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Effect of Cost Cutting Strategy on Performance of Star Rated Hotels in Nairobi County

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ABSTRACT: While the hospitality industry makes a great contribution to the economic development of a country, many hotels encounter organizational challenges associated with poor cost cutting. Such result, huge losses and sometimes closure of business. It is on this basis that this study sought to investigate the effect of cost cutting strategy on the performance of star rated hotels in Nairobi County, Kenya. The study was guided by lean management theory. The target population of the study was 61 general managers of the 61 star rated hotels in Nairobi County. The study adopted census approach to incorporate all the 61 managers involved in the study. The study was quantitative in nature and adopted a correlational research design, structured questionnaire was used collect primary data and data was analyzed using a statistical package for social sciences where descriptive statistics; mean and standard deviation. Inferential statistics involved the use of Pearson's Product Moment correlation and multiple regression models to determine the nature of the relationship between the variables. The findings of the study were presented in table form. The study concluded that cost cutting strategy has no statistically significant effect on performance of star rated hotels in Nairobi County (r=0.924, p=0.000). The study recommends that the hotels should consider sourcing supplies from cost conscious suppliers. They can adopt more cost-effective methods of production and service delivery. Lastly, the hotels should embark on prudent purchasing to reduce wastages and unnecessary cost

Key Words: *Cost Cutting Strategy, Performance*

I. INTRODUCTION

The hospitality industry plays a crucial role in the global economy and hotels, in particular, serve as essential pillars of this sector. For hoteliers, ensuring exceptional performance is vital for success in a highly competitive market, (Amusa&Adewale 2018). The measurement of hotel performance provides valuable insights into the efficiency, effectiveness, and overall quality of services offered. The performance of star-rated hotels serves as a benchmark for excellence, enabling guests and industry stakeholders to gauge their capabilities, (Adeyeye&Shomoye 2019). Measuring performance helps hotel management identify areas of strength and weakness, facilitating informed decision-making and strategic planning. Moreover, it aids in setting realistic goals, monitoring progress, and implementing necessary improvements. Effective performance measurement enhances operational efficiency, customer satisfaction, and financial sustainability, ensuring long-term viability in a dynamic market, (Akalu&Adeyemo, 2019).According to Bayoh, (2019), the performance of hotels can be measured using financial indicators. These indicators provide valuable insights into a hotel's profitability, revenue generation, and cost control.

A cost-cutting strategy is a deliberate and systematic approach that an organization or business implements to reduce its operating expenses and improve overall cost-efficiency. According to Brotherton, (2014), cost cutting refers to adoption of efficient, optimal and cost-effective business operations to achieve minimal overall costs in business operations. The primary objective of cost-cutting strategies is to optimize resource allocation and enhance financial performance while maintaining or improving the quality of products or services. Cost-cutting measures directly contribute to higher profitability by reducing operating expenses. Organizations can achieve a healthier bottom line, which is a key indicator of financial performance (Hitt et al., 2016). Cost-cutting strategies enhance financial stability by reducing unnecessary expenditures. This financial stability provides a safety net during economic downturns or unforeseen financial challenges, which can positively impact an organization's long-term performance (Hitt et al., 2016).

In star rated hotels, cost-cutting is a critical strategy for maintaining profitability and competitiveness in the hotel industry. High operational costs, such as labor, utilities, and maintenance, can significantly impact a hotel's bottom line, (Obagbemi&Ogunbodede, 2017). Hotels often seek ways to optimize their cost structures without compromising the quality of service. For instance, implementing energy-efficient technologies, cross-training staff to handle multiple roles, and streamlining procurement processes can help reduce operational expenses, (Middleton, Fyall& Morgan 2019). By carefully managing costs, hotels can achieve higher profit margins and offer competitive pricing to attract guests.

Many star-rated hotels focus on energy-saving initiatives. This includes implementing LED lighting, energy-efficient, and smart room controls to reduce electricity consumption. Energy-efficient practices not only lower operational costs but also align with sustainability goals (Hua & Liu, 2019).Labor costs are a significant expense for hotels. To optimize labor expenses, hotels often invest in staff training and cross-training, enabling employees to handle multiple roles. This flexibility ensures that staff can adapt to fluctuating occupancy levels efficiently (Manoharan & Ramkumar, 2018).Hotels often negotiate with suppliers to obtain competitive pricing for goods and services. They may also streamline procurement processes to reduce costs. Additionally, implementing inventory management systems helps minimize food and beverage waste (Ivanov&Sokolov, 2019).

Statement of the Problem

Nairobi County, the capital city of Kenya, is known for its vibrant tourism industry and serves as a hub for business and leisure travelers. The county boasts numerous star-rated hotels that aim to provide exceptional service and accommodation to their guests. However, despite their lofty aspirations, these hotels face a range of performance issues that hinder their ability to meet customer expectations. One of the significant challenges faced by star-rated hotels in Nairobi County relates to inadequate infrastructure and facilities. According to a survey by Kenya Tourism Board, (2022) over 40% of the hotels struggle with outdated or insufficient infrastructure, which impacts the overall guest experience. Customer reviews indicate that almost 30% of guests are dissatisfied with the quality of infrastructure and facilities in these hotels. Despite aiming to provide exceptional service, hotels often struggle to meet guest expectations consistently therefore the study sought effect of cost cutting strategy on performance of Star Rated Hotels in Nairobi County

II. LITERATURE REVIEW

The study was anchored on lean management theory. The lean management theory was developed by Ohno in 1950's. The theory is a systematic approach that aims to maximize value while minimizing waste within an organization. The primary focus of lean management theory is the elimination of waste, which includes any activity or process that does not add value from the customer's perspective. Key principles and practices of lean management include just-in-time production, continuous improvement, respect for people, visual management, and standardized work. Lean management emphasizes the pursuit of efficiency, quality improvement, and the creation of a culture of continuous learning and problem-solving, (Liker, & Meier, 2006). The theory was relevant to the current study as it emphasizes the identification and elimination of waste throughout the organization. It involves streamlining processes, reducing non-value-added activities, optimizing resource allocation, and improving operational efficiency to achieve cost savings. Hence the theory helped in explaining the effect of cost cutting strategy on performance of star rated hotels in Nairobi County.

Cost Cutting Strategy on Performance of Star Rated Hotels

Oluwayemisi, Egbekun, Ademola, Olusola, Mamidu. (2022) did a study on the cost control and financial performance: An empirical investigation of selected quoted manufacturing firms in Nigeria. The study employed secondary source of data and that were collated through annually financial reports of ten (10) sampled firms through 2011 to 2020. Data were analyzed using descriptive statistics, correlation analysis and panel regression which involve, pooled OLS, random effect estimation and fixed effect estimation including Hausman test as well as post estimation test for the models considered in the study. The findings of the study reported that administrative cost exert insignificant negative effect on profit after tax of the sampled firms, while selling and distribution cost exert insignificant positive effect on profit after tax. Therefore, this study concluded that cost control has both positive and negative effect on financial performance of manufacturing firm in Nigeria, especially, when measured in terms of profit after tax.

Chisulo, (2019) focused on the effect of cost reduction strategy on performance of tea industry in Mulanje Region. The study adopted descriptive research design. The target population was 117 management team comprised of five regional management team; regional accountant, operations manager, production manager, auditor, and 112 top management in 16 factories who include, 16 manager 16 production managers 32 accountants 32 training managers and 16 field coordinators sixteen factories that lie in Mulanje region. Correlation results revealed that there was a strong positive association between cost reduction strategy and performance of tea industry (r=.820). The results showed cost reduction strategy was significant with performance of tea industry since the p-value is less than 0.05 (p=0.000). Regression results showed that there was a strong positive relationship between cost reduction strategy and financial performance of the tea industry (r=.978). The study concluded that cost reduction strategy effect performance of tea industry in Mulanje region in Malawi positively.

Tang, (2018) did a study on the product innovation, cost-cutting and firm economic performance in the post-crisis context: Canadian micro evidence. The research shows that firms focusing on product innovation are indeed more productive than firms focusing on cost-cutting, although there is no evidence that these two different strategies make a difference in profitability. The first indication from the research has been that certain characteristics of Canadian firms are very useful predictors for firms to undertake product innovation. They are, among other things, the age of the firms, the single-establishment structure of the business and being multinationals.

Hesping, (2018) did a study on the tactics for cost reduction and innovation: empirical evidence at the category level. Data on sourcing tactics and performance have been collected in a survey including 107 sourcing projects. Structural equation modelling has been used to empirically test for the effect of sourcing tactics on performance. The study extends previous conceptual studies by adding initial empirical evidence about the effect of sourcing tactics on performance. In contrast to previous studies, findings show that price evaluation has an important impact on innovation.

Gichuki, (2019) did a study on the effect of cost management strategies on the financial performance of manufacturing companies listed on the Nairobi Securities Exchange. The study used causal research design specifically multi – variance linear regression model. The study findings revealed that the variables were positively related to financial performance of the manufacturing companies. The study recommended of the management focused on managing cost of distribution, cost of labour and cost of stock. That is ensuring just enough stock is available, the supply chain is reasonable and labour is minimal and efficient.

Egbide and Adegbo, (2021) did a study on the cost reduction strategies and the growth of selected manufacturing companies in Nigeria. The study examined the relationship between cost reduction strategies and the growth of manufacturing companies in Nigeria using data from annual reports of 40 manufacturing companies quoted on the Nigeria Stock Exchange within the period of 2012-2016. 40 manufacturing companies were sampled purposively for this study. Correlation analysis was conducted to determine the association cost reduction strategies and growth while, regression analysis was used to determine the impact of cost reduction strategies on the growth of manufacturing companies. Results showed a positive significant relationship between cost reduction strategies and growth of manufacturing companies in Nigeria

III. METHODOLOGY

The study was quantitative in nature and correlational research design was adopted. The descriptive research design enabled the researcher to expose the respondents to a set of standardized questions to allow comparison, (Fowler, 2013). The target population of the study was 61 rated hotels in Nairobi County. The unit of analysis were the 61 star rated hotels and the unit of observationwas 61 general managers who were the respondents in the study. Since the target population was small the study adopted census technique to include all the targeted respondents.The study utilized primary data which was collected using structured questionnaire. The questionnaire contained questions on a 5-point Likert scale that addressed all the study objectives. The researcher collected data from 5 rated hotels in Nakuru City County for purposes of pilot study. The hotels involved in the pilot study were not involved in the actual study. Data collected analyzed to examine reliability and validity of the research instruments.

Data collected through questionnaires was kept in a lockable cabinet and only the lead researcher had access to it, in order to protect its safety. The lead researcher ensured a soft copy of data is password protected, which was stored for a period of three years before discarding. Content validity was used to establish validity of the data collection instruments against the set study objectives (Gooding, Makwinja, Nyirenda, & Robin, 2018). To achieve this, the researcher consulted with the research supervisors to ensure the research items are adequate and are properly framed to collect the intended data. For construct validity, the study used short, straight forward and close ended questions that were easily understood. Items found to be ambiguous, irrelevant or confusing will be removed or reconstructed to convey the intended meaning, (Kumar, 2019). Criterion validity will also be ascertained. This was assessed by comparing the average scores of the different groups of respondents using analysis of variance (ANOVA). Measure of internal consistency technique method was used to access reliability of the instrument. Reliability coefficient, Cronbach's Alpha Coefficient was computed to indicate reliability of the instrument.

The researcher first sought clearance from Kabarak University Research Ethics Committee (KUREC). The researcher further sought a permit from the National Council of Science and Technology and Innovation (NACOSTI). After the essential approval the researcher sought consent from the administration of respective star rated hotels. With both the consent from the university and the star rated hotels, the researcher then requested the selected respondents to fill their consent form and questionnaires. Data was analyzed using both descriptive and inferential statistical methods.Descriptive analysis was done using frequency,percentage,means and standard deviations to describe the basic characteristics of the population. Inferential statistics involved the use of Pearson's Product Moment correlation and multiple regression models to determine the nature of the relationship between the variables. The multiple regression models may assume to hold under the equation. The findings of the study were presented in table form.

IV. RESULT

4.1 Response Rate

The study issued 61 questionnaires to be filled by respondents. Majority of the respondents preferred filling the questionnaire online. Out of the 61 questionnaires issued, 46 were successfully filled by the respondents indicating 76.7% response rate. Out of the 46 questionnaires successfully filled, 42 were filled online. Only 4 questionnaires were filled physically. According to Cooper and Schindler (2013), response rate of 70% and above is adequate for analysis.

4.2 Cost Reductionon Performance

The study examined the level of adoption of cost reduction by the rated hotels in Nairobi County. The findings from descriptive analysis were as presented in table 1.

Table 1: Descriptive Analysis on Cost Reduction

Item	Mean	Std. Dev
Our organization sources its supplies from most economical sources to minimize input costs	3.85	1.173
The organization uses efficient production methods to reduce on production cost	4.17	1.018
The organization uses modern technology to offer services at optimal cost	4.02	.931
The organization offers its foods products at most affordable price	4.04	.918
The organization offers its hotel rooms at most affordable price	3.67	1.266
The organization offers other services at least possible price	4.26	.929
Overall	**4.62**	**0.570**

From table 1, it is evident that the good number of the hotels source supplies from most economical sources to minimize input costs as shown by mean = 3.85 and SD = 1.173 showing high level of variability in the responses. This is explained by the purchasing abilities in different levels of classification of hotels. The hotels use efficient production methods to reduce on production cost as evidenced by mean = 4.17; SD = 1.018. Use of modern technology to offer services at optimal cost is evident in all levels of the hotels as shown by M = 4.02 and SD = 0.931. While the hotels at all levels generally offer affordable prices for food as evidenced by M=4.04 and SD=0.918, the rooms are not necessarily affordable as shown by M=3.67; SD=1.266. Lastly, the other services offered by the hotels are priced affordably as revealed by M=4.26 and SD=0.929. According to Oluwayemisi, Egbekun, Ademola, Olusola, Mamidu, 2022) cost reduction initiatives directly contribute to improving a hotel's financial health by reducing operating expenses and enhancing profit margins. By identifying areas of inefficiency and implementing cost-saving measures, hotels can free up resources to invest in essential areas, such as staff training, guest amenities, and facility upgrades. Reducing costs also positively impacts the bottom line, allowing hotels to achieve greater profitability and bolster their financial resilience in the face of economic downturns or unexpected challenges.

4.3 Regression Analysis

Regression analysis was conducted to examine the effect of cost reduction on performance of rated hotels in Nairobi County. Further, hypotheses were tested using t-test at 0.05 significance level. The research findings were as presented in this section.

4.3.1 Model Summary for Cost Reduction

First the study conducted a model summary to determine the proportion of variance in the dependent variable explained by the independent variables in this case the proportion of variance in cost reduction that is explained by the performance of star rated hotels as indicated in table

Table2: Model Summary for Cost Reduction

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.924[a]	.853	.850	.35452

From the findings the R-square = 0.853 indicates that 85.3% of variations in performance of star rated hotels was explained by cost reduction. 14.7% of the variations could be explained by other variables not in the model.

4.3.2 ANOVA for Cost Reduction

The study further conducted an analysis of variance to understand how well the model fits the data and whether the chosen predictors are significant in explaining the variation in the target variable

Table3: ANOVA for Cost Reduction

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	32.216	1	32.216	256.324	.000[b]
	Residual	5.530	44	.126		
	Total	37.746	45			

The value of F=256.324 and p=0.000 indicated that the relationship was significant at 0.05 significant level. These findings imply that cost reduction is a significant predictor of performance of rated hotels in Nairobi County.

4.3.3 Coefficients for Cost Reduction

The study also conducted a coefficient analysis to determine the direction and magnitude of the relationship between the predictor and the dependent variable in this case the direction and magnitude of the relationship between cost reduction and performance of star rated hotels.

Table 4: Coefficients for Cost Reduction

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	.556	.220		2.522	.015
	Cost Reduction	.855	.053	.924	16.010	.000

a. Dependent Variable: Organizational Performance

b. Predictors: (Constant), Cost Reduction

From the coefficient table 4 the study used t-statistic at 0.05 significance level. The findings in table 4, t=2.522 and p=.015 indicate that cost reduction significantly effects performance of rated hotels in Nairobi County

$$Y = 0.556 + 0.855X_2$$

The findings in this study confirm the findings reported by Chisulo, (2019) who established that there was a strong positive relationship between cost reduction strategy and financial performance of the tea industry. The study concluded that cost reduction strategy effect performance of the organization positively. Cost reduction strategies are associated with reduced wastages and enhanced efficiency which translates into improved financial performance. Cost reduction has not only financial outcomes but also social and environmental outcomes.

V. DISCUSSION

The study examined the extent of adoption of cost cutting in the rated hotels in Nairobi County. Findings on cost reduction revealed that good number of the rated hotels source supplies from most economical sources to minimize input costs. However, the level of cost minimization in the hotels varies depending on purchasing abilities in different levels of classification of hotels. The findings reveal that the hotels use efficient production methods and modern technology to reduce on production cost and to offer services at optimal cost. While it was clear that the hotels at all levels generally offer affordable prices for food, the rooms are not necessarily affordable. This could be explained by the varying nature of hotel rooms in different hotel classifications. Lastly, the other services offered by the hotels are priced affordably as revealed.

VI. CONCLUSION AND RECOMMENDATIONS

On the effect of cost reduction on organizational performance. From the research findings, the study concluded that the rated hotels are conscious in cost management starting from sources of input to production and service delivery. The study also concluded that cost reduction enhances organizational performance. This conclusion implies that cost reduction strategies like sourcing at optimal prices, and adoption of efficient systems lead to enhanced performance.From the findings the study concluded that cost reduction had a positive effect on organizational performance of rated hotels in Nairobi County since the overall mean is 4.00.

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