



## **Effect of Innovation on The Performance of Star-Rated Hotels in The North Rift Region, Kenya**

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### **Abstract**

Hotels should improve their innovation capabilities to effectively respond to competition and achieve optimal performance in the industry. The hospitality industry consistently aims to innovate in order to improve customer service. Unfortunately, the current literature on innovation in the service sector, specifically in the hospitality industry, is lacking in both theoretical and empirical research. The study set out to determine the effect of innovation on performance of Kenya's starred hotels in the North Rift. The research was grounded in the theory of contingencies. The study used an explanatory research design and positivism. A total of 575 hotel workers were included in the study. Self-administered questionnaires were used to collect data, which was then analyzed using SPSS version 25 using descriptive and inferential statistics. The research revealed a significant link between innovation and performance of star rated hotels. Based on the results, star rated hotels should rethink their innovation strategies and put more effort into enhancing their innovative capabilities. The star rated hotels should therefore innovatively search for important contingencies which can guarantee their high performance in the face of the ever-changing business environment. The star rated hotels should often create new products that provide value for customers. Besides, the star rated hotels should invest on service innovation strategies.

**Keywords:** Innovation, Performance, Hotels

## **1. Introduction**

The effectiveness of hotels depends on their continual interactions and exchanges with shifting business conditions, underscoring the need for innovative capabilities. In order to support economic growth, hotels should innovatively refocus their strategic responsibilities in the tourism sector. This can be achieved by offering innovative and personalized experiences that meet the desires of their guests. Bresciani, Thrassou and Vrontis (2015) avers that the crucial role played by the hotel industry in the tourism sector is essential for the delivery of all other tourism services. Hence, the hospitality sector should consistently strive for innovation in order to enhance customer service. This is further underscored by the widespread preference for new technology among hotel guests, with many willing to forego traditional amenities such as a business center or fitness center in exchange for this experience. Therefore, without the hotels strengthening their innovation abilities, they cannot significantly confront the challenge of competition in the hotel industry and perform.

Innovations are believed to positively influence an organization's future sales and performance. The presence of cost-conscious customers who are unwilling to pay higher prices for a product or service that can be found elsewhere at a lower cost, coupled with the rise of proactive consumers seeking distinctive experiences, and intensified competition, has led to an increased demand for improved services that cater to individual needs (Nicolau & Santa-María, 2013). This necessitates a continuous and ongoing focus on innovation. The adoption of innovation is crucial due to various factors such as evolving customer demands, competitive pressures, managerial expertise, technological advancements, and financial constraints, all of which have been identified as significant barriers to business growth and performance. Hence, hotel managers make critical decisions, such as investing in innovation, with the clear goal of enhancing the company's value and ultimately generating profits for its investors. Hotels should invest significantly in adopting innovative business practices that align with the ever-changing business landscape in order to enhance their performance. According to Nicolau and Santa-María (2013), innovation is a significant factor in determining organizational performance. The combination of these factors, without bias, represents the core of innovation in improving the performance of hotels with star ratings.

Not for nothing, Han, Kim and Srivastava (1998) shows that innovative activities lead to organizational growth and profitability, as it allows the firms to get synergies arrived at by the combination of technical

and administrative innovations. Both professionals and academics agree (with real-life examples & research) that diverse technical migrations make hotels efficient, motivate staff, and lead to happier guests. According to Shoaib (2019) product and service-centric innovations are excellent for sustainable business and achieving revenue landmarks. The strategic development of new services and products at hotels can be very lucrative in attracting new potential travelers & tourists.

The hotel industry is one of the sub-sectors in the tourism sector envisioned to deliver on the 10 per cent annual economic growth as projected in the Kenya Vision 2030 (Wachira & Kandie, 2021). It's worth mentioning that the travel and hospitality sector in Kenya is the country's second foreign exchange earner after agriculture. However, the hospitality industry in Kenya is very competitive (Siboe, 2019). Besides, Kenyan hotels have become more complex to manage because of the demands of the dynamic business environment occasioned by complicated service technologies and production processes (Nzioka & Njuguna, 2017). Besides, hotels succumb to stiff competition with some tourists preferring other destinations such as South Africa, Tunisia and Morocco to Kenya resulting in some hotels experiencing poor performance (Oketch, Wadawi, Brester, & Needetea, 2010). This is further evidenced by the hotels recording low occupancy rates averaging at 34.4% in Kenya against the Sub-Saharan market at 59.4%, which is an index of poor performance (Cytton, 2019; KNBS, 2017). Hotels in North Rift Region have the lowest occupancy rates, and have the lowest revenues in the market as an index of poor performance (Cytton, 2019). Their performance continues to worsen courtesy of the poor entrepreneurial orientation to survive hostile political, social, economic and institutional environment (Mwangi & Namusonge, 2014). It is therefore, critical for the hotels to explore innovative strategies to enhance their performance.

