# The Effect of Strategic Value-Based Management on the Performance of Organizations in Coast Province, Kenya

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## Abstract

*This paper established the effect of Strategic Value-based Management on the performance of organizations in Kenya and specifically the performance of hotels in Kenyan Coast. Pearson's correlation coefficient and Multiple Regression was used to determine whether hotels in Mombasa use Value- based management and whether Value-based management influences their performance. The regression results indicated that value-based management had a positive effect on the performance of hotels. However, although there was a positive relationship between the use of VBM and performance, it was concluded that not many hotels had adopted Value-based management strategies and this justifies another study on other determinants of the performance of these hotels apart from value -based management. The study was based on a survey of 70 managers of classified hotels in Mombasa and was relating the performance of these hotels to the probability of using value-based management visa vis not using value-based management through Regression Analysis.*

**Key Words:** Value-based management, Performance, Hotels

## *1.0 Introduction*

Everyday, people at all organizational levels make decisions that affect their organization's value – yet the link between these decisions and change in company value is often not made. Without this link, companies cannot be sure that the decisions being made are increasing value which is the single measure of a company's success. VBM can provide this link by providing two things. These are:- a philosophy that puts value creation at the centre of operational decision making and a process that links day-to-day management with strategic objectives.

A hotel hotel is a building where rooms, meals and other associated services are provided for people in return to payment. The hotel industry is positively related to tourism industry because no country can attract tourists without hotels. According to Economic Survey,(2007) the Government of Kenya has taken positive steps to improve the growth sectors of the economy such as Tourism. The Kenya Hotels and Restaurants Regulations Act (1988) established standards upon which classification of hotels is based. The regulation classifies Hotels in to five classes denoted by stars with 'five' being the highest and 'one' the lowest. The classification of Hotels and Restaurants is carried out in the manner prescribed by the Hotels and Restaurants Authority Published in the Legal Notice No. 30 of February 16, (2001) of the Hotels and Restaurants Act. According to Economic Survey (2007); the Hotel Industry provides a significant direct employment creation with about 100,000 wage earning employees in Kenya. Indirect employment is created in other sectors such as taxis, souvenirs and supply of goods (Oduori 2006). Davidson (1993) noted that of the 1.5 million people working in the tourism industry in Britain for example, over one million are employed in the Hotel Industry. This applies to any country to which Tourism Industry exists.

### 1.1 Problem Statement

The Hotel Industry in Kenya plays a very important role in the country's economic development in terms of foreign exchange, government revenue and provision of employment and business opportunities. However; the hotel industry faces a lot of challenges (Zhao &Jing, 2009).

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Some of these challenges are; Operational challenges such as Human resource issues e.g labour shortages, unqualified staff and high staff turnover; Marketing issues such as market segmentation and guest sophistication; Economic issues such as globalization and Technological issues such as data mining and yield management.

All the above problems will affect the performance of hotels and therefore VBM could offer a solution to this dilemma through providing a management system which incorporates all functional areas of the organization. There is a gap in the academic literature in that no scientific evidence reports how value-based management is used by Kenyan organizations.

### 1.2 Research Objectives

The general objective of the study was to determine the extend to which hotels in Coast Province have embraced value-based management and its effect on the performance of the Hotel Industry.

**Specific Objectives**

(i) To establish whether managerial characteristics determine the adoption of VBM in hotels in Kenyan Coast.
(ii) To assess the extent to which hotels in Kenyan Coast have adopted VBM methods.
(iii) To assess the effect of VBM on the performance of hotels in Kenyan Coast..

### 1.3 Research Questions

The research will seek to answer the following questions:-
(i) Do Managerial characteristics influence the adoption of VBM tools in hotels in Kenyan Coast?
(ii) To what extent have Kenyan hotels embraced the use of VBM tools in their hotels?
(iii) Does VBM determine the performance of hotels in Kenyan Coast?

### 1.4 Justification of study

The works of Value-based Management (VBM) tool gurus, such as Rappaport(1988), Stern, Shiely and Ross (2001); Stewart (1995) have added to our knowledge of how VBM can provide managers with an integrative framework to manage organizational activities to create shareholders wealth. However, little evidence is available in this area in the developing countries such as Kenya and more so in the Hotel Industry. Moreover, there is little evidence on the awareness, use, and scope of value-based management in Kenyan organizations. Like most sectors of the Kenyan economy, the hotel industry has gone through turbulent times in the last two decades. First is stiff competition with some tourists preferring other destinations such as South Africa, Tunisia and Morocco to Kenya. This competition has resulted in some hotels experiencing liquidity problems resulting in some being placed under receivership. Second, the demand for hotel services is seasonal which makes facilities and staff to be underutilized during low seasons. This calls for demand for better management techniques such as VBM. According to Mukewa (2005) in de Waal (2007) there are other challenges facing Kenyan hotels such as increasing change in consumer tastes and preferences, Lack of adequate finances and government support, changing customer needs and trends, increasing power of the customer through the internet and lack of consistency in employee hiring, training and recognition (Oduori 2006). In Kenya, hotels have also suffered a lot as a result of terrorism attacks . All the above problems justify the study of the use of VBM methods so that the hotels can improve their performance and maintain their clients and businesses.

### 1.5 Scope of Study

The scope of study involved a population of 70 classified hotels in Coast Province**.**

## *2.0 Literature review*

### 2.1 Introduction

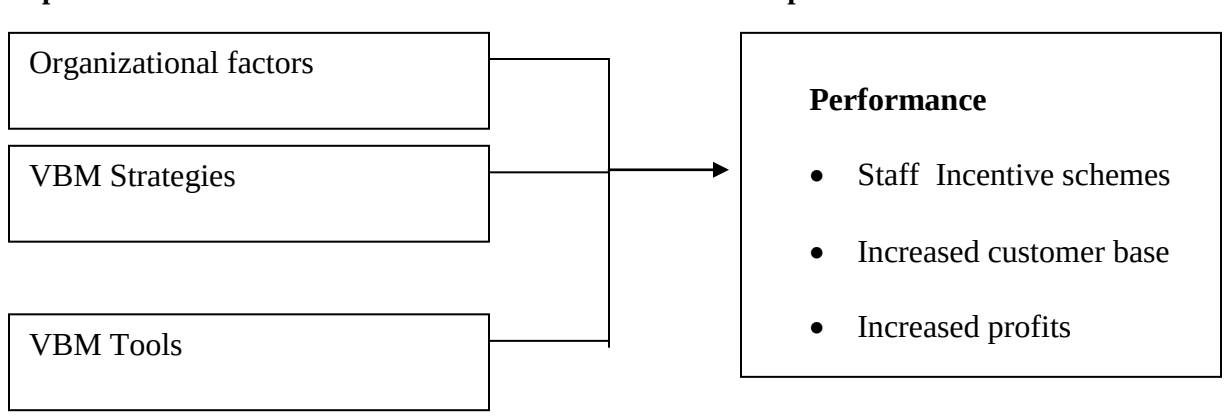
This chapter discusses the literature on performance and value-based management, and the conceptual framework. It links the study problem and objectives to the literature and reviews what other scholars have done previously about the area of value-based management and performance**.**

### 2.2 Theoretical review

The basic concept of value can be traced back to 19th Century Economic Theory which pioneered the idea of residual income. However the term VBM was not used until the mid 1990's by authors such as McTaggart et al, (1994). McTaggart, (1994) defines VBM as a formal systematic approach to managing value creation and shareholder value over long time. VBM is also an approach to management whereby the company's overall aspirations, analytical techniques and management processes are all aligned to help the company maximize its value by focusing decision – making on the key drivers of value (Copeland et al 2000). VBM became popular in the mid 1980's when Rapport published his seminar text, "Creating shareholder value- the new standard for business performance. Value-based Management theoretically involves a shift away from the use of Traditional Accounting measures such as Earnings Per Share (EPS) and Rate of Return on Equity (ROE) etc, which are argued by the proponents of VBM to offer an unreliable guide to 'shareholder value creation', Companies should adopt a number of alternative measures (e.g. Economic Value Added (EVA), Cash Flow Return on Investment (CFROI), Rate of return on Investment(ROI) and Discounted free Cash flow valuation (DCF) that are intended to provide a 'calculating machine' consistent with the principles of economic income' (Bromwich, 1998). These measures have in common the basic premise that profit needs to be measured in a way that takes into account the cost of the capital employed to generate it.

For a company to be performing, it must be in a position to match its internal resources to the demands of its external environment and in particular its markets and customer expectations of increasing value creation (Johnson and Scholes,1993). Ansoff and Sullivan (1993) have listed some of the prescriptions for optimizing profitability such as: strategic planning, back to the basics, emerging strategy, logical instrumentalism, stick to knitting, return to core business and put customers first. No company is going to survive by history and build the future on historical strengths and therefore organizations need to continuously improve their performances in order to beat competition and the dynamism of the business world. There are many management approaches nowadays which can improve organizational performance such as teambuilding, business re-engineering and Total Quality Management among others. VBM is different from all these because it aligns all business processes to the goal of creating value.

### 2.3 Conceptual Framework




## *3.0 Research Methodology*

The research was based upon a descriptive survey study intended to establish the role of value based management on the performance of hotels in Coast Province. According to Boyd, Westfall and Starch, (2004) descriptive survey studies describe the who, what, where, when and how of a phenomenon. The main reason for selecting these hotels is due to their recognition in growth and stability of the economy since the mid 1980s; and as a consequence they are the spear-heading the economy towards the achievement of vision 2030. These organizations can therefore make use of VBM to increase their strength and performance and to support growth. The Heads of Finance/Accounting Departments or top managers of these companies will be the respondents and data from the survey will be examined; prescreened and analyzed with SPSS version 16.

### 3.1 Model specification

This is a cross sectional study study and the main aim is to test the model to determine if there is a positive relationship between organizational factors and VBM, to a firm's performance. Data analysis will be done using descriptive statistics, multiple regression analysis model

$$\mathbf{y= a+\beta_1 X_1 + \beta_2 X_2+ \beta_3 X_3 + e}$$

Where y=dependant variable (organizational performance)
$X_1$ independent variable #1(Organizational factors)
$X_2$ independent variable #2(VBM Strategies)
$X_3$ independent variable #3(VBM Tools)
$\beta_1$ $\beta_2$ and $\beta_3$ =Regression coefficient for each Independent variable
E=Random error.

### 3.2 Research design

The research was an empirical study based on review of literature related to VBM tools and performance. The method used to collect data was a Structured Survey Questionnaire which was designed to cover the four main areas of the Conceptual Framework Model. Many scholars have defined survey as a "Quantitative Research which tends to bring out a static picture of social life. It was designed to give information about the degree to which there is consensus among members of the sample about certain circumstances. A survey method can be used in descriptive studies to discover the characteristics of a given population and not to test a theory (Vander Stede et al.,2007). In this research the questionnaire was used to test whether there was a relationship between VBM use in hotels and performance and it was administered to the sample of respondents (Brownell, 1995). This questionnaire was administered physically in Mombasa area as the sample involved was not large and the distances between hotels were quite reasonable.

### 3.3 Data sampling and sample size

The research was based on seventy (70) hotels in Kenyan Coast. The experimental site was three counties in Coast Province namely Kwale, Kilifi and Mombasa. The study wasbased on a survey of Managers of 70 classified hotels in Coast Province to examine the relationship of a number of explanatory variable to the probability of using VBM verses not using VBM via a regression analysis. The survey questionnaire listed the most popular VBM methods referred to in the Conceptual Framework. Each questionnaire had its own unique identification number which allowed for a second request to be send out.

### 3.4 Definition of variables

Linear regression was used to specify the nature of the relationship between the two variables.

a. Predictors: (Constant organizational factors, vbm, managerial characteristics)

b. Dependent Variable: performance

**Regression Equation**

*Performance = 0.281 + 0.130(of) +0.016(vbms) +0.156(vbmt)*

### 3.6 Implementation of the Model

Is the model useful?
$H_0$:$\beta_1= \beta_2= \beta_3= \beta_4= \beta_5=0$

$H_A$ at least one is not 0 i.e. Bi≠0
F=5.048
P=0.000 < 0.1 ($\alpha = 0.1$ =10% level of significance)
So we reject $H_0$

AT LEAST ONE OF THESE COEFFICIENTS IS NOT ZERO

SO THE MODEL IS USEFUL

## *4.0 Research findings*

### 4.2 Analysis of respondents using correlation analysis

**Table 4.2.1 Correlation between independent variables and the dependent variable.**

#### 4.2.1.1 Correlations(descriptive statistics)

**Descriptive Statistics**

| | Mean | Std. Deviation | N |
|---|---|---|---|
| performance | 1.1237 | .26124 | 62 |
| Managerial characteristics | 2.2328 | .58883 | 68 |
| Customer focus | 2.8135 | .76792 | 68 |
| Vbms trategies | 1.0664 | .16782 | 68 |
| Vbm methods | 2.5524 | .93960 | 68 |
| Motivation rewards | 1.1566 | .24263 | 66 |
| strategic plans | 101211 | .01234 | 63 |
| organizational factors | 1.0308 | .17404 | 65 |

**Table 4.2.1.2**

**Correlations**

| | | Performance | Staff characteristics | Customer focus | Vbm strategies | Vbm methods | Motivation rewards | