THE EFFECTOF COVID-19 PANDEMIC ON THE FINANCIAL PERFORMANCE OF HOTELS IN NAIROBI COUNTYKENYA

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DECLARATION

This project is my original work and has not been presented for examination in any other University.

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LIST OF ABEVIATIONS AND ACRONYMS

COVID-19:	Corona-virus disease 2019
GDP:	Gross Domestic Product
KSH:	Kenya Shilling
NSE:	Nairobi Securities Exchange
SARS-CoV-2:	Severe Acute Respiratory Syndrome Corona-Virus 2
RBV:	Resource-Based View
SME:	Small and Medium Enterprise
USA:	United States of America
WHO:	World Health Organization

ABSTRACT

The hotel industry in the world is faced with a myriad of challenges that affect its performance. The industry is mainly dependent on bookings and meals and with a reduction in bookings and meal intake, the financial performance is at risk. The covid-19 pandemic has had a negative impact on the tourism sector in general more so the hotel industry.With this measures in place, the numbers of visitors in hotels reduced significantly and this affected the performance of the industry with a culmination of lay-offs.The study seeks to assess the effects of the pandemic on the financial performance of the hotel industry in Kenya. Many studies have been done on the effect of the pandemic on different sectors but little is known on its effects on the hotel industry in Kenya. The objective of this study was to assess the effects of the Covid-19 virus on the financial performance of the hotel industry in Kenya. The study used both secondary and primary data to assess the effects of the pandemic on the hotel industry. The study adopted an event-study design to determine the effects of the pandemic before and after on the hotel industry.The study found out that COVID has a negative effect on financial performance with a coefficient of 0.459. Reduction in customers, access to credit and disruption in supply chain negatively affect financial performance too. This is mainly due to the containment measures put in place by governments. Travel restrictions led to cancellation of bookings and this greatly reduced the revenues to the hotels.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

According to Ataguba (2020), there are rapid dynamic changes in today's world, characterized by increased technological advancements and the Covid-19 pandemic; and this has resulted in many organizations in the hotel industry experiencing non-stable financial performance (Kim et. al., 2021). The COVID-19 pandemichas led to the hotel industry faced with a crisis. Most hotels are making losses due to hotel shutdowns, lockdowns and curfews,while some are operating at severely reduced capacities (Shin et al., 2021).Gichuna et al. (2020) notes that the Covid-19 pandemic has had several effects on the livelihood of individuals politically, socially, economically, and culturally.

The situation haschanged normal human interactions, and organizations offering services such as hotels are experiencing devastating economic effects, including low financial performance. It is evident that the pandemic has had reeling effects on every sector across the globe. It has led to the loss of jobs, loss of lives, disruption of the supply chain and the collapse of some businesses (Kansiime et al., 2021). In Kenya, particularly, it has negatively affected the cultural, political, and economic life of many people (Muragu, et.al, 2021). Similarly, the pandemic has had effects on other domains like international relations and foreign policy. In areas where the economy depends on outside visitors, the economy is reeling low, and the economic security has been affected. Before the pandemic,The World Bank had estimated a GDP growth rate in Kenya in the year 2020 (Ngwacho, 2020).

The impact of the virus on the hotel sector is the focus of this study.Globally, countries have adopted new restrictions to control the virus.The restrictions imposed to reduce the spread of the disease have affected the daily operations of hotels leading to reduced financial performance. The main theories advanced to back up the contents of this paper are the resource-based theory of organizations and the dynamic capability theory. The resource-based theory indicates that companies can use their resources to improve their financial performance and competitive advantage (Muragu, Nyadera& Mbugua, 2021).

The theory advances that companies have unique, rare and non-imitable resources in terms of human resources and they should use such resources or assets to promote their performance. On the other hand, the dynamic capability theory indicates that companies must adopt flexible models in dealing with their activities and operations. This means considering different models of operations in cases of risks and challenges such as the Covid-19 pandemic (Ngwacho, 2020).

1.1.1 Covid-19 Pandemic

The Corona-virus disease 2019 (COVID-19), is a disease that comes as a result ofthe novel corona-virus, severe acute respiratory syndrome corona-virus 2 (SARS-CoV-2; previouslynamed 2019-nCoV). The virus first came into lightduring an outbreak of respiratory illness cases in Wuhan City, Hubei Province, China (Kitamura et al., 2021). The virus was confirmedas a Public Health Emergency of International Concern regarding COVID-19 by the World Health Organization (WHO) on the 30th of January 2020.The virus was then declared as a pandemic on the 11th of March 2020. The number of cases have been rising on a daily basis with more than 176 million cases confirmed as of June the 15th, 2021.As of June 15th, the number of fatalities associated with COVID-19 are more than 3.81 million, which has made it one of the lethal pandemics in history.

According to Orenge (2020), theCOVID-19 symptoms can be stated as highly variable, with the severity extent ranging from symptoms which cannot be noticed to lethal and severe symptoms. According to Sharma et al., 2021, a number of vaccines have been developed and widely distributed as from December 2020. A number of measures to prevent the spread of the virus like social distancing, wearing face masks in public, ventilation and air-filtering, washing of hands, covering of mouth when sneezing or coughing, disinfecting surfaces, and monitoring and self-isolating ofpersons exposed or symptomatic have been recommended.

However, the pandemic has led to amajor global social and economic disruption, which includes thebiggestworldwide recession since the Great Depression of the 1930s. It has negatively affected the financial performance of hotels globally. According to a study by Shen et al (2020), the financial performance of listed Chinese firmswas negatively impacted by the pandemic which led to a reduction in total revenue hence a reduction in return on Assets. Enterprises in the tourism sector is greatly dependent on crowds, transportation and with the measures enforced, its performance is greatly affected, (Hadiwardoyo, 2020).

1.1.2 Financial Performance

The concept of financial performance refers to an organization's revenue generation and expenditure pattern(Yilmaz, 2018).In other words, it measuresan organizations overall wealth over a given period of time. It is the degree or extent to which the financial objectives of an organization are achieved based on best practices, policies and operations. Financial performance is the organizationalcapability to exploit its investment and operational activities in order to realize financial stability, commonlyshown by main financial indicators (Ghildyal& Chang, 2017).

According toNapierała et al. (2020), performance is the institution's ultimate objective. According to Myskova& Hajek, (2017) the process of assessing financial performance involvesthe use of gearing and leverage ratios like Equity, Return, and Return on Assets, with return on assets and profit margins are frequentlyused (Limam& Mohammed, 2018).Within the Hotel Industry, financial performance is ascertained in terms of sales volume, market share and profitability levels. Other variables such as liquidity, efficiency, profitability, and leverage and capital adequacy also form some of the parameters that are often used to objectively gauge the financial performance of Hotels (Okoye et al., 2020). Financial indicators measure how a company invests the capital acquired on assets itscapacity to make profits. This study will use the following measures; return on assets to ascertain the profitability of the company, and liquidity ratio. The two measures are used to measure the performance of a sector since it checks on profitability and whether the frim current assets are able to meet the current liabilities.

1.1.3 Covid-19 Pandemic and Financial Performance

According to Duong et al. (2020), the efficiency of most hotels across the globe is a measure of their ability to operate profitably in an often-turbulent market. Such hotels' productivity is often a function of management, and companies that embrace effective Covid-19 pandemic management always end up shoring up their revenues on the back of operating efficiency. However, the Covid-19 pandemic has led to various financial challenges among companies in the world.

The measures put in place by different governments have a negative impact on the performance of firms in various ways. One is that reduced the sales of an organization and this in turn affects the profits and a reduction in cash transactions (Devi et.al, 2020). With reduction in cash sales organization's ability to pay debts will be greatly hindered, and a reduction in ability to cover for operational costs. The pandemic has led to a decrease in income of individuals which in turn reduces the purchasing power and will eventually led to a reduction in sales. This will in turn affects the organizations' ability to pay debt.

According to Herédia-Colaço and Rodrigues (2021), the Covid-19 pandemic has led to the poor financial performance of many companies. This is because the virus outbreak has caused mass layoffs and closures of companies. Moreover, business entities had different opinions onhow long the COVID-related disruptions will occur, making it impossible to control its effects in business. It is also true that the majority of small businesses are financially fragile many companies cannot operate well and improve their financial performance in the course of the ravaging effects of the virus (Salem et al., 2021).

1.1.4 Hotels in Nairobi, Kenya

Hotels in Kenya are under the hospitality sector, a volatile industry driven by market demand. The hotel industry covers services associated with accommodation, food and beverages as well as meetings and conferencing space. Notably, hotels also provide leisure and entertainment services. Prior to the pandemic, the industry experienced high demand locally and internationally, making global and local investors jostle for a market share. According to the Kenya Tourism Report (2018), the market share of five star hotels in Nairobi is estimated to be 9.3%.

According to Shumba et al. (2020), hotels offer stable and luxury guest services. In most cases, the hotels in Nairobi provide personalized services to their visitors and include well-managed accommodations and other wide range of services or amenities. According to Yadav et al. (2020), the hotel industry experienced over 50% occupancy and performance decline in 2020 and 70% of hotel personnel were sacked in the year 2020 after the outbreak of Covid-19. The hotel sector is among the most affected sectors by Covid-19, and it is estimated that the recovery period may go past the year 2023 (Cytonn Real Estate, 2019).

In Kenya, Hotels such as Hilton had to close their operations permanently due to the pandemic (Brand et al., 2020). Other hotels also noted a decline in the number of customers due to restrictions, curfews and lockdowns. Currently, all hotels in Nairobi are required to conduct and adhere to Covid-19 measures, including provision of sanitizers to guests and measuring their temperatures.

1.2 Research Problem

The challenges related with the Covid-19 pandemic has led to new financial effects among hotels. From liquidity to debt and restructuring, many hotels are experiencing diverse and complex challenges (Kim et al., 2021). The hotel industry value chain is highly intertwined with other business groups as well as domestic and global economic and social activity. Majority of the issuesaffecting the hotel industry are caused by factors beyond the owner or operator's control; the impact of the COVID-19 is one such example (Shin et al., 2021).According to Herédia-Colaço and Rodrigues (2021), the Covid-19 pandemic has led to devastating effects on the financial performance of Hotelsall over the world.