In Kenya there are limited studies on the link between innovation and the hotel industry despite its role in the economic development of the country. According to Owino (2018) product and process innovation affect the financial performance of hotels and restaurants in Kenya positively. This study was limited on hotels and restaurants in Nairobi. This means that its findings may not be applicable in other regions of Kenya due to different socioeconomic characteristics. In addition, hotel Mombasa identifies and eliminates non-value adding activities in the service process to enhance efficiency through strategic innovation (Kula & Kavale, 2022). However, the impact of innovation on performance in hospitality companies is still a puzzle (Martín-Rios & Ciobanu, 2019). Unfortunately, to date, the literature about innovation in the service sector

is still minimal and it is even rarer, theoretically and empirically, for the hospitality industry (Buhalis, et al., 2019). In this regard the study filled the existing gap in literature by assessing the effect of innovation on the performance of the hotels in Usain Gishu County Kenya. To investigate how innovation affects the performance of starred hotels in Kenya's North Rift Region.

## **2. Literature Review**

### **2.1. Contingency Theory**

Fiedler (1964) developed the contingency theory, which suggests that an organization's performance is contingent upon the alignment between its resources, structure, and strategies, and the external environmental conditions. The contingency approach emphasizes two key characteristics of open systems: Equifinality and adaption. According to the principle of adaptation, a system's components must adapt to one another in order to preserve the system's core characteristics. According to the equifinality concept, a system can reach the same final state by taking numerous paths with differing initial conditions.

The contingency perspective suggests that the effectiveness of managerial practices, styles, techniques, and functions is contingent upon the specific circumstances of the situation. The hotel management's responsibility is to identify significant factors that can ensure optimal performance in dynamic business environments. The determinants of contingency view pertain to the organization's external and internal environments. Hotels need to align their entrepreneurial orientations and capabilities with the forces in their external and internal environment. Contingent leaders possess the ability to select and adjust concise strategies in response to changing circumstances within an organization at a given time. Hotels must recognize their competitive advantage and ability to handle innovation in a highly turbulent environment. This theory is applicable to the study of innovation and performance in hotels. Like any other business, hotels must comprehend how to align their strategies with expected performance in both internal and external business environments.

The hotel industry operates within a business environment that is influenced by various factors, including customers, suppliers, partners, and competitors. Innovation plays a crucial role in the success of star-rated hotels due to the unpredictable nature of the business environment. Johannesson and Palona emphasize that contingency-based organizations achieve competitive advantage and performance by evaluating their

business environment and developing strategies that align with different levels of strategic orientation and environmental turbulence. Chowdhury suggests that hotels should adopt suitable structural compositions to address the complexities arising from customer preferences. Star rated hotels can achieve optimal performance by achieving internal and external fit through innovation. The contingency theory has been criticized for its assumption that businesses operate in fixed and uncontrollable contexts or environments. The application of the contingency theory of management necessitates managers to remain vigilant and refrain from relying solely on rules, policies, and tradition as their sole guiding principles for decision-making. The empirical literature review captured the relationship between innovation and performance of businesses.

## **2.2. Innovation and Business Performance**

Schumpeter posits that innovation leads to the creation of novel products, markets, processes, sources of raw materials, and organizational structures. In entrepreneurial literature, innovativeness is consistently recognized as a key element in an entrepreneurial strategy. Innovations drive the progress of the tourism, hotel, and restaurant industries, motivating companies to achieve market leadership and adhere to global service standards (Kozhukhivska, et al., 2022). Lumpkin and Dess (2009) highlighted Schumpeter as one of the early proponents of the significance of innovation in entrepreneurship. Schumpeter introduced the concept of creative destruction, It entails the production of wealth by upending established market structures through the introduction of fresh goods or services. Through this process, resources from established businesses are transferred to new businesses, promoting growth.

In order to investigate the relationship between innovation activity and company performance in Ukraine, Iavoska (2014) carried out a study. The main assumption was that the performance of a company is improved when a new product is introduced. The study found a negative correlation between prior innovation activity and business success in terms of returns on investment based on a sample of 6,900 Ukrainian companies from 2004 to 2010. However, no meaningful connection between prior invention activity and earnings before interest and taxes was discovered. The capacity to integrate new products was positively influenced by performance factors. The study also showed that less diverse organizations showed a higher likelihood of innovation, whereas larger firms showed a stronger inclination for launching a greater quantity of new items. A study on the effects of various innovation techniques used by Swedish

companies on future performance, specifically as evaluated by labor productivity, was done by Karlsson and Tavassoli. This study uses information from five waves of the Community Innovation Survey to investigate the innovative activity of enterprises in Sweden during a ten-year period (2002-2012). Four categories of innovations—process, product, marketing, and organizational—were covered by the study's sixteen unique innovation strategies. These tactics comprised both straightforward innovation strategies that concentrated on one of these four categories and intricate innovation strategies that combined these types. Due to industrial and contextual limitations, the study's conclusions had a limited potential to be generalized.

