lie under the category of the things that can bring insecurities. This affects room revenues negatively.

Kenya is no exemption, elections come with their fair share of effects, and the electioneering period usually records reduced room revenues. Although there is data that is available, there is no compilation on room revenues from the hotels in Nairobi, at least from the best of my knowledge. An analysis of the same has not yet been done. An analysis that compares the effects of general elections to hotel room revenues in Nairobi has not been done. Being a political hot spot, it cannot be ignored.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Research Methodology

Here, the research design together with an explanation with reasons as to why the design was chosen is given. It was also define the population, sample size and the sampling frame. It was also encompass data collection and the methods to be used in the process and an analysis of the obtained data.

3.2 Research Design

It refers to a plan which a researcher used to come up with answer to a problem (Hymn & Wallen, 1993). The study used a descriptive research design. Since the study aims to study the relationship between the two variables, that is, general elections and room revenues of hotels, the design was relevant as it seeks to establishing relationship between variables.

3.3 Population

Population refers to individual elements that have common characteristics and can be used in a study to draw some references and conclusion. The study targeted 8 hotels in Nairobi, with one of them being a five star hotel whereas the rest was the 3-star and 4-star hotels. This was because during the elections period, election observers both local and international, reside in these hotels.

3.4 Data Collection

Secondary data was collected for the study. Data was collected from financial statements (statement of income) of individual hotels in Nairobi County. Daily data was used in the study. The data was collected for a period of 120 days from June 8th to October 8th 2017. The data was collected from every hotel using a data collection sheet developed by the researcher.

3.5 Data Analysis

SPSS v20 was used to analyze the data. The study adopted an event study where one month before and a month after elections analysis was done. The daily data was consolidated and evaluated 30 days before the general elections and was compared 30 days after the general elections. The event window represents the period within which the study was analyzed the data relating to general elections and room revenues of hotels in Nairobi. In this case it was two months. The estimation period was 30 days prior to the event period and 30 days after. This is shown in figure 3.2.

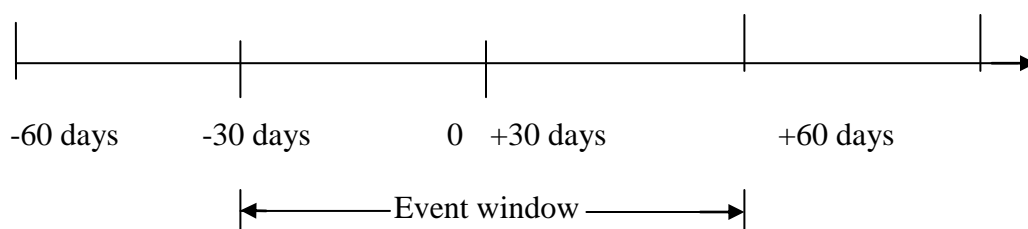


Figure 3.2: Event Study Graph

Daily room returns of each sampled firm was calculated for the period running from 8th August 2017 to 9th October 2017 using the formula below:

$$R_{it} = \frac{Re_t - Re_{t-1}}{Re_{t-1}}$$

Where:

R_{it} is the daily room returns

Re_t is room revenue at the end of the day

Re_{t-1} is the room return at the start of the day

Then expected return of each firm was calculated as follows:

$$ER_{it} = \alpha_i + \beta_i R_{mt}$$

Where:

ER_{it} = expected room return of the firm i in period t

α_i = constant

β_i = beta coefficient

R_{mt} = Market return in period t

Alpha (α) and Beta (β) was calculated using data from the estimation window.

Daily Abnormal Room Returns (AR) was then calculated using the formula below:

$$AR_{it} = R_{it} - ER_{it}$$

Where:

AR_{it} = Abnormal room returns of the firm i in period t

R_{it} = Actual room returns of the firm i in period t

ER_{it} = expected room return of the firm i in period t

The average abnormal returns were then calculated after which the cumulative AR was calculated. The paired t-test was used to measure the level of significance of room revenues before and after the general elections.

The hypothesis test is as below:

H_0 : There is no variation in room revenue for the period before and after the general elections

H_1 : There is variation in room revenue for the period before and after the general elections

CHAPTER FOUR

DATA ANALYSIS, RESULTS AND DISCUSSION

4.1 Introduction

This chapter focuses on the analysis and interpretation of the data. The analysis is based on study of the effects of general elections on room revenues of hotels in Nairobi County.

The study was based on 8 hotels in Nairobi County.

4.2 Descriptive statistics

The average abnormal returns and the cumulative average abnormal returns were derived from the resulting abnormal returns that were calculated from the daily and expected returns. They were then plotted on a graph and the following are the results of the analysis.

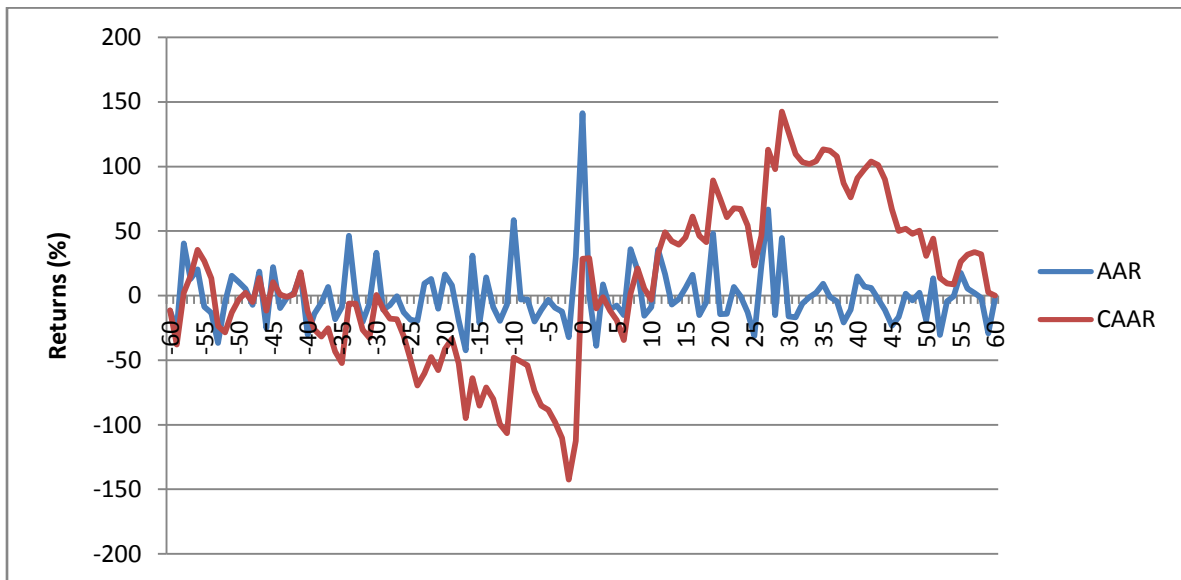


Figure 4.3: Trend of AAR and CAAR

From figure 4.2, the AAR fluctuated highly close to zero for the period before election date. The AAR were very far from zero a day before election date but dropped rapidly a

day after the election date when negative returns were experienced. However it went and rose slightly above zero in the third day when positive returns were observed. After the 30th day from the election date the AAR stabilized slightly and fluctuated around zero.

CAAR graph roughly moved downwards from day -60 to day -3. There was a rapid upsurge from day -3 to the election day. From there the CAAR fell slightly up to the 5th day before rising roughly up to the 20th day. The CAAR was highest on the 30th day and fell roughly to the 60th day.

4.3 Inferential Statistics

The study used SPSS to run the paired t-test of significance for average abnormal returns for the period 30 days before and 30 days after the election period.

4.3.1 Test of Significance of AAR

Paired t-test of significance was calculated and the findings were as below.

Table 4.1: Paired Samples Statistics of AAR

		Mean	N	Std. Deviation	Std. Error Mean
Pair 1	AAR before	-.010966631	30	.1955874894	.0357092266
	AAR after	-.042100363	30	.1237074045	.0225857787

Table 4.1 shows that the mean AAR was -0.010967 for the period before the election period and -0.04210 for the period after the election period. This means that the average abnormal returns significantly decreased after the election period.

Table 4.2: Paired Samples Test of AAR

	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference	t	df	Sig. (2-tailed)	
				Lower Upper				
Pair 1	AAR before - AAR after	.031133	.204879	.037405	-.045369 .107637	.832	29	.412

From table 4.2, the t- test value was 0.832 which lies on the rejection area which is beyond the lower limit -0.0453 and upper limit of 0.1076. Hence the rejection of the null hypothesis that states there is no variation of hotel room revenues before and after the electioneering period. The study therefore adopts the alternative hypothesis that states that there is variation in room revenues before and after the election period.