In Kenya, more than 50% of the hotels have to operate at half capacity. They also have to adhere to opening restrictions and new health and safety guidelines leading to poor financial performance of the hotels. This is a big challenge to hotel operations. With the implementation of these drastic measures, and the reduction in operations, the hotel industry is faced with imminent danger.With the insurgence of the pandemic, a number of studies have come up to try and asses the effects on various institutions and individuals.

A number of studies have been done to determine the effect of the Covid-19 Pandemic on the Financial Performance of Hotels around the world. For example, a study done in Japan by Kitamura et al. (2020) to evaluate the economic, environmental, and social impacts of the covid-19 pandemic on the Japanese tourism industry noted that besides the health issue, the covid-19 pandemic has affected various aspects of the hotel industry. Kimani et al. (2020) evaluated the effects of COVID-19 on the health and socio-economic security of sex workers in Nairobi, Kenya and noted that Covid-19 negatively affected the sex workers in Nairobi.

Orenge (2020) also investigated the Effects of the Covid-19 Pandemic on Stock Performance for Firms Listed at the Nairobi Securities Exchange and noted that the Covid-19 pandemic influencedthe stock performance of the companies within the NSE negatively. In addition, Ngwacho (2020) determined the COVID-19 pandemic impact on the Kenyan education sector and noted that Covid-19 led to learning disruption and changes of education plans in Kenya.

From the studies done, it is true that despite the effects of Covid-19 pandemic on the Hotel sector and other institutions. Most of the studies centered on the general aspect of the tourism sector and this study will focus on the financial aspect. With the occurrence of the pandemic and the rise in studies to assess the effects of the pandemic, little is known on the effects on the financial performance of the hotel industry in Kenya. Therefore, this study seeks to determine and investigate some of the effects of the Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi Kenya. This paper will answer the question: 'What is the effect of Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi Kenya?'

1.3 Objective of the study

Toassess the effect of Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi Kenya

1.4 Value of the Study

This study would benefit different stakeholders, including the government (policymakers), the hotel management, and future researchers. The outcome from this study will help the top management of hotels in the country and beyond to review the effect of the Covid-19 Pandemic on their Financial Performance and adopt some of the best strategies to help them achieve high performance in their primary operations. The findings of this study will help guide policymakers in the country, towards formulation and implementation of pandemic control policies and programs. The policymakers will use the study results to help regulate issues associated with pandemic challenges and help to promote the financial performance of hotels in the country.

The study results will also be of benefit to future scholars and researchers. This is because the study will provide useful insights associated with the theoretical frameworks on the effect of Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi, Kenya. Future researchers and academicians will use the study results as a reference point in their studies. The study will provide a theoretical framework that offers guidance on pandemic recovery techniques. This is important in promoting future scholarly studies both locally and internationally, particularly towards developing new and innovative strategies in dealing with pandemics such as the Covid-19.

CHAPTER TWO: LITERATURE REVIEW

This study explores several relevant studies, focusing on corporate restructuring and the determinants of corporate financial performance.

2.1 Theoretical Review

This theory behind this study isthe resource-based theory and thedynamics capability theory.

2.1.1 Resource-Based Theory

Resource-Based View (RBV) is a strategic methodology that Penrose first coined in 1959. Penrose (1959) showed that good performance in a business is attained when the business fully controls valuable resources. Several scholars have contributed to RBV but Barney, one of the latest contributors, asserts that key company resources enhance sustainability in terms of the competitive advantages they confer to the firm (Barney, 2007). On the other hand, Lockett, Thompsons, and Morgenstern (2009) emphasize that RBV examines the resources alongside the capability of companies that are used to create a greater return and higher performance.

According to Morheneyand Pandian (1992), the resource-based strategy focuses on resources and the source of these resources, as the factors affectingfirm performance and sustainability of such performance. In this strategy, assumptions are made: That companies would make only the right decisions depending on the economic environment and that the employees are motivated to optimize the available resources (Barney, 2007). This implies that the extent to which a company controls its key resources determines its performance (Wernerfelt, 1984). This strategy gives the company's managers the benefit of the doubt to choose the best strategic factors and thus invest in such strategies. Barney, Wright, and Ketchen (2001) assert that each business has a unique set of tangible and intangible resources.

Tenets of RBV explain that resources include capabilities and competencies; resources are the set of factors that the company possesses and can be easily accessed, while capabilities are a combination of skills, knowledge, experience, and ability that enhances coordination of the activities of a firm (Amit & Shoemaker, 1993). Competences are the strengths of a business that favors its differentiation to produce better products/services by developing technological systems to respond to customers' needs. This increases the competitive advantage of the firm over its peers (Reed &Defillippi, 1990).

Resources are elements of a company's success. They can increase a company's dominance in a competitive market so long as the company can recognize the resources and utilize them better than its competitors (Collini& Montgomery, 1998). Creating a sustainable competitive advantage requires that the value of the resources and capabilities arerecognized. Such resources must be rare, while not being easy to imitate, and they must be non-sustainable. More rare resources create a competitive advantage because only fewer companies possess them (Teti, Perrini&Tirapelle, 2014).