In their study published in 2021, Stojanovic and Stankovic looked at how innovation affected Serbian companies' success. According to the study's findings, process and product innovation both benefit an organization's performance. The competitive position of the business in relation to rivals and market profitability can both be improved by these two aspects of innovation. Value creation in both new and established small and medium-sized firms (SMEs) depends on innovation activities. The impact of innovation on corporate performance is not always favorable. Joko, Syamsurijal, Zakaria, and Muchsin (2021) investigated how innovation affected the spirit of entrepreneurship in Indonesia and what it meant for business performance. 215 PT Pegadaian (Persero) agents from Indonesia's South Sumatra Province participated in the survey. This study uses structural equation models (SEM) analysis methods in a quantitative research design. The LISREL programme was used to analyze the data. According to the study's findings, innovation and entrepreneurial spirit are strongly correlated. Additionally, it has a positive and significant effect on how well firms' function. The greater strength of the indirect effect compared to the direct effect makes the entrepreneurial spirit an effective mediator in the relationship between innovation and business performance. Improvements of all kinds, including managerial improvements as well as technical advancements, can improve the entrepreneurial spirit. Since the study was carried out in Indonesia, the results cannot be applied to the situation in Kenya.

An investigation by Atalay, Sarvan, and Anarfta looked at the connection between entrepreneurship and business performance in Turkey. In 2011, where 113 top-level managers from businesses in Turkey's automotive supplier industry participated in a survey for this study. This sector is renowned for being highly innovative. Using SPSS, the survey data were analyzed. The results show that technical

innovation—in terms of new products and processes—has a significant and positive impact on corporate success. However, there is little evidence to suggest a link between organizational and marketing innovation, a type of non-technological innovation, and company performance. It should be emphasized that the review had a particular emphasis on the automobile sector, which may have limited the applicability of the findings to the lodging sector.

Mahmutaj (2014) concentrated on how growth affected how small and medium-sized enterprises (SMEs) were displayed. The analysis found that associations basically place a priority on improving their ongoing item donations. Compared to 2010, there were 22.1% more associations engaged in pioneering activities in 2011. In 2011, associations presented fewer new products and services, down from 15.9% in 2010 to 8.5%. Kosovo's SMEs are focused on increasing their participation in ongoing projects. It is clear that the overall number of such advancements continues to be restrained despite the increase of innovative ideas by SMEs, whether as new goods or new internal cycles. Uncertainty exists regarding how sophisticated developments may affect hierarchical performance. Since the results of this study are exclusive to small and medium-sized enterprises (SMEs) in Kosovo, they should not be extrapolated to accommodations in other regions or larger cities.

Khin, Mohammad, Ying, and Yeap (2016) carried out a thorough study on 60 Malaysian SMEs to investigate the connection between business execution and growth. The study's goal was to investigate the connection between organizational power, experience, culture, and dedication in Malaysian SMEs and creativity. Second, this study looked at how involvement in decision-making and productivity affect innovation and business performance while also taking into account any potential moderating effects of these elements. The study's findings confirm that better business performance and higher levels of organizational creativity and dedication are positively correlated. The results show that influence, knowledge, and a company's culture are important determinants of innovations. There were inherent problems with this study that necessitated more research. Due to the study's exclusive focus on a Malaysian environment, its conclusions can only be somewhat generalized to the Kenyan context. The study used a smaller sample size in addition to other research techniques.

Ndubisi and Iftikhar (2012) investigated the relationship between performance, innovation, and entrepreneurship in Pakistan. The potential moderating impact of organization size on the proposed

linkages was investigated in this study. The study used factor hierarchical multiple regression analysis to assess data from 124 SMEs. According to the study's findings, there is no meaningful connection between business size and how entrepreneurship affects innovation and performance in small and medium-sized firms (SMEs). Because the study's sample was limited to service SMEs in Pakistan, it cannot be generalized to the situation in Kenya. According to a report on this study, the moderator variable used in the study was organization size.

An evaluation of the impact of several innovation characteristics on organizational success was done by Mohd and Syamsuriana (2021). In total, 284 samples were gathered from businesses in Malaysia's food and beverage, textile and apparel, and wood-based sub industries. The data were analyzed using hierarchical regression. The findings corroborated the idea that process and product innovation both significantly affect a company's success, with product innovation having a greater impact. The results, according to the authors, not only support the current understanding of the significance of innovation in explaining variations in firm performance, but they also offer insightful information for organizations and policy makers about the critical function of innovation in modern entrepreneurial endeavors.

In 2020, Tajpour, Hosseini, and Salamzadeh (2020). looked at how innovative factors affected the effectiveness of organizations in Golestan Province. The study used applied research methodology, particularly techniques for collecting descriptive-correlative data. To explore hypotheses, a 32-item structured questionnaire was created using previous research. The Golestan provincial government's management and personnel make up the research population. The research questionnaire was randomly distributed among 94 members of the research population using Cochran's technique. The structural equation modelling method and the SmartPLS 3 software were used to analyze the data. According to research, technological process innovation, administrative process innovation, and service innovation all have a significant impact on an organization's performance. Kenya was not the location of the study.

