ABSTRACT

The Government of Kenya recognizes the role played by hotels and restaurants in terms of wealth creation, contribution to Gross Domestic Product (GDP) and its multiplier effect that acts as a stimulus to the growth of other sectors such as transport, entertainment, agriculture, trade and industry. There are a limited number of detailed studies into performance measurement practices in the hospitality industry in particular. Most of the previous studies in the hotel industry have used traditional financial ratio analysis such as return on equity or return on assets. Few studies have used Data Envelopment Analysis (DEA) for the hotel sector. The purpose of this study was to measure the relative efficiency of the hotels in Nairobi and the Coast region· using Data Envelopment Analysis. The objectives of this study were; to measure the efficiency level of 2-5 hotels, to profile the hotels based on their performance, to analyze their efficiency distribution and to identify the determinants of efficiency differences. The study was a longitudinal survey in which data are collected for each variable for two or more distinct periods; 2007, 2008 and 2009 being three such distinct periods. The study was carried out in Nairobi and Mombasa and was limited to two-five star hotels. The study sample consisted of 36 hotels. Data for 2007 to 2009 collected through interviews. The results revealed many hotels were in private independent ownership particularly in the three star rating. International chains owned most of the five star hotels. The hotels generated most of their revenue from room sales. There was a general decline in revenue from rooms in 2008 attributed to the post election violence. Technical inefficiencies of the hotels were mainly due to the pure technical inefficiencies rather than the scale inefficiencies. These hotels were ineffective in converting inputs to outputs. The results further revealed that four and five star hotels had declining efficiency scores from 2007 to 2009. In 2007 22 % of the hotels were operating under decreasing returns to scale while 8.3% operated under increasing returns to scale. In 2008, 19.4% of the hotels operated under increasing returns to scale while 13.8% operated under the decreasing returns to scale. In 2009 33% of the hotels operated under the increasing returns to scale whereas 19.4% operated under increasing returns to scale. There were no significant differences in the efficiency scores for two and three star hotels as one set and four and five star hotels as a second set. There were equally no significant differences in the efficiency scores for the hotels found in Nairobi and Mombasa and also between chain and independent owned hotels. Generally, there was no significant difference in the efficiency scores between the different hotel sizes. The main determinant of efficiency was the location of the hotels. The study recommends that the hotel managers address their hotel's internal weaknesses in their day to day hotel operations if they are to be more efficient. One of the conclusions of this study is that all the hotels studied had declining efficiency scores from 2007 to 2009. A policy implication for the managers of the inefficient hotels is that they should borrow the best practices of their efficient peers if they have to raise their hotel's performance. Another policy implication for investors is that one can invest confidently in Nairobi since the efficiency of the hotels in this region is likely to be higher compared to those in Mombasa.