Resources that cannot be easily imitated are expensive to duplicate, while non-substitutable resources means that there are no ready alternatives to such resources for the competitors (Barney, 2010). The theory is based on an organization competitive advantage and utilization of resources to meets it obligation. With the pandemic, resources within the organization have been limited in various ways and this affects organizational ability to perform. This theory is relevant to this study since it brings out the aspect of competitive advantage in the hotel sector.

2.1.2 Dynamics Capability Theory

This theory explains that companies must use flexible plans to achieve success in their operations. The theory is associated with Teece (1990) and helps firms to adapt to a changing environment. This is attained through dynamic abilities that generatenovelways of competitive advantage on time through the formation of new capabilities. According to Teece (1990), organizations have toscrutinize the ever-stormy forces of the environment thereforethere's need for putting in place strategies. This aids the organization ways toadapt, integrate, and realign the organization's core competencies,together with the skills set and other resources consistent with the rapidly stormy environment. Teece et al. (2007) regarded competitiveness in the quicklyvarying forces of the environment as a form of dynamic capabilities as opposed to competition in the sector. The term 'dynamic'is used to denote the need for an organization to reorganize its competencies so as to be inparity with the varying forces of the environment.

The key assumption of the theory is the view that companies can use different plans or flexible models in promoting their success. The theory considers the use of different ways in achieving firm goals. Despite this, it should be noted that the theory failed to consider the importance of formal plans in managing the organization. The theory is relevant to this study in that with the pandemic affecting the tourism sector, there is need for hotels to come up with plans to overcame the negative influence of COVID-19

2.2 Determinants of Financial Performance

There are several factors that determine the success of a company. The most important among these are discussed in the subsequent section.

2.2.1 Liquidity

Liquidity is an organization's ability to meet its obligations when they fall due (Dahiyat, 2016). In most circumstances, liquidity is measured using cash and cash equivalents ratios relative to a firm's total assets. When measuring a firm's financial performance, liquidity is often one of the most important indicators to be evaluated. A firm's number one priority is to optimize its revenue and working capital figures.

2.2.2 Solvency

Solvency is defined as the extent to which the current assets of an entity or individual exceed its current liabilities (Murray, 2016). In other words, it is the ability of an entity to meet its long-term fixed expenditures and establish a long-term growth and expansion plan. Whenever the solvency ratio is high, high financial performance is implied, and the reverse is true.

2.2.3 Capital Structure

The capital structure of a firm refers to its sources of funds, such as long-term notes payable, common stock and retained earnings, all of which help finance the firm's operations as it chases its growth and expansion ambitions (Brockington, 1990). It is worth noting that a firm's financial performance can be negatively or positively correlated with capital structure. Where a firm maintains a high level of debt, its capital structure may negatively affect its financial performance if the debt is not properly invested.

2.3 Empirical Review

This study's empirical review explores phenomena investigated and observations made by past researchers in their quest to address research problems and establishing relationships between and among variables at the heart of this particular study.

Globally, a number of studies have been done to determine the effect of Covid-19 Pandemic on the Financial Performance of Hotels around the world. For example, a study done in Japan by Kitamura et al. (2020) to evaluate the economic, environmental, and social impacts of the covid-19 pandemic on the Japanese tourism industry noted that apart from issues associated with health, the covid-19 pandemic has had an impact on various aspects of hotel industry and the government must protect its citizens and organizations from the virus. In India, Sharma et al. (2021) determine the Hotels' COVID-19 innovation and performance and argued that the main purpose of a government is to shield its citizens and organizations from security threats and this may require adoption of innovative models. Normally, the shield from threat is normally implied to refer to protection from external physical threats.

In China, Hao, Xiao and Chon (2020) evaluated COVID-19 and China's hotel industry and indicated that Covid-19 has negatively impacted the hotel industry in China since there were no visitors and the supply chain was highly disrupted. The study noted that governments must adopt new health, economy, and technology models to control the virus. However, these studies were done outside the country and they focus generally on the tourism industry.

Moreover, a study done in the USA by Filimonau, Derqui and Matute (2020) noted that at the beginning of the COVID -19 pandemic, the horticulture sector was greatly affected. In Kenya, the flower industry was deemed to be losing an estimate of KSH 250 million on a daily basis, which translates to an estimate ofKSH 60 billion annually. An estimate of thirty thousand personnelwere laid offwith some being sent on unpaid leave. The hospitality, travel, and tourism industries, which are the considered the country's economic powerhouse, were mostlyimpacted by the pandemic by about 80%. The trade sector recorded a decline of imports and exports from March to May because of the suspension of international flights. Several industries were affected, for example the tea industry.

The SME sector too was also impacted greatly. The pandemic had a negative effect on the daily operations of SMEs and its access to funds for their operations. With the aid of various humanitarian organizations, the USA government has put up measures to alleviate the impact of COVID-19. A committee was set, and it assists the government in reducing the effect of the pandemic and formulating future policies relating to preparedness and cushioning her citizens.