4.3.2 Test of Significance of CAAR

Table 4.3: Paired Samples Statistics of CAAR

	Mean	N	Std. Deviation	Std. Error Mean
Pair 1	CAAR before	30	.2117735136	.0386643768
	CAAR after	30	.3834301884	.0700044545

Table 5 above indicates that CAAR has a mean of 1.5484 for the period before the election period and -1.7607 for the period after the election period. This means that the CAAR for the period before the election period is higher than the CAAR after the election period.

Table 4.4: Paired Samples Test of CAAR

	Mean	Std. Deviation	Std. Error Mean	95% Confidence Interval of the Difference		t	df	Sig. (2-tailed)	
				Lower	Upper				
				Pair 1	CAAR before - CAAR after				-.719165

From table 4.4, the t- test value was -12.074 which lies on the rejection area which is beyond the lower limit -0.8409 and upper limit of -0.5973. Hence the rejection of the null hypothesis that states there is no variation of room revenues before and after the election period. The study therefore adopts the alternative hypothesis that states there is variation of room revenues before and after the election period.

4.4 Discussion of the Findings

From the analysis done, the CAAR graph went up immediately after the election period before falling 30 days after the election date. This indicates there were negative average abnormal returns after the election period of 30 days after election date. The elections affect the room revenues of hotels as the room returns changed with the election date.

The findings on the t-test show that both AAR and CAAR mean for the period after the election period were less than AAR and CAAR mean for the period before the election period. This implies that the abnormal room returns for the period before the election period were higher than those after the election period. This is indicates that the general elections had an effect on the room returns and hence hotel room revenues. Essentially

the room prices were negatively affected by the general elections. The low prices resulted to reduced abnormal returns.

The study rejects the null hypothesis and adopts the alternative hypothesis based on the findings from the paired t-test. The null hypothesis states that there is no variation in room revenue for the period before and after the general elections. The alternative hypothesis states that there is no variation in room revenue for the period before and after the general elections. The t-test showed that room revenue in the period before the election period is different from the period after the general election period. In this case the hotels performed poorly in terms of room revenue fell after the general elections.

The findings concur with those of Neumayer (2014) who found that general elections causes violence which affects the performance of firms in the hospitality industry like hotels. Idewa (2016) found that general elections reduce tourist activities which leads to low demand for rooms in hotels that operate from an area. This in turn reduces room revenue in hotels. Mayaka and Prasad (2012) found that there was low hotel bookings during the 2007 elections and the beginning of 2008.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The chapter was based on the objective of the study. The conclusions and recommendation together with a summary of the findings were given.

5.2 Summary of findings

This research sought to assess the effect of elections on room revenues in the hotels in Nairobi Kenya. The study targeted 8 hotels in Nairobi. Daily data was used in the study. SPSS v20 was used to analyze the data. The study adopted an event study where one month before and a month after elections analysis was done. The daily data was consolidated and evaluated a month before and was compared a month after the elections. The AAR and the CAAR were derived from the resulting AR that was computed from the actual and what was expected in returns, recorded daily. AAR and CAAR were then put on a graph. Paired t-tests for both AAR and CAAR were done.

From the graph, AAR and CAAR fluctuated 30 days after the general elections. After the last monthly day from the election date, AAR stabilized slightly and fluctuated below zero. CAAR graph roughly moved downwards from day -60 to day -3. There was a rapid upsurge from day -3 to election day. From there the CAAR fell slightly up to the 5th day before rising roughly up to the 20th day. The CAAR was highest on the 30th day and fell roughly to the 60th day.

From the paired t-test statistics, both AAR and CAAR mean for the period after the election period were less than AAR and CAAR mean for the period before the election

period. This means that there was a reduction in both AAR and CAAR after the general election period. The study rejects the null hypothesis and adopts the alternative hypothesis based on the findings from the paired t-test. The t-test showed that room revenue in the period before the election period is different from the period after the general election period. In this case the hotels performed poorly in terms of room revenue after the general elections. This is an indication that general elections affect room revenue hence hotel room revenue performance.