Within Pakistani manufacturing enterprises, Masood, Sadia, Muhammad, and Saman (2013) did a study to look at the effects of various types of innovation (product, process, marketing, and organizational) on various performance characteristics (innovative, production, marketing, and financial). The results show a relationship between different types of innovation and the success of small and medium-sized businesses (SMEs). To assess the data, the researchers may have used regression analysis. The sample size of 150 was



assumed without mentioning the methodology used to arrive at this sample size because the study did not clearly define the population being studied. For the aim of conducting this investigation, this gap was found.

In Hargeisa, Somaliland, Muhumed (2017) performed an empirical examination of how innovation affects the performance of small and medium-sized businesses. The target demographic for the review in Hargeisa was 6930 small and medium-sized businesses (SMEs). This number was acquired from the Hargeisa Nearby Government and the Somaliland Service of Exchange and Speculation, as these are the two agencies in charge of giving operating permits to small and medium-sized enterprises. 378 small and medium-sized enterprises (SMEs) were chosen from the general population as an example size. The review used expressive and relapse assessments to analyze the impacts of development. A significant association was discovered between Hargeisa's growth and hierarchical performance in the review's examination of relapse. The investigation discovered that product development, exhibiting innovation, and hierarchical development had a substantial impact on small and medium-sized firms (SMEs). The results definitely demonstrate that development has a big impact on Hargeisa's small- and medium-sized business activity and operations. The review excluded inns and solely looked at SMEs.

Abdissa, Ayalew, Illés, and Dunay (2021) focused on investigating the effect of corporate business venture (CE) components on the presentation of small and medium-sized enterprises (SMEs) in Holeta, Ethiopia. Clear and thorough research plans were implemented to achieve the review's intended aims. The analysts used primary and secondary sources of data to compile vital information from 173 members. All of the explanatory variables utilised in the analysis were found to be statistically significant and to have a positive relationship with the performance of small and medium-sized businesses (SMEs), according to the study.

To look into how innovation affects the performance of Small and Medium Enterprises (SMEs) in Tanzania, Ndesaulwa and Kikula (2016) reviewed empirical data. The study made use of online and library research techniques. According to the literature study, research on the connection between innovation and performance has mainly been conducted in Western, Middle Eastern, and Far Eastern nations, with little empirical data available for Africa. The objective of this study is to carefully examine how innovation and business performance are related. It has been claimed, based on a thorough study of the literature, that there is no reliable evidence about the overall effect of innovations on organizations' success. The empirical

data in their work emphasize the need for more research, particularly in Africa where there is a large research gap. The study ignored other characteristics and only looked at creativity as one aspect of entrepreneurial orientation (EO). This study intends to look at how all of the performance-related dimensions interact.

Kawira (2021) investigated how the MSMEs (Miniature, Small, and Medium-Sized Enterprises) exhibition in Kenya was impacted by result and management development as a cutting-edge showcasing strategy. The review handled the research in a positivist manner. The test included a unique review methodology. For the evaluation, 8,526 legitimate small- and medium-sized businesses (MSMEs) in the Tharaka-Nithi Area were recalled. The review test size of 368 MSME proprietors/directors was set up using delineated inspecting and arbitrary examining procedures. Through surveys that were physically delivered, data were gathered. The quantitative data was examined using illustrative and inferential measurements. This analysis indicates that there is a strong correlation between the display of small, medium-sized businesses (MSMEs) and the advancement of goods and services. The relapse investigation yielded a critical coefficient of 0.676 (p.05, Sig 000). This demonstrates that there is a positive relationship between item/administration development and execution, with a unit expansion in advancement translating into a 0.676 unit gain in execution, assuming that all other parameters remain constant. The Pearson item second connection coefficient shows that there are significant areas of strength for a relationship between the display of MSMEs and new item/administration development. The evaluation, in any event, didn't pay particular attention to the hotel area, creating a gap in the investigation that this one intends to address.

In 2019, Jin and Choi looked into how innovation activities affected the success of Korean IT and business service firms. In this study, 160 businesses in Korea's IT and business services sectors were examined between 2009 and 2017 for their innovative efforts and financial performance. 80 large and 80 small and medium-sized businesses (SMEs) made up the sample. In this work, fixed effect and random effect models, Hausman tests, and empirical analysis of panel data were used. The results show that increasing product innovation benefits both major corporations and small and medium-sized businesses (SMEs), including revenue and labor productivity. Similar to investing in R&D, spending resources for research, and having a longer firm history, higher business success is also a result of these factors. Large firms' business success

is positively impacted by process innovation, whereas SMEs' business performance is positively impacted by R&D collaboration. The study did not, however, take place in the Kenyan tourism sector.