Kimani et al. (2020) evaluated the impact of COVID-19 on the health and socio-economic security of sex workers in Nairobi, Kenya, and noted that Covid-19 negatively affected the sex workers in Nairobi. Orenge (2020) also assessed the Effects of Covid-19 Pandemic on Stock Performance of Firms Listed at the Nairobi Securities Exchange and noted that the Covid-19 pandemic had a negative influence on the companies' stock performance within the NSE. In addition, Ngwacho (2020) determined COVID-19 pandemic impact on the Kenyan education sector and noted that Covid-19 led to learning disruption and changes in the education plans in Kenya. However, these studies focus on the non-hotel industry and mainly majored on the effects of the Covid-19 pandemic on firm performance of listed firms within NSE.

A study by Gichuna et al. (2020) on the analysis of the access to healthcare in a time of COVID-19 and effects of companies operations in Nairobi, Kenya noted that with the onset of COVID-19, more than amillion workers have been made redundant or are on unpaid leave. The annual grossdomestic product (GDP) is reduced by a margin of 2.4%.In financial markets, NSE was shutdown since most of the NSE share indices dropped by 5% and in additioneliminating about 120 billion Kenyan shilling from stakeholdersas a result of panic trading.The aviation sector was also affected with theloss assessedto be 800 million within a month, amongothers. The study concluded that the government must step in to help companies and workers recover from the virus.

A study by Ozili and Arun (2020) noted that with the onset of COVID 19, the manufacturing sectorrecordedan increase in revenue. For instance, pharmaceutical firms recorded the highest revenue turnover since businesses, households, and governments were purchasing their goods in caution and reaction. The beverages and food sectors recordedan increase in revenue at the onset of the pandemic but reduced with reduction in household income.

Unemployment led to a reduction in household income and thus money in circulation was greatly reduced which then led to a stretched demand and spread to other manufacturing sectors. Banks and financial providers too were impacted by the pandemic as a result of majority of employees being in the low income bracket. However, these studies focused on the banking industry leaving a conceptual gap.

2.4 Conceptual Framework

The conceptual framework adopted for purposes of this study analyses several variables within a contextual framework to make the research ideas explored herein distinct. The model that follows illustrates the independent and dependent variables used.

Independent Variable **Dependent Variable**

Covid-19 Pandemic

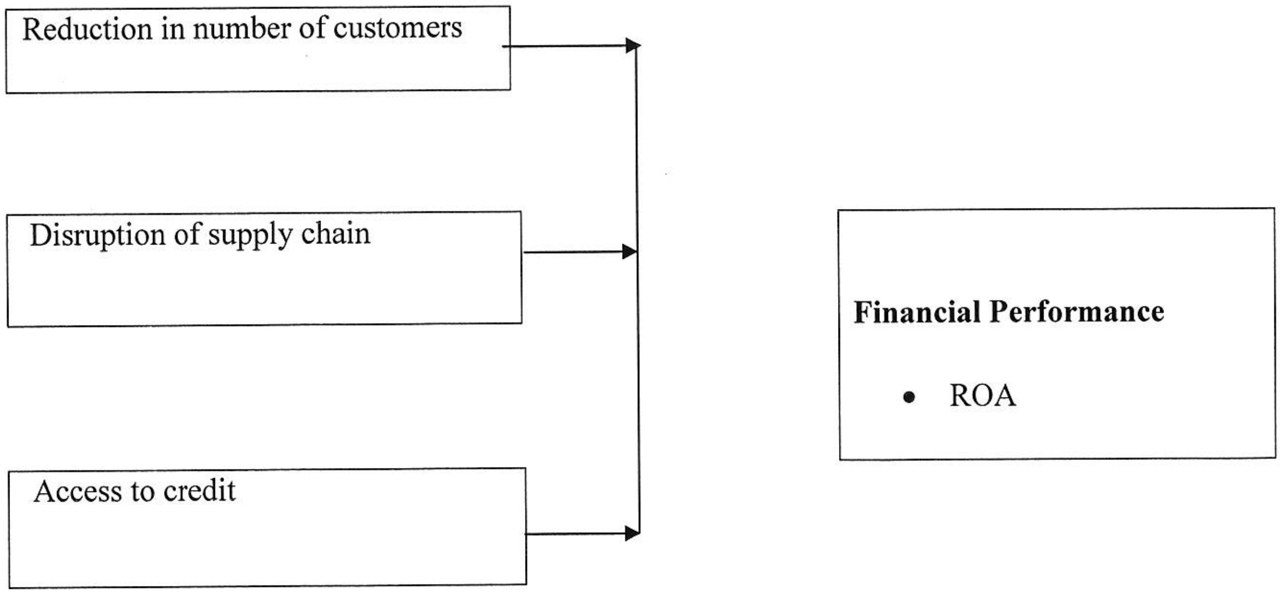

Fig.2.1: Conceptual Model

Source: Author, (2021).

CHAPTER THREE: RESEARCH METHODOLOGY

In this section, the study outlines the research design, target population, sampling design as well as the collection of data and methods for data analysis that was used to conduct the research. The researcher used an event study design and questionnaire as a method of data collection tool. The data collection method used included both primary and secondary data.

3.1 Research Design

The study used an event study design. An event study is a statistical techniquethat is used to evaluate the impact of an occurrence on aresult of interest. This method can be used as a descriptive tool to define the dynamic of the result of interest before and after the incident or in combination regression discontinuity techniques when the occurrence happened to assess its impact. According to Copper (2000), an event study, also identified as event-history analysis, uses statistical methods, with time as the dependent variable and then using variables that describe the period of an event or the time until an event occurs. This will help in this study since it will provide andallow the researcher to have an insight on the effect of the Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi, Kenya.

3.2 Target Population

The target population mainly consisted of five, four and three Star hotels in Nairobi, Kenya. Currently, there are 53 Hotels in Nairobi County. The study targeted the 53 hotels in order to get a good representation and diversity in the sector.

3.3Sampling Design

The study adoptedtotal population sampling technique to conduct the survey. According to Lavrakas (2008), a total population sampling is a type of the purposive sampling technique and it involves studying the whole population of interest. The author furthers notes that the sampling techniques is used mainly when the population of interest is small in size and with particular set of characteristics or attributes.

3.4 Data Collection

The study used both primary and secondary data. The list of hotels was sourced from the Kenya Hoteliers and Caterers Association, Ministry of Tourism. The data collected included the profitability of the company before and after the pandemic. The study collected the financials for the period 2016 to 2020. The primary data was collected using semi-structured questionnaires. This data was sourced from the KHAC, Catering levy trustee board, Ministry and the Central Bank of Kenya. The secondary data was obtained from financial statements, articles, books, newspapers and other online databases of Hotels in Kenya. The data collected will include the income, assets, liabilities and the net profit of hotels for the period before the pandemic and during the pandemic. This helped to evaluate and determine the effect of the Covid-19 Pandemic on the Financial Performance of Hotels in Nairobi, Kenya.

3.5 Data Analysis

The study used quantitative data analysis. Analysis of data was done after collection of data using questionnaire and thedata coded inSPSS andanalyzed using descriptive statistics.Descriptive statistics involves the use of absolute and relative (percentage) frequencies, measures of central tendency, and dispersion (mean and standard deviation, respectively). The analyzed data is presented in tables and graphs withthe results explained in prose. Multiple linear regression analysis will be done to ascertain the magnitude of analysis because it entails exploring an idea to provide more insight to the topic. This helps in the creation of more awareness of the majornotions of the study. Secondary data to be quantitatively analyzed for purposes of this study will span a period of two years, from 2020 through 2021.

Moreover, in this study, the researcher adopted an event-study design. This helped to determine the financial performance of hotels in Kenya before and after the Covid-19 Pandemic. The data was collected from top managers of Hotels in Nairobi, Kenya. The data collected was then checked for completeness and errors, later coded, and data analysis was done using Quantitative methods and using SPSS Software. This helped to provide descriptive statistics and relationship statistics among the variables. The data ispresented in tables, graphs, charts, and prose form for qualitative data.

3.5.1 Diagnostic Tests

The data collected was cleaned and coded as well as systematically analyzed using SPSS model. The quantitative data helped to determine the measures of central tendency such as percentages, frequency, mode and mean. The regression analysis model was used to determine effect of the COVID-19 pandemic on financial performance of the hotel sector in Kenya. The relationship between the dependent and independent variable is shown using linear regression model, especially by adopting normality test as well as multicollinearity test. The study also included auto-correlation test with a specific test value of $p<0.05$. This is to help determine the relationship among the variables.The model is as shown below;

$ROA = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$

Where;

β_1 Represent the coefficient of reduction in number of customers

β_2 Represent the coefficient of disruption in supply chain (cost of inputs)

β_3 Represent the coefficient of access to credit

β_4 Represent the coefficient of COVID

μ is the error term

3.5.2 Analytical Model

In evaluating the effect of COVID-19 on financial performance of hotels in Kenya, the model adopted coversCOVID -19 influence on ROA. A binary dummy variable was used to represent the period after COVID which is 1 and 0 to represent the period before COVID (Shahimi et.al 2021). The model is as follows;

$Y = \alpha + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \mu$

Where;

Y Represent the financial performance of Hotels (ROA)

α Represent the intercept of the regression

$X_1$is the number of customers which will be measured as a percentage change in number of customers for the period 2016 - 2020

X_2isdisruption in supply chain which will be measured as a percentage change in cost of inputs

$X_3$is access to credit which will be measured as a percentage change in credit owed for the period 2016 - 2020

X_4 is COVID 19 with a dummy variable 1 for pre COVID and 0 for after

$\mu$is the error term

3.5.3 Test of Significance

The study used F-Statistic and t-statistics to compute a 95% confidence level to test the effect of COVID-19 on financial performance. This helps to promote the validity of the study. Notably, the use of 95% confidence level, the t and F-test helps to determine the statistical significance of this research variable.

CHAPTER FOUR: RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the results of the study. The chapter first presents the descriptiveanalysis results followed by the correlation analysis results and then the regressionanalysis results. Finally, the chapter presents the summary and interpretation of findings.

4.2 Descriptive Analysis

Table 4.1 shows the summary descriptive analysis results. These are shown in terms of the number of observations, the mean, and the standard deviation.

Table 4.1: Summary Descriptive Statistics

	N	Mean	Std Dev.	Min	Max
ROA	40	18.59	76.65	16.74	258.32

Table 4.1 shows that the mean ROA was 18.59 with a standard deviation of 76.65. The minimum value was 16.74 while the maximum is 258.32. The data collected was from 40 hotels in Nairobi County.

The table below shows a summary of the descriptive for the independent variables.

Table 4.2 shows the descriptive for the independent variables.

	% respondents	Mean	Std Dev.
Reduction in number of customers	30	3.56	0.499
Disruption in supply chain	60	4.14	0.76
Access to credit	15	3.53	0.54
COVID	85	4.62	1.35

Source: Authors' computation

Froom the table4.2 above, hotels faced a reduction in customers by an average of 30% and most hotels faced a disruption in supply chin by about 60%. Few hotels had access to credit with about 15% getting access to credit. Most hotels were greatly affected by COVID with 85% reporting the negative effect.

4.3 Regression Analysis

Table 4.3 presents the results of the OLS regression analysis in terms of the model Summary. OLS was used to measure and ascertain the nature of the effectof COVID on financial performance of hotels in Nairobi County and whetherthe effect it is positive or negative and significant or not.

Table 4.3 presents the results of the OLS regression coefficients for the independent variables in the study. The t-values and p-values are also shown.

Table 4.3: Regression Coefficients

	Unstandardized Coefficients		**Standardized Coefficients**		
Model	**B**	**Std Error**	**Beta**	**t**	**Sig.**
Constant	25.279	2.59		11.09	.000
Reduction in number of customers	-0.356	0.088	0.054	4.32	.000
Disruption in supply chain	-0.285	0.106	0.075	3.64	.001
Access to credit	-0.265	0.164	0.054	3.85	.003
COVID-19	-0.459	0.075	0.65	4.55	.000

Source: Author's computation

The results in Table 4.5 show that reduction in number of customers, disruption in supply chain and access to credit all have anegative and significant effect on return on assets with a coefficient of -0.356, -0.285, and -0.265. A reduction in the number of customers will lead to a negative effect of 35% on the financial performance of hotels. The dummy variable COVID has a negative effect on the performance of hotels with a coefficient of -0.459. This means that an increase in COVID 19 will lead to a negative effect on the performance of hotels by 45%.

The regression equation will be stated as follows;

ROA = $25.279 - 0.356X_1 - 0.285X_2 - 0.265X_3 - 0.459X_4 + \mu$

Where;

X_1 = reduction in number of customers

X_2 = disruption in supply chain

X_3 = access to credit

X_4 = dummy variable COVID 19

4.4 Interpretation of the Findings

The study examined the effect of COVID-19 on the financial performance of hotels in Kenya.

From the results obtained, reduction in number of customers has a negative influence in the performance of hotels with a coefficient of 0.356. This means that with as customers reduce the financial performance is affected by about 35%. This is a result of reduction in revenue to from sales. A reduction in number of customers will lead to lower sales and eventually a lower revenue to the hotel. Reduction in customers was mainly due to the containment measures and increase in transmission of the virus. Access to credit also affected the performance of hotels with a coefficient of 0.265. With limited credit to run the facility, most services will be hindered and this will lead to inefficiencies and minimal revenues. With the uncertainties in the sector due to COVID, most lenders were not offering credit to customers and most hotels do rely on credit to run their business.

The study also found out that the disruption in the supply chain has a negative impact on the performance of hotels with a coefficient of 0.285. This shows that the financial performance of the hotel is affected by about 29%. This is caused by lack of inputs and raw materials to enable hotels to offer the required services. When this inputs lack, the hotels will not be able to provide the necessary services and hence lack of customers to serve and lower revenue. Disruption in supply chain was mainly caused by the restriction of movements imposed by the government and lockdowns. Most of the raw materials like foodstuff come from outside the county and therefore with restriction of movement and lockdown, the efficiency of delivery and supply is greatly hindered.

COVID-19 in general has a negative effect on the financial performance of hotels in Nairobi County with a coefficient of 0.459. A one percent increase in COVID cases leads to a 46% reduction in financial performance. The sector was mainly affected since it relies on visitors both local and international. With restriction of movements both internationally and locally, the number of customers greatly reduced with a majority cancelling their bookings. With the increase in number of confirmed cases, governments put in place containment measures and majority closed their borders and this greatly affected the number of customers visiting the hotels which led to lower revenues. A study by the Ministry of tourism (2020) shows that with the pandemic the hotels sector was faced with and significant reduction in demand for hotel services which led to some closing down and some laying off workers.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion of the study, limitations of thestudy, recommendations for policy, and suggestions for further research.

5.2 Summary

The study sought to examine the effect Covid-19 on the financial performance of hotels inNairobi County. The study used the variables reduction in the number of customers, disruption in supply chain, access to credit and COVID as a dummy variable. The target population was 53 hotels but 40 hotels were assessed. Primary data was collected from hotels in Nairobi County for the pried 2016 to 2020. Secondary data was collected from five star hotels in Kenya for a five year period. The data was organized and entered into SPSS version 22 for analysis using descriptive, correlation, and regression analyses.

The study found out that reduction in number of customers, disruption in supply chain, access to credit and COVID have a negative impact on the financial performance of hotels in Nairobi County. The coefficients for reduction in customers was found to be 0.356, for disruption in supply chain 0.285 and 0.26 for access of credit. COVID had a coefficient of 0.459. Most hotels faced a reduction in number of customers due to the containment measures put in place such as social distancing, curfew, lockdown. Some hotels were operating 24 hours but due to curfew most customers could not access the service. Disruption in supply chain was also affected mainly due to containment measures put in place which disrupted the flow of goods and services.

5.3 Conclusion

From the findings, the study concluded that reduction in number of customers, access to credit, disruption in supply chain and COVID have a negative effect on the financial performance of Hotels in Nairobi County. Most customer did not go to the hotels mainly due to fear at the onset and with the introduction of containment measures such as social distancing, curfew and lockdown, the number of customers greatly reduced. This mainly affects the daily revenue greatly and eventually the profit of the hotel.

The containment measures put in place had a great effect on transportation and this affected the supply chain. The cost of inputs went up greatly and the supply was limited. With this increase in price and limited supply, the revenue of the hotels were greatly impacted. COVID had a great influence on the performance of hotels since most customers were from International markets and with borders closed and restriction of movement, the hotels had few visitors and cancellation of bookings which forms a huge part in bringing in revenue.

5.4 Limitations of the Study

The study was not devoid of any limitations. The data collected from hotels are susceptible to bias since it was collected from finance officers who some were not willing to disclose some information and this might not be true representative of the real situation. Some had to seek approval from their bosses which delayed the outcome. Secondary data was had to access as most of the hotels do not publish their financial statements except Serena Hotel which is a listed company.The period for COVID was short to compare to the period pre-COVID and this may not bring out a true representation of the effects of the pandemic on financial performance of hotels.

5.5 Recommendations for Policy

From the findings and conclusions, the variables have a significant effect on the financial performance of hotels and therefore the study recommends putting in place measures to attract more domestic customers to help as a revenue stream. The hotel should enhance quality delivery of services by adhering to the set protocols and revise prices for the different market segments. Such measures could be subsidizing the cost of accommodation and food to entice the local customers.

The hotel sector and other players in the supply chain should develop a coordinated response to crises along the value chain to reduce and eventually eliminated any disruption. Removal of any transport barriers by working with transport providers will ensure smooth delivery of inputs. This will ensure there is a flow of inputs and enable service delivery in the hotel sector. The study recommends that the government should set aside a fund for hotels to access loans to facilitate smooth running of their business since they contribute to GDP. The government should also review taxes and levies to cushion the hotel sector during a pandemic or crisis.

5.4 Recommendations for further research

The study sought to assess the effects of COVID on financial performance. While there is an effect on the financial performance of hotels, the study recommends that further research be done on hotels countrywide since this study focused on Nairobi County. The study should also expand the years to include 2021 and perhaps do quarterly review of performance.

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APPENDIX 1: QUESTIONNAIRE

PART A: DEMOGRAPHICS

1. Name of hotel..............................

2. Please indicate the markets you operate in (Please select all that apply).

□ Domestic [ ]

□ Inbound [ ]

□ Outbound [ ]

3. How many staff (permanent and temporary) does your business/organization employ?

□ Up to 10 [ ]

□ 10-50 [ ]

□ 51-100 [ ]

□ 101-250 [ ]

□ More than 250 [ ]

4. Have you had to reduce staff numbers?

□ Yes [ ]

□ No [ ]

□ Not applicable [ ]

5. a) As part of measures to mitigate loss of revenue due to COVID-19, has your business enforced a pay cut on its employees?

   a). Yes [ ] No [ ]

b). If yes what is the percentage of pay cut?

□ 10% [ ]

□ 20-30% [ ]

□ 30-50% [ ]

□ 50-70% [ ]

□ Over 70% [ ]

6. Have there been any cancellations to existing bookings as a consequence of COVID-19?

Yes [ ] No [ ]

7. What percentage of booking would you say you have lost since the beginning of the COVID-19 outbreak?

□ Up to 10% [ ]

□ 10 -30% [ ]

□ 31-50% [ ]

□ 50-90% [ ]

□ Over 90% [ ]

8. What were the number of customers received in the following years?

Year	**No. of customers**
2016	
2017	
2018	
2019	
2020	

9. Did you have access to credit during the COVID pandemic period?

Yes [ ] No [ ]

10. How much credit did you receive in the following years?

Year	Credit received
2016	
2017	
2018	
2019	
2020	

11. Have you experienced a reduction in revenue?

Yes [ ] No [ ]

12. How much revenue did you receive before the pandemic and after on bookings in terms of (Ksh)?

Year	Revenue on bookings
2016	
2017	
2018	
2019	
2020	

13. What was the cost of inputs before and after the pandemic?

Year	Cost of inputs
2016	
2017	
2018	
2019	
2020	

14. Provide the following information regarding the performance of the hotel;

Year	No. of	Sales in	Capital	Assets	Net	Total

	permanent employees	Kshs		(total) in Kshs	income	expenditure
2016						
2017						
2018						
2019						
2020						

15. What measures has your business/organization put in place to mitigate the economic impact of COVID-19 on tourism? */*