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Effect of lock-in design on performance of star rated hotels in a competitive market in Kisumu city, Kenya

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Keywords

Entrepreneurial designs,
Lock-in design and performance of star rated hotels

Abstract

The aim of the research was to establish how the application of lock-in designs affect the performance of star rated hotels. The research applied correlational study design where respondents were drawn from both public and private star rated hotels in Kisumu City. Acensus study consisted of 12 hotel managers and 37 hotel supervisors and who were the respondents. Closed ended questionnaires were used to collect data. Descriptive and inferential statistics including measures of central tendencies and regression analysis were conducted to establish the relationship between Lock in designs on performance of star rated hotels in Kisumu city. The regression results found a statistically significant association between the adoption of lock-in designs and performance of star rated hotels in a competitive market in Kisumu city, Kenya. The study concluded that lock-in design has significant effect on performance of star rated hotels in a competitive market in Kisumu city, Kenya.

1.0 Introduction

The increasing competition between star rated hotels has necessitated the need for research on application of entrepreneurial designs as a way of creating competitive advantage between the firms According to Pigneur (2010), the attention of researchers is slowly directed towards entrepreneurial design practices as it looks an alternative solution to help firms develop competitive advantage in the marketplace over other institutions. The development of the entrepreneurial design concept and the related terms in literature is as a result of the development of e-commerce which created new forms of doing business. Chesbrough (2007) defines entrepreneurial design as a combination of value offering, value creation and value capture to a target market. The entrepreneurial design describes the underlying principle of how a firm creates, delivers, and captures value to its target market and making that a normal competitive strategy.

Entrepreneurship design is a unique model of business that helps managers in navigating through the challenging business world. The entrepreneurial skills helps business in search and identification of opportunities that will promote their survival in the business world. Businesses applying such types of designs are aware of the risks in business, how to mitigate such risks, and constantly be innovative in developing the best out in the market. The techniques under different types of designs practices helps businesses in coming up with the best approaches to solve the problems existing in the marketplace.

The hotel industry being a service-based industry, is characterized by unique features, including relatively low barriers to entry (Onyango, Odhuno, Ouma & Othuon, 2010). Moreover, Kim, Dalbor, and Feinstein (2007) noted that major hotel firms active in this hotel business are usually small and medium-sized firms. According to Lashley & Rowson (2005), not only are hotels different in terms of their sizes, but they are also unique because of the dimension of family ownership and management. As such, a number of these hotels are not motivated by firm growth as they are not in pursuit of profits, unlike other hotels that are set up to pursue profit and growth. Some of these family-owned hotels are usually motivated by other non-financial factors such as independence and community recognition (Onyango et al., 2010).

According to Neely et al. (1995), performance measurement can be defined as the process by which firms quantify action, and this action usually leads to performance. Performance is considered a very important component of decision-making in the hotel industry, and as such, it has been existence for a very long time. Neely and others further posit that hotel performance measurement always offers hotels taking into consideration the unique features of a hotel business. Throughout organizations, performance measures have greatly focused on financial performance. On the other hand, it is difficult to pinpoint non-financial measures that predict financial performance; non-financial measures are never static; and compensating people for performance on multiple measures is extremely difficult (Planinc, Bojnec & Ivankovič, 2013). In this regard, Pimtong et al. (2012) noted that extant researchers usually lay emphasis on the measurement of operational performance, measured in terms of occupancy, price and revenue per available room (RevPAR). According to Udbhav (2017), hotel revenue per available room measures the financial performance of a hotel in revenue terms. According to Smith Travel Research (STR) (2017), globally, RevPAR growths have been weakening for the most part of markets, with some markets recording declines. However, some markets have reported growths in their hotel revenue performance. This has led to researchers such as Zhang (2016) questioning factors that explain hotel revenue performance.

Locally, the hotel business in Kenya has a rich history going back to the period before the nineteenth century when the primary cooking unit was worked at the drift. The principal hotel to be recorded in Kenya was implicit Mombasa and was called "The Grand Hotel, which was situated at the site of the previous "Minor Hotel". In Kisumu, one of the oldest hotels is the 40-year-old Kisumu hotel which has been one of the key players in the hotel industry in the lakeside city. The hotel business is firmly connected to the tourism business, and subsequently, changes in tourism situations directly affect the hotel business. Subsequent to accomplishing freedom, Kenya kept on promoting tourism, along these lines upgrading a further classification to the hotel business (Gathenya, 2012).

Over the last decade, many hotels in Kenya embarked on gaining the International Organization for Standardization (ISO) certification. The management of hotels in Kenya further perfected this pursuit by focusing their attention on achieving the coveted five–star classification. This classification provides hotels with a window of opportunity to join the membership of international organizations and schemes. These endeavours have therefore compelled many hotels to focus on measures of performance as a means of achieving superior

financial and non-financial objectives. Therefore, this study considered financial measures of performance because of the uniform usage of the measurement system.

The past one decade has seen the hotel industry experience a decline in revenues.

According to Cytonn Research (2018), hotel firms in Kenya have experienced declining revenues and occupancy rates over the past six years, with revenues declining with a compound annual growth rate of 6.7%. The same research indicated the average revenue per available room (RevPAR) over the years. For instance, in 2012, the average revenue per available room (RevPAR) was KES 8,319. In 2013 Kenya registered an average RevPAR of KES 7,594. In 2015, Cytonn report further shows that RevPAR declined to KES 7,308. This decline in average RevPAR did not stop, and it further declined to KES 6,317 in the year 2016. In general, the average RevPAR in 2017 declined to Ksh 6,317 from a 5-year average of Ksh 7,497. RevPAR has declined by 3.2% p.a between 2012 and 2014, mainly due to reduced hotel occupancy during this period. The three cities, Nairobi, Mombasa and Kisumu, contributed a declined RevPAR of 12.5%, 18% and Kisumu being the highest at 23% respectively on average.

In the year 2019 the Kenya hotel industry recorded declined bed occupancy rate to 30.8% as compared to the year 2018 which closed at 32.5%. Nyanza basin star rated hotel recorded a declined occupancy of 9% in in the same year from 29% in 2018, 30.2% in 2017and 37.2 % in the year 2016, (Kenya Bureau of Statistics, 2018). According to Cytonn research (2018), the ideal occupancy rate is between 75% to 95%. These declining revenue performances have raised concern among stakeholders on what factors determine the revenue performance of firms in the hotel industry. The concerned has raised as some hotels in the three big cities in Kenya close doors. Some of the reported closed hotels over the period included; intercontinental hotel and Hilton hotel both in Nairobi, Sunset hotel in Kisumu, has been struggling to keep afloat. In 2016, the 44-year-old State-owned hotel was declared bankrupt after suffering heavy cumulative losses.

Several studies have been conducted to address the challenges facing the hospitality industry both locally and Global. Whereas the issue of competition is very dynamic and being influence by current technology and innovativeness, hotels in developed nations have been able to address the challenges though research and developments. However, locally there is lack of research to address the challenges affecting hotels in Kenya.

Therefore the objective of this study was tofind out the effect of entrepreneurial lock-in design on hotel performance in Kisumu city, Kenya.

2.0 Discussion

Resource Based Theory is one of the most effective theories that would be applied in the business sector. The resource based theory was propounded by Wernerfelt (1984). It is based on the premise that the management of a firm would consider developing the firm to have specific, rare, and valuable resources that would make the business competitive. According to Hitt, Carnes, & Xu (2016), the resource based theory suggests that the resources in a firm are valuable, rare, difficult to imitate, and not easy to substitute. When a firm has such type of resources, it offers a foundation that would definitely give it more time to perform over the rest of the institutions. The application of entrepreneurial design is the management of a firm is likely to help with the development of the resources. The innovative nature of the entrepreneurship design allows the hotels to come up with the ideas that would lead to better competitive advantage to other firms. Entrepreneurship design allows the people in the organization to express their views and come up with different ways in which to make the institution become resourceful (Alvarez & Barney, 2017).

Porter's five forces of the threat of entry, the threat of substitution, bargaining power of buyers, bargaining power of suppliers, and rivalry among

current competitors were developed by Michael Porter (1980). Porter's model provides a framework that can be used to analyse the effect that industry structure has on firm performance within an industry. The Porter's framework is effective in consideration of the impact of application of entrepreneurship design in a competitive market to affect the firm performance. The research considers the Porters Five Forces Model as a key factor in controlling the competition within the market. The essence of porter's framework is that firm performances greatly depend on the characteristics of the industry in which a firm operates. This means that the determinants of firm performance are not to be found within the firm but rather within the industry.

Lock-in can be described as 'switching costs' (e.g., Amit & Zott, 2001; Smith, Bailey, & Brynjolfsson, 1999) that consumers are forced to incur when changing from one vendor to another. In addition, the search and communication costs incurred, for example, for initiation, definition, control, and adaption of a service agreement (Fleisch, 2002). Therefore, the lock-in effect has its theoretical underpinnings in transaction cost economics (Coase, 1937; Williamson, 1989). Additional inconveniences can arise for the consumer when switching to another service, for example, learning how to use the service or personalizing the service (Smith et al., 1999).

The lock-in effect is also facilitated by positive network externalities, which are commonly referred to as the "network effect"; an increased number of users make a product more valuable, as in the case of the telephone. Positive network externalities make it inconvenient and cumbersome to consume a service from another supplier. Thus, the lock-in effect also has a theoretical basis in the network theory (Katz & Shapiro, 1985; Liebowitz & Margolis, 1995; Shapiro & Varian, 1999). Amit and Zott (2001) argue that from a resource-based view (Penrose, 2009; Wernerfelt, 1984), a firm's strategic assets, such as a buyer-seller trust or brand name (D. Aaker, 2012); contribute to the lock-in effect triggers for the lock-in effect include a commitment to a contract, training and learning of product- or technology-specific knowledge, search cost, loyalty costs (losing a particular status), personalization of products or services, positive network externalities, dependence on complementary and compatible products or services, accommodation, habituation, and familiarization with a product or service (Frank, 2007; Harrison et al., 2012; Liebowitz & Margolis, 1995; Smith et al., 1999). Depending on the presence and extent to which these factors apply, the degree of the lock-in effect can vary. The lock-in effect can be weak if only a few factors apply with low intensity; it can be strong if several factors apply, or only a single factor, but with a strong impact.

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Lock in design has been measures with incentivised customers and suppliers as we;; as high switching costs. Hotel performance has been

measured by looking at hotel occupancy, revenue and customers retention. However, market competition has been mentioned in literature as a moderator between lock in design and hotel persons. The level of market competition can be measured by checking on the number of competitors in the market.

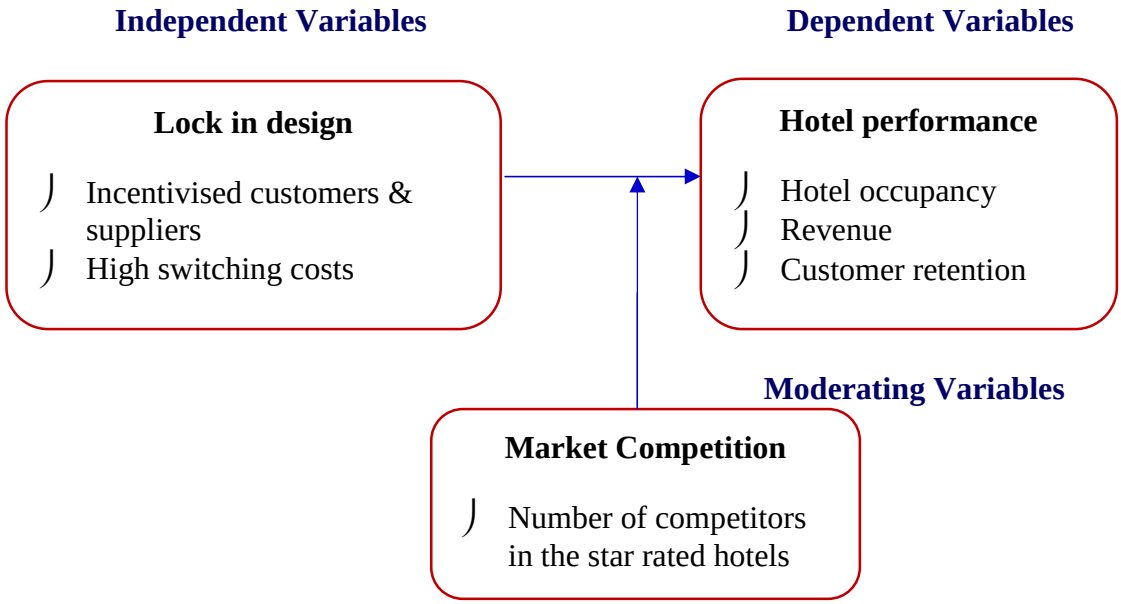

Figure 2.1 Conceptual Framework (Source: Author-2022)

3.0 Research methodology

This study employed a correlation study design. A correlational study design determines whether two or more variables are correlated (Salaria, 2012). This research method was also preferred because quantitative and qualitative data can be collected through a questionnaire (Salaria, 2012). The study was conducted in Kisumu city, Kenya. Kisumu is the third-largest city in Kenya and the country's principal Lakeport. Kisumu experiences a hot climate throughout the year. As a tourist destination, this city has experienced fast growth in recent years. Kisumu hotel industry is historical and futuristic. The study was conducted in public and private star-rated hotels in Kisumu city, Kenya. The study targeted respondents in managerial positions who are aware of how their firms operate. Owners and managers were targeted in the survey because they are the persons who are involved in the running of the firms (Ma, et al. 2018). Thus, a total of 49 respondents were involved. The managers were from censured from general managers, reception, accounts offices who are involved on daily running of the hotels. The sampling frame for this study consisted of at least two staff from every hotel. That is the head managers and the supervisors. Since the population is small and access to collect responses from all the respondents in the population is possible, this research applied the entire population of 49 respondents comprising of 12 hotel managers and 37 supervisors. The managers and the hotel supervisors in all of the hotels identified were used as part of the respondents.

According to Kombo et al. (2006), Primary data is information gathered directly from respondents. Structured Questionnaires were used as a tool for data collection. Data for this study was collected using a fully structured closed-ended questionnaire. Survey questionnaires was hand-delivered to respondents at their places of work.

The technique used were dropped and pick. Respondents were asked to complete the questionnaire, and later the researcher or research assistant collected the answered questionnaire. The drop and pick method is desired because it is convenient given the small study area (Sekaran, 2003). To ensure that the questionnaire has face validity, respondents were requested to indicate where the questions/items were not phrased appropriately in their own opinion. Such items/questions were then correctly phrased. The questionnaire was tested before being used to assess its effectiveness. Cronbach alpha coefficient was used to test the instrument's reliability, being a measure of the degree to which research instruments yield consistent results. The research instruments was subjected to overall reliability analysis using the split-half method. This was done by collecting data from a given number of respondents into two halves (often odd-even). The two halves are correlated using Pearson's correlation. An alpha coefficient of 0.7 or more implies that there is a high degree of data reliability. The instrument was deemed reliable with Cronbach's alpha coefficient greater than 0.70 (Hair et al., 2010).

Table 1 Pilot test

Variables	Cronbach's Alpha Estimated
Lock in design	0.77
Market competition	0.78
Performance	0.79

Table 1 Presents the results from the pilot study where 10 % of the target population was involved. It was observed that the reliability and internal consistency of the items constituting, Lock in design, Market competition and Performance. The individual Cronbach's Alphas for these variables were 0.77, 78 and 0.79 respectively which were above the required cut off minimum value of 0.7, therefore all the item in the questionnaire were reliable. The interpretation was that all the items in the research instrument were eligible for the inclusion in further collection of data and analysis.

Data was processed and analysed after the filled questionnaires are collected. Processing involved coding, editing, and cleaning of collected data ready for analysis. According to Kothari (2004), analysis refers to the computation of certain measures along with searching patterns of relationships. For descriptive statistics, measures of central tendencies and dispersions was analysed. The descriptive statistics has been presented using tables, bar graphs, and pie charts.

Following previous studies (e.g., Ma et al., 2018; Aziz and Mahmood, 2011; Brettel *et al.*, 2012; Zott and Amit, 2007) regression model for this study is as follows:

$Y=\beta_0+\beta_1L+\beta_2M+e$ …………………………(eq1)

Where

Y = Hotel performance, M = market competition, *L* = lock in design, e = error term
β_0 = intercept term

4.0 Study results

Table 2 Response Rate

	Number	Percentage
Responded	45	92
Did Not Respond	4	08
Total	49	100

Table 2 indicates the response rate from the questionnaires distributed. Out of the 49 questionnaires administered in the various hotels sampled, 45 were returned whereas 4 of the questionnaires were not attended. The overall response rate was thus found to be 92% which was adequate for further analysis. According to Mugenda and Mugenda (2003) a response rate above 50% of the sample size is adequate for further analysis and deduce the findings. However, response rate below 50% of the sample size is not adequate for analysis as it may not provide objective representation of the population sample

Table 3 Lock in Design

Response Statement	N	Mean	Std. Deviation
The hotel customers are not fully satisfied with our offer, but they stay with us due to switching costs	45	4.36	1.004
The hotel provides customers with personalized solutions	45	4.00	1.066
The hotel consider it important to maintain for as long as possible even those customers who are less profitable	45	4.18	0.860
The hotel rewards Regular customers through loyalty programs and other measures	45	3.76	0.957
The hotel overall entrepreneurial design can lock-in customers/suppliers	45	3.51	1.100

The study sought to examine the respondent's level of agreement or disagreement on the various measures of lock in design. Table 3, presents the relevant results which show that on a scale of 1 to 5 (where 1= strongly and strongly disagree=5). The means and standard deviations were (mean score 4.36), (mean score 4.00), (mean score 4.18), (mean score 3.76) and mean score (3.51) respectively for all the variables. In extension all the variables had a standard deviation at most 1.0 which means that all the constructs are normally distributed around their means.

Table 4 Market Competition

Response Statement	N	Mean	Std. Deviation
The unrated hotels are giving us a significant competition	45	3.47	1.179
We innovate new products always because of fierce competition in the market	45	3.87	1.057
Sometimes we have to do advertising because the market is competitive	45	3.93	.889
Sometimes we give customers discounts to attract them into our business	45	4.22	.927

The study sought to examine the respondent's level of agreement or disagreement on the various measures of market competition. Table 4, presents the relevant results which show that on a scale of 1 to 5 (where 1= strongly and strongly disagree=5). The means and standard deviations were (mean score 3.47), (mean score 3.87), (mean score 3.93), and mean score (4.22) respectively for all the variables. In extension all the variables had a standard deviation at most 1.0 which means that all the constructs are normally distributed around their means.

Table 5 Hotel Performance

Response Statement	N	Mean	Std. Deviation
Average occupation room rate has gone up tremendously over last five years	45	4.36	1.004
The revenue recorded in five years has been increasing tremendously	45	4.00	1.066
The hotel has always been able to manage it Cost per occupied room substantially	45	4.18	0.860
The net-profit profit margin over five years has been very acceptable	45	4.69	0.633
The hotel has been able to add the number of employees incrementally over the last five years	45	4.49	0.895

The study sought to examine the respondent's level of agreement or disagreement on the various measures of hotel performance. Table 5, presents the relevant results which show that on a scale of 1 to 5 (where 1= strongly and strongly disagree=5). The means and standard deviations were (mean score 4.36), (mean score 4.00), (mean score 4.18), (mean score 4.69) and mean score (4.49) respectively for all the variables. In extension all the variables had a standard deviation at most 1.0 which means that all the constructs are normally distributed around their means.

Table 6 Correlation Results

Pearson Correlation Sig. (2-tailed)	Performance	Lock in design	Market competition
Performance	1		
Lock in design	0.813** 0.000	1	
Market competition	0.687** .000	0.616** .000	1

**. Correlation is significant at the 0.01 level (2-tailed).

From table 6 it can be observed that the correlation between the independent variables and the dependent variable was high and positive 0.813 and 0.687 for Lock in design, and Market competition respectively. The implication was that the high correlation between performance and it determinants was good for regression analysis. The correlation between independent variables was found to be positive. The interpretation was that the level of multicollinearity between the independent variable was not very high which meant that the influence of each variable in the regression was relevant

Table 7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.900[a]	.811	.792	.31179
2	0.902[b]	.813	.789	.31389
3	0.933[c]	.870	.836	.27630

Table 7 presents the R-Square and Adjusted R-Square test statistics for the test of the hypothesis: there was no significant moderating effect of market competition on the association between Lock in designs on performance of star rated hotels in a competitive market in Kisumu city, Kenya. From the results the two test statistics were (R-Square 0.813 with market competition as a control in Model b and Adjusted R-Square 0.870) and (R-Square 0.789 and Adjusted R-Square 0.836) with market competition as a moderator in Model c respectively. The interpretation of this was that there was a linear association between moderator market competition, Lock in designs on performance of star rated hotels in a competitive market in Kisumu city, Kenya. The conclusion was that, there was moderation effect of market competition on the relationship between Lock in designs on performance of star rated hotels in a competitive market in Kisumu city, Kenya.

Table 8 Regression Coefficient

Variables		Unstandardized coefficients	Standard errors	t-statistics	p-value
1	(Constant)	-0.177	0.411	-0.430	0.60
	Lock in design	0.339	0.121	2.799	0.008
2	(Constant)	-0.188	0.415	-0.454	0.652
	Lock in design	0.324	0.124	2.606	0.013
	Market Competition	0.080	0.017	4.417	0.000
3	(Constant)	-5.321	1.622	-3.281	0.002
	Lockindesign	1.379	0.716	1.927	0.062
	Market Competition	1.580	0.456	3.468	0.001
	Lock indesign * Competition	-0.279	0.188	-1.482	0.147

From table 8, the regression coefficient of Lock In Design was found to be 0.339. This value shows that holding other variables in the regression model constant, an increase in Lock In Design by one unit causes the hotel performance to increase by 0.339 units. The value of the coefficient is also positive. The positive effect shows that there is a positive association between Lock In Design and hotel performance.

The coefficient was found to be positive and also statistically significant with a t- statistic value of 2.799. The standard error was found to be 0.121 and the p-value was found to be 0.008. These findings supports those of (Eurich and Burtscher, 2014), who found that lock in design had effect on hotel performance. The interpretation was that lock in design causes the hotel performance to increase. The hotel in Kisumu and Kenya should

consider the effect of Lock In Design to their hotel performance. Eurich and Burtscher, (2014) noted that the lock-in effect is facilitated by positive network externalities, which are commonly referred to as the "network effect"; an increased number of users make a product more valuable, as in the case of the telephone. Migol, Tretyak, Holm (2018) also had similar findings that support lock in design has a significant effect on performance.

From table 8, the regression coefficient of market competition was found to be 0.080. This value shows that holding other variables in the regression model constant, an increase in market competition by one unit causes the hotel performance to increase by 0.080 units. The value of the coefficient is also positive. The positive effect shows that there is a positive association between Market Competition and hotel performance. The coefficient was found to be positive and also statistically significant with a t-statistic value of 4.417. The standard error was found to be 0.017 and the p-value was found to be 0.000. The interpretation was that Market Competition causes the hotel performance to increase. The hotel in Kisumu and Kenya should consider the effect of Market Competition to their hotel performance.

The fitted regression model is

Model b

$Y = -0.188 + 0.324X_1 + 0.080M$ (control model)

Where; Y = Performance of hotel, X_1= lock in design, M = market competition (control model), β_0 = Intercept.

From the results in Table 8, for model b show that all the study variables are statistically significant, since all the p-values are less than 0.05. Thus the key contribution of the moderation effect was realized. Therefore this study has concluded that market competition is relevant and significant moderator and should always be considered in business management.

5.0 Conclusions

The first objective was to determine the relationship between Lock-in design and performance of hotels in Kisumu City. Lock-in design variable was composed of several constructs or statements which were used as instruments of capturing the opinions of the respondents namely. The hotel customers are not fully satisfied with our offer, but they stay with us due to switching costs, The hotel provides customers with personalized solutions, The hotel consider it important to maintain for as long as possible even those customers who are less profitable, The hotel rewards Regular customers through loyalty programs and other measures, The hotel overall entrepreneurial design can lock-in customers/suppliers. The regression coefficients result was positive and statistically significant. The interpretation was that, there was a statistically significant association of between novelty design and Performance of hotel industry. The entrepreneurs should consider the significant relationship between novelty design and performance of hotels in Kenya.

The study concludes that, there was a statistically significant relationship between lock in design strategy and performance of hotels in Kisumu City. The study concludes that there is need for enterprises especially those within the hospitality industry to be keen on key constructs or statements of lock in design such as; The hotel customers are not fully satisfied with our offer, but they stay with us due to switching costs, The hotel provides customers with personalized solutions, The hotel consider it important to maintain for as long as possible even those customers who are less profitable, The hotel rewards Regular customers through loyalty programs and other measures, The hotel overall entrepreneurial design can lock-in customers/suppliers. All these constructs or statements strongly supported the positive relationship between lock in design strategy and performance of hotels in Kisumu City and the whole country in general.

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