Purwati, Budiyanto, Suhermin, and Hamzah focused on the effect of creative constraints on the display of small and medium-sized businesses (SMEs) in Indonesia in 2021. This study used a variable approach to examine the relationship between helpful capital, innovative administration, development limit, and SME productivity. Participating in the review were 352 small and medium-sized businesses (SMEs) in Pekanbaru, Indonesia. This sample, chosen by simple irregular inspecting and chance testing techniques, consisted of 333 private initiatives and 19 medium-sized organizations. In total, there were 2887 SMEs in Pekanbaru. According to the review, social capital indirectly influences small and medium-sized enterprises' (SMEs) commercial performance in Pekanbaru even though it doesn't directly and significantly do so. Innovative administration has a substantial impact on small and medium-sized businesses (SMEs). The focus of the review was on SMEs, or small and medium-sized businesses, in Indonesia.

Alosani, Yusoff, and Al-Dhaafri (2020) conducted an experimental focus on the combined effects of development and importantly expected the authoritative presentation of the Dubai Police. To evaluate the conjectured model from the review, an overview survey was used. The information was provided by the Dubai Police's overall section of supreme quality. Only 95 of the 150 reviews that were submitted were returned and suitable for research. Relapse analysis was used in SPSS to review the data and evaluate the hypotheses. The information outcomes support the value of creative thinking and important foresight regarding the authority viability of the Dubai Police. The example size for the review was way too little.

Ndalira, Ngugi, and Chepkulei (2013) examined what type of development meant for the growth of small and medium-sized businesses (SMEs) in Kenya. They concentrated on businesses in Nairobi's Jericho that produced apparel. The analysis found that, in contrast to other types of advancement examined, showcasing development had the most influence on the expansion of the apparel industry. The region was seen to be through a variety of developments, highlighting the fundamental role that development plays in helping businesses achieve and maintain relevance in the global market. The review recommends strengthening the development of creative practices through associations and networks in light of these findings. The absence of the hotel sector from this study's primary focus on market development provided a starting point for further research in this area.

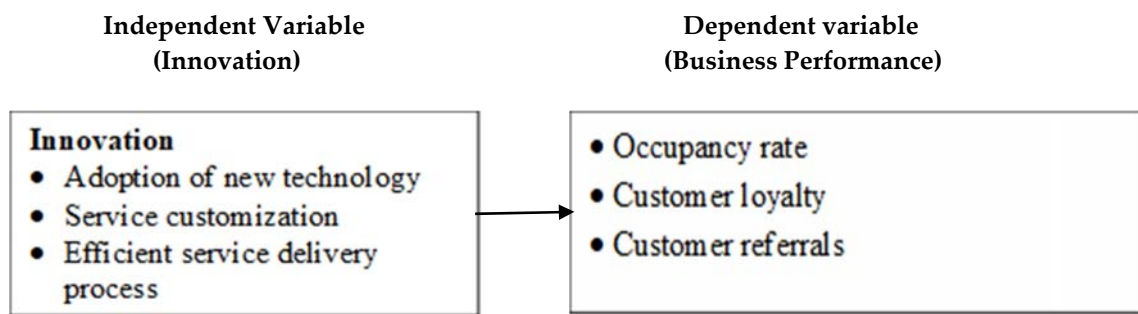
Ombaka, Machuki, Awino, and Gituro (2015) accepted a focus on the relationship between hierarchical assets, development, and execution inside the Kenyan protection area. According to this analysis, development serves as a complement to execution and assets. The hypothesis was rigorously tested using data from 46 insurance agencies in Kenya, both mandatory and optional. Despite mixed findings on the specific effects of assets on various measures of business performance, the findings demonstrate that both tangible and immaterial assets directly influence non-monetary execution. This study found that advancement completely controls the relationship between assets and non-financial success. The impact of early development on the visibility of small and medium-sized companies in Iten town, Kenya, was examined by Kiprop, Osodo, and Nyiva (2017). To investigate the link between dependent and autonomous components, an inferential study was done. The findings demonstrated how development had a significant impact on how small and medium-sized enterprises (SMEs) were represented. The presentation and development of small- and medium-sized businesses (SMEs) were found to be strongly positively correlated by the Pearson connection.

Wambui, Kahuthia, and Gakenia (2018) examined the impact of advancement systems on Telkom Kenya Restricted's presentation in their review. Through an interesting contextual inquiry technique, the evaluation aimed to assess how interactions and regulation development processes affect firm execution. The open advancement hypothesis, Schumpeter's innovative annihilation theory, problematic development hypothesis, and the asset-based view hypothesis were the four theories that were examined in this study. Surveys that were loosely organized were used to acquire data for the review. Every one of the 40 staff members of Telkom Kenya Ltd.'s central command was included in the review, which took a statistical approach. The expert directed information analysis using the Measurable Bundle for Sociologies (SPSS). According to the respondents, the investigation found that management advancement and cycle development approaches both significantly impact how hierarchical processes are carried out. The board should priorities authoritative advancements including establishing advancement centers, carrying out criticism stages, automating procedures, and launching society change campaigns in order to promote employee growth. The review's findings show that authoritative execution is significantly impacted by cycle development. By utilizing cutting-edge technologies and equipment, process innovations allow businesses to improve the quality of their goods and services, resulting in increased operational effectiveness, brand recognition, sales growth, and market success.

According to these reviews, innovation and organizational success have a very strong positive link, as stated by Masood et al., Mohd and Syamsuriana, and Kiprof et al. The study by Iavoska failed to find a meaningful connection between innovation and firm performance. Ombaka et al.'s (year) argument also states that innovation is crucial in mediating the link between resources and non-financial success. Additionally, there is a dearth of study on the connection between business performance and innovation in the context of star-rated hotels.

### 2.3. Conceptual Framework

The relationship between dynamic capacities, entrepreneurial orientation, and corporate performance is conceptualized in this study.



**Figure 1.** Conceptual Framework

A company's efforts in developing original concepts linked to creativity, which later improves corporate performance, are referred to as being innovative. According to Milovanovic and Wittine (2014) and Giudici & Reinmoeller (2013), innovativeness was evaluated by looking at the adoption of new technology, service customization, and effective service delivery methods. The study used arbitrary performance measures for businesses, which was consistent with earlier empirical studies. According to Rajnoha and Lorincova (2015) and Wambugu et al. (2015), this study used non-financial strategic indicators and techniques to evaluate business performance, such as customer referrals and quality of service (measured by occupancy rate and customer loyalty).

### 3. Research Methodology

This study aimed to gather reliable evidence on the relationship between study variables. The data was collected from knowledgeable respondents who could provide accurate information. The study followed a

positivist approach and used deductive reasoning. The research design used in this study was explanatory. According to Elahi and Dehdashti (2011), the study design is the most effective way to determine the relationships between variables and forecast the occurrence of social or physical events. The study concentrated on staff members at five-star hotels in Kenya's North Rift Region. As the unit of analysis, hotels with stars were the main subject of the study. 585 participants in the study were chosen from star-rated hotels in Kenya's North Rift region. Participants were chosen from the administrative and service teams because they deal with customers and have a solid grasp of the competitive environment that hotels face. For generalization purposes, their comments on the causal link between the research variables can be utilised. Based on a target population of 575 people (Yamane, 1967), a sample size of 236 employees was chosen using the modified sample size formula by Kent and Myers, as mentioned in Etuk and Akpabio.

Where:

n = Sample size

N = Population size

e = the error of Sampling

This study allowed the error of sampling of 0.05. Thus, sample size was 286:

$$= 236$$

According to Lundström and Särndal (2002), non-response leads to nonresponse bias in the estimates. Besides, non-response increases the variance of estimates because the effective sample size is reduced. The non-response rate was calculated using a formula derived from Nilima (2017) based on the given sample size. The formula to determine the final sample size is the effective sample size divided by one minus the anticipated non-response rate.

The study accounted for an expected non-response rate of 15% when determining the final sample size.

$$236/1-0.15= 278$$

The final sample size was thus 278 respondents.

The data was collected through the use of structured questionnaires administered to a sample of employees and managers from star-rated hotels. The questionnaire included close-ended questions and items utilizing

a 5-point Likert scale, which is a widely used method in the social sciences for assessing perceptions, attitudes, values, and behavior. The examined data was assessed for completeness and consistency. Data processing and screening involved addressing missing data and assessing response rate. Excluded missing data from subsequent analysis. Descriptive statistical measures, including percentages, mean, and standard deviation, were employed.

Data was also analyzed by use of inferential statistics such as, simple linear regression

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon \dots\dots\dots(1)$$

Where;

Where, Y represents the performance of hotels.

The symbol  $\beta_0$  represents a constant value.

$\beta_1$  represents the coefficients of the variables in the model.

$X_1$ : Innovation  $\varepsilon$ : Error term (residual error, unmeasured variable)

The statistical tests mentioned above were analyzed using SPSS, version 25.

#### **4. Findings and Discussion**

##### **4.1. Descriptive Analysis**

The researcher wanted to discover the state of innovation in the star-rated hotels in Kenya's North Rift Region, according to the study results shown in Table 1.

**Table 1.** Innovation

Statement	N	MIN	MAX	SKEW	KURT	M	SD
Our hotels seek new business.	238	1	5	-.392	1.584	3.99	.816
Our offerings address client needs.	238	1	5	-.178	1.807	4.46	.825
The hotel frequently develops customer-valued offerings.	238	1	5	-.756	2.531	4.50	.686
The hotel constantly innovates client service.	238	1	5	-.955	1.686	3.96	.778
The hotel always provides consumer value.	238	1	5	-.653	1.196	3.96	.754
Our hotel interacts with clients via social media.	238	1	5	-.315	2.660	3.96	.762
Our hotel has innovative service.	238	1	5	-.850	2.411	3.75	.714

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E-marketing helps our hotel communicate consumer experiences.	238	1	5	-.683	1.645	3.90	.716
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**Source:** Researcher's Field Survey (2023)

**Key:** N stands for "number," MAX="maximum," SKEW="skewness," KURT="kurtosis," M="mean," and SD="standard deviation."

According to the results, the majority of respondents agreed that their hotels constantly search for new business prospects, with a mean of 3.99, skewness =-.392 and kurtosis = 1.584, while a small minority disagreed, with a standard deviation of.816 (Min=1, Max=5). In order to increase their clientele, this meant that start-rated hotels in the North Rift Region are constantly on the lookout for new business prospects. Based on a mean of 4.46 and a standard deviation of.825 from the mean (Min=1, Max=5), the services of their hotels specifically address the needs of their guests. It suggests that star-rated hotels in the North Rift region enhance their offerings in response to consumer demands.

The majority of respondents believed that hotels frequently develop new products that offer customers value, according to the symmetry of the responses, which had a mean of 4.50, skewness -.756, and kurtosis of 2.531. However, some respondents were unsure and disagreed, with a standard deviation of.686 (Min=1, Max=5). The majority of respondents agreed that hotels should always be looking for new methods to connect with clients, as indicated by a mean of 3.96, skewness of -.955, kurtosis of 1.686, and variation from the mean of.778. It is clear that star-rated hotels in Kenya's North Rift Region priorities engaging with consumers through social media. Additionally, the majority of respondents agreed that their hotels always look for ways to provide value for guests, with a mean of 3.96, skewness of -.653, kurtosis of 1.196 (Min=1, Max=5), and SD of.754. With a mean of 3.96 and a standard deviation of.792, the respondents agreed that hotels had prioritized implementing online customer engagement (such as through social media), while others disagreed and were unsure. As a result, star-rated hotels in the North Rift Region have embraced online connection with their clients (such as through social media) to improve their clients' access to information in order to increase their market share (Min=1, Max=5, with an SD=.762). The majority of guests concurred that their hotels have made investments in service innovation initiatives, with a mean of 3.75, skewness of -.850, and kurtosis of 2.411; nevertheless, some were split, with a standard deviation of.714. It is undeniable that top-rated hotels in the North Rift region have used their entrepreneurial skills to explore service innovation tactics.



The majority of respondents agreed that e-marketing had aided their hotels in sharing guests' experiences, with a mean of 3.90, skewness of -.683, and kurtosis of 1.645; nevertheless, some disagreed and were unsure, with a departure from the mean of .716. This suggests that the vast majority of the region's star-rated hotels have embraced e-marketing as a method for disseminating customer experiences. These imply that innovation, which anticipates customer needs and positions hotels in the North Rift Region as a top choice, is the cornerstone of hotel operations there. This is corroborated by the fact that innovations promote the expansion of the hospitality and tourism sectors, allowing companies to not only dominate their own market segments but also to meet high standards for customer service (Kozhukhivska et al., 2022).

The researcher wanted to discover the status of performance in the star-rated hotels in Kenya's North Rift Region, according to the study findings shown in Table 2.

**Table 2.** Performance of Star Rated Hotels

Statement	N	MIN	MAX	SKEW	KURT	M	SD
Occupancy has increased in recent years.	238	2	5	-.266	.064	3.96	.512
Hotel bookings exceed bed capacity.	238	3	5	-.368	.346	4.07	.325
Our hotel has few client complaints.	238	2	5	-.621	-.270	3.91	.632
Our guests are very loyal.	238	2	5	-.653	.748	4.04	.588
Our hotel exceeds guest expectations, keeping them returning back.	238	2	5	-.263	.374	3.68	.470
Our service culture improves hotel image.	238	2	5	-.284	-.466	3.88	.549
Renovated facilities have increased hotel referrals.	238	2	5	-.310	.177	4.05	.497

**Source:** Researcher's Field Survey (2023)

**Key:** N stands for "number," MAX="maximum," SKEW="skewness," KURT="kurtosis," M="mean," and SD="standard deviation."

The majority of respondents agreed that their hotels' occupancy rates had risen in recent years, with a mean of 3.96; nevertheless, there was a standard deviation of .512 from the mean, with some respondents disagreeing and undecided (Minimum= 1, Maximum= 5). Star-rated hotels have presumably achieved high occupancy rates thanks to their strategic orientation, which can be linked to an increase in market share (skewness = -.266 Kurtosis =.064). With a mean of 4.07 and a standard deviation of .325 from the mean, the majority of respondents agreed that there are more hotel reservations than there are beds available. It denotes that the star-rated hotels' quality of services is in line with the expectations of the market, which has led to booking rates that are higher than the allowed number of guests per room (minimum=3,

maximum=5). According to the data, the majority of respondents agreed that their hotels do not experience strong consumer demand, with a mean 3.91 and a variance of.632 from the mean, while some respondents disagreed and some were unsure. It suggests that the star-rated hotels have made an effort to reduce client complaints by providing effective service loyalty (Minimum=2, Maximum=5). The majority of respondents, with a mean of 4.04, agreed that their hotels enjoy strong levels of patronage, while a small minority disagreed or were unsure, with a standard deviation of.588 (minimum=2, maximum=5). With skewness= -.653 and kurtosis=.758, it can be said that star-rated hotels have adopted a commitment to providing great service in order to maintain client loyalty.

The majority of respondents, with a mean of 3.68 and a standard deviation of.470 from the mean, agreed that their hotels consistently meet and exceed guest expectations, which keeps them coming back. Other respondents, on the other hand, disagreed with this statement and some were unsure (minimum= 2, maximum= 5). It may be concluded that the foundation of any business performance and competitiveness is fulfilling and exceeding customer expectations. The respondents who agreed that their service cultures have improved the hotel's reputation had a mean score of 3.88 and a standard deviation of.549 (range, minimum, maximum). Some, though, were divided and unconvinced. This suggests that hotels with star ratings priorities their guests' demands in all aspects of business operations, creating a favorable service culture.

Last but not least, the majority of respondents—with a mean of 4.05 and a variance of.497 from the mean—were in agreement that the hotel has received more client referrals as a result of the renovated facilities (minimum=2, maximum=5). Therefore, it means that star-rated hotels should regularly renew their operations through effective maintenance management procedures to ensure the highest possible client referrals. The results show that the star-rated hotels in the North Rift Region have been incarnated with an entrepreneurial attitude and dynamic capacities to ensure them high customer satisfaction and a positive reputation. This has also led to high levels of client loyalty at the hotels. As a result, they must constantly embrace an entrepreneurial mindset and dynamic abilities in order to survive in the market. An entrepreneurial mentality and continuous service development enable hotel organizations to combine, adapt, and renew their resources and capabilities for improved performance (Ali et al., 2020).

**4.2. Testing for Direct Effect of Innovation on Performance of Star Rated Hotels in North Rift Region**

The multiple regression analysis results were presented in Table 3.

**Table 3.** Effect of Innovation on Performance of Star Rated Hotels

	Standardised Coefficients		Standardised Coefficients		Sig.
	B	Error	Beta	t	
(Constant)	1.922	.237		8.107	.000
Innovation	.498	.058	.486	8.547	.000
<b>Model Summary statistics</b>					
R	0.486				
R Square	0.236				
Adjusted R Square	0.233				
Std. Error of the Estimate	0.295				
R Square Change	0.236				
<b>Good of fit statistics</b>					
ANOVA (F stat)	73.046				
ANOVA (F prob)	0.000				

a Dependent Variable: Performance of Star Rated Hotels

**Source:** Research Data, (2023)

The goal of the study was to ascertain whether there is a statistically significant correlation between innovation and the success of star-rated hotels in the North Rift area. According to the study's findings, innovation significantly and favorably affects the performance of star-rated hotels in the north rift region. A beta coefficient of 0.498 ( $t = 8.547$ ;  $p\text{-value} = 0.000$ , less than the significance level of 0.05) lends support to this. Therefore, it can be said that innovation results in better performance in hotels with star ratings. The naive theory has been disproved. This implies that in Kenya's North Rift Region's star-rated hotels, innovation results in better performance. The null hypothesis has been rejected. Tajpour, Hosseini, and Salamzadeh (2020), Karlsson and Tavassoli, Khin, Mohammad, Ying, and Yeap, and Iavoska have all reported significant findings regarding the impact of innovation on organizational performance. Organizational innovations can enhance organizational performance by reducing operational costs and improving employee satisfaction (Abdissa, Ayalew, Illés, & Dunay, 2021). Hotels that adopt innovative practices are likely to achieve improved performance. Contingency and stakeholder theories provided support for these findings. This suggests that stakeholders should be the central focus in any innovation

endeavor. The hotel management must proactively identify critical factors that ensure optimal performance in dynamic business environments. Innovation is only effective in improving performance if it is meaningful to the stakeholders. Star-rated hotels should prioritize innovation in their products and processes to meet the needs of their clients.

### **5. Conclusion**

This study emphasizes how important innovation is to star-rated hotels' success. Through its influence on variables like technology, production, and markets, innovation favorably affects the performance of star-rated hotels, ultimately boosting the overall performance of these facilities. Therefore, these results provide a strong foundation for the claim that innovation significantly affects the performance of hotels with star ratings. Innovative hotel practices are likely to lead to enhanced performance. Stakeholder theory states that organizational innovations can improve organizational performance by decreasing operational costs and raising stakeholder satisfaction among employees. These results are supported by contingency theory, which emphasizes the significance of taking contingency variables into account when making decisions on innovation.

### **6. Recommendations**

Organizational innovations can enhance organizational performance by reducing operational costs and increasing employee satisfaction. Star-rated hotels should proactively seek out crucial measures to ensure their sustained excellence amidst the dynamic business landscape. Star-rated hotels should regularly develop innovative products that offer added value to their customers. Additionally, it is important for star-rated hotels to allocate resources towards the development of service innovation strategies. This study effectively explored the conceptual framework of innovation and organizational performance, while also highlighting potential avenues for future research. The study focused exclusively on the hospitality industry. It would be beneficial to conduct a similar study across diverse industries and sectors and reassess the conceptual model employed in this research with a larger sample size to ensure comprehensive generalization of the findings.

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