5.3 Conclusion and Recommendations

The study concludes that room revenue of hotels in Nairobi greatly fluctuates around the general elections months. The AAR and CAAR reduced after the elections. Hence the study concludes that general elections have an effect on room returns hence negatively related to room revenue of hotels in Nairobi. The test of significance had to reject the null hypothesis and took the alternative hypothesis. This therefore means that there was a difference in the room returns before and after the general elections and in this case room revenue was worse after the general elections as supported by all the findings. Therefore the study concludes that general elections affect room revenue of hotels in Nairobi negatively.

The study recommends that hotels adopt a communication strategy that informs all their clients and assures them of their security during elections. This would make them not to avoid the hotels hence increase room occupancy hence increased room revenues in the hotels.

The study recommends that the government, both national and county, come up with policies that would ensure an environment of peace and tranquility during the times of elections. The stakeholders in the tourism and hotel industry should be involved in the formulation of policies which would ensure that room revenues are not affected by general elections. Those involved in the management of the industry should ensure that they plan and prepare for low revenues during this period. They should maximize on the utilization of the reduced finances, and see how they can play with the fixed and the semi-fixed assets of the hotels.

5.4 Areas of Further Study

The study found out that general elections affected the room revenues of hotels in Nairobi. The study was done on large hotels in Nairobi. A similar study is recommended on small hotels in order to compare the results. Also, though room revenues is the main income earner in the industry, a study on the effects of the elections on the other sources of revenues like conferencing and health facilities should be done. Another study on the effects of the general elections on restaurants that have no rooms to rent out is recommended.

5.5 Limitations of the Study

A notable limitation is that the time was short. The research should be quite wide, but it could take a lot of time. That's why a sample was taken to represent the other hotels. Furthermore, not all the hotels that operate in Nairobi are registered. If the research was done on the whole population of businesses that offer lodging services, it could be a very economically expensive and a time taking exercise. The other one is the span of time for

which the study was based. It could have been more reliable if it was done based on about three or more general elections. Non-financial and non-numeric data that was found in the course of the research, which could also affect hotel room revenues was not accommodated in the research.

REFERENCES

- Alesina, T. (1987). *Microeconomic policy in a two party state*. Oxford: Oxford University press.
- Ashworth, G. & Rami, K.(2012). *Moving from pilgrimage to “dark” tourism*.Long Grove: Waveland Press.
- Bouchand, J. & Potters, M. (2000). *Theory of financial risks*. Cambridge: Cambridge University Press.
- Business Daily (2018). *Why kenya’s 2017 tourism numbers are unusual for an election year*. Retrieved October 17, 2018 from www.businessdailyafrica.com/datahub/kenyas-2017-tourism-numbers-are-unusual-are-unusual-for-an-election-year/38154/8-4305932-13nabjz/index/html
- Butler, R. (2011). *Tourism area life cycle: Contemporary tourism reviews*. Oxford: Goodfellow publishers.
- Chinsmall, P.M. (1986). *Marketing research*. New York City: McGraw-Hill.
- Drazen, J. (2001). *The political business cycle after 25 years*.Cambridge: MIT Press.
- Freeman, C. (1996). *The international library of critical writing: Economic series*. Northampton: Edward Elgar.
- Halloway, C (2009). *The business of tourism*. Toronto: Pearson Publication.
- Haradhen, K (2013). Poverty and economic development of Kenya. *International Journal of Information Technology and Business Management*, 2(5), 72-74.
- Herzog, J. (1963). *Behavioral science concepts for analyzing the consumer*. Boston: Allyn and Bacon Inc.

- Hymn, A. & Wallen, T. (1993). *How to design and evaluate research in education* (7th Ed.). New York: Mcgraw-Hill.
- Idewa A. (2016). *The effect of electioneering process on the tourism industry: A study of tourist animals in Kenya*(Unpublished Thesis). University of Nairobi, Nairobi, Kenya.
- Kenya National Bureau of statistics(KNBS) (2009). *Kenya national bureau of statistics report, 2017*.Kenya National Bureau of statistics, Nairobi.
- Kett, R. & Younes, E. (2003). *A derivative of revpar*. HVS International, 2-3
- Kigera, P. (2016) *Influence of political environment on performance of international hotel chains*. University of Nairobi, 42-46.
- KIPPRA (2017). *Kenya economic report2016*. Nairobi: Kenya Institute for Public Policy Research and Analysis.
- KIPPRA, (2017). *Kenya economic report,10-14*. Nairobi: Kenya Institute for Public Policy Research and Analysis.
- Kirugu, M. (2012). *Effects of 2008 general elections on tourism industry in Kenya* (unpublished Thesis). University of Nairobi, Nairobi, Kenya.
- KNBS, (2018).*Kenya National Bureau of Statistics Report 2017*. Nairobi: Kenya National Bureau of Statistics.
- KNHRC, (2018). *Mirage at dusk*. Nairobi: Kenya National Human Rights Commission.
- Lizada J. C & Pilapil (2014). *Philippine tourism: evolution towards sustainability*. SHS Web of Conferences, 12(1), 20-32.

- Lorenz, E. (1972). *Predictability: does the flap of a butterfly wings in brazil set off a tornado in texas*.proc. of American Association For The Advancement of Science 139thMeeting, Sheraton Park Hotel, Massachusetts.
- Mathews, V. (2000). Competition in the international hotel industry.*International Journal of Contemporary Hospitality Management*, 12(2), 114-118.
- Mayaka, M.A & Prasad, H. (2012). *Tourism in kenya: an analysis of strategic issues and challenges*. Tourism Management Perspectives, 1(4), 56-63.
- Moricz, S. & Sjolholm, F. (2014). *The effects of elections on economic growth*.Lund University School of Economics and Management.
- National Crime Research Centre (NCRC) (2018). *Delivery of a safe and secure environment for the 2017 generalelections*. Retrieved from <http://crimeresearch.go.ke/wpcontent/uploads/2018/02/delivery-a-safe-endsecure-environment-for-the-2017-general-election>.
- Neumayer, C. (2014) The mobile phone street protest. *The International Journal of Research Into New Media Technologies*, 7(3), 4656-68.
- Pricewaterhouse Coopers (2018). *Hotels outlook: 2018-2022*. Retrieved October 19, 2018 from <https://www.google.com/search?client=ms-opera-ini=pwc+hotel&outholdkenya.pdf>
- Qawariq, M (2012). *Structural design of a hotel building*. Al-Naja National University, 2-4
- Rajan, R. &Zingales, L. (1998). Financial dependence and growth. *America Economic Review*, 88(3), 559-86.

- Staniland, M (1985). *The Kenya election crisis*. Centre for International Affairs: Harvard University Press.
- Veda-Pareti, S. (2015). From election to coup in Fiji. *Journal of Pacific Studies*, 3(5),146-151.
- Vitisa, R. (2014). *Travel advisories and their impact on tourism-case study of Kenya 2000 -2014*. Nairobi: Institute of Diplomacy and International Studies.
- Webster, M. (1968). *General elections*. Retrieved October 14' 2018 from <https://www.merriem-websster.com/dictionary/general%20election>
- World Travel and Tourism Council (2017). *Travel and tourism economic impact 2017*. World Travel and Tourism Council.

APPENDICES

Appendix I: List of Sampled Hotels

1. The Boma Hotel
2. The Hill Hotel
3. Heron Hotel
4. Jacaranda Hotel
5. Ole Sereni Hotel
6. Sarova Panafric
7. Silver Springs Hotel
8. Boma Inn

Appendix II: Data Collection Form

Day	Room Revenue	
	Opening revenue (Kshs.)	Closing revenue (Kshs.)
-60		
-59		
-58		
-57		
-56		
-55		
-54		
-53		
-52		
-51		
-50		
-49		
-48		
-47		
-46		
-45		
-44		
-43		
-42		
-41		
-40		
-39		
-38		
-37		
-36		
-35		
-34		
-33		
-32		
-31		
-30		
-29		
-28		
-27		
-26		
-25		
-24		

-23		
-22		
-21		
-20		
-19		
-18		
-17		
-16		
-15		
-14		
-13		
-12		
-11		
-10		
-9		
-8		
-7		
-6		
-5		
-4		
-3		
-2		
-1		
0		
1		
2		
3		
4		
5		
6		
7		
8		
9		
10		
11		
12		
13		
14		
15		
16		
17		

18		
19		
20		
21		
22		
23		
24		
25		
26		
27		
28		
29		
30		
31		
32		
33		
34		
35		
36		
37		
38		
39		
40		
41		
42		
43		
44		
45		
46		
47		
48		
49		
50		
51		
52		
53		
54		
55		
56		
57		
58		

59		
60		

Appendix III: AAR and CAAR of Hotels in Nairobi, 2017

PERIOD	DAY	AAR	CAAR
PRE-ELECTION PERIOD	-60	-0.11599	-0.11599
	-59	-0.26495	-0.38094
	-58	0.402976	0.022038
	-57	0.127614	0.149652
	-56	0.203465	0.353117
	-55	-0.08645	0.266669
	-54	-0.13458	0.132088
	-53	-0.36728	-0.2352
	-52	-0.05025	-0.28544
	-51	0.152888	-0.13256
	-50	0.102881	-0.02968
	-49	0.051076	0.0214
	-48	-0.07105	-0.04965
	-47	0.185519	0.135874
	-46	-0.25291	-0.11703
	-45	0.219411	0.102379
	-44	-0.09642	0.005955
	-43	-0.01756	-0.0116
	-42	0.019766	0.008162
	-41	0.171446	0.179608
	-40	-0.30168	-0.12207
	-39	-0.14144	-0.26351
	-38	-0.05481	-0.31832
	-37	0.065653	-0.25267
	-36	-0.18269	-0.43536
	-35	-0.08882	-0.52418
	-34	0.462529	-0.06165
	-33	-0.00188	-0.06353
	-32	-0.20331	-0.26685
	-31	-0.06215	-0.329
		-30	0.332498
-29		-0.10862	-0.10512
-28		-0.07409	-0.1792
-27		-0.00494	-0.18414
-26		-0.12887	-0.31301
-25		-0.18754	-0.50055
-24		-0.19673	-0.69728
-23		0.093507	-0.60377
-22		0.127691	-0.47608
-21		-0.10219	-0.57827
-20	0.162756	-0.41551	

ELECTION PERIOD	-19	0.080246	-0.33527
	-18	-0.19066	-0.52592
	-17	-0.42335	-0.94927
	-16	0.310417	-0.63886
	-15	-0.2138	-0.85266
	-14	0.140656	-0.71201
	-13	-0.08921	-0.80122
	-12	-0.19614	-0.99736
	-11	-0.06873	-1.06609
	-10	0.5837	-0.48239
	-9	-0.0289	-0.51129
	-8	-0.02899	-0.54028
	-7	-0.19964	-0.73992
	-6	-0.11235	-0.85227
	-5	-0.0333	-0.88558
	-4	-0.09418	-0.97976
	-3	-0.1244	-1.10415
	-2	-0.321	-1.42515
	-1	0.298662	-1.12649
	0	1.410862	0.28437
	1	0.004161	0.288531
	2	-0.38957	-0.10104
3	0.087262	-0.01378	
4	-0.10282	-0.1166	
5	-0.07577	-0.19237	
6	-0.15213	-0.3445	
7	0.35774	0.013237	
8	0.197239	0.210476	
9	-0.1561	0.054374	
10	-0.08846	-0.03409	
11	0.356743	0.322654	
12	0.166945	0.4896	
13	-0.06999	0.419606	
14	-0.02777	0.391839	
15	0.059063	0.450902	
16	0.16089	0.611792	
17	-0.15046	0.461328	
18	-0.04868	0.41265	
19	0.479189	0.891839	
20	-0.14319	0.748652	
21	-0.14156	0.607093	

	22	0.067497	0.67459
	23	-0.00398	0.670615
	24	-0.1282	0.542417
	25	-0.3115	0.230918
	26	0.231452	0.46237
	27	0.665925	1.128295
	28	-0.15075	0.977549
	29	0.445903	1.423452
	30	-0.16044	1.263011
POST- ELECTION PERIOD	31	-0.16891	1.094096
	32	-0.06199	1.032109
	33	-0.01367	1.018435
	34	0.021774	1.040208
	35	0.091626	1.131834
	36	-0.00935	1.122485
	37	-0.04549	1.076996
	38	-0.20789	0.869105
	39	-0.1087	0.760407
	40	0.147772	0.90818
	41	0.068668	0.976847
	42	0.060243	1.03709
	43	-0.02796	1.009133
	44	-0.1107	0.898429
	45	-0.23253	0.665903
	46	-0.1654	0.5005
	47	0.01582	0.51632
	48	-0.03817	0.478151
	49	0.022717	0.500868
	50	-0.19423	0.306642
	51	0.134515	0.441157
	52	-0.30503	0.136129
	53	-0.0436	0.092527
	54	-0.00573	0.086796
	55	0.175566	0.262362
	56	0.05318	0.315543
	57	0.019969	0.335512
	58	-0.0177	0.317817
	59	-0.29274	0.025072
	60	-0.02507	2.64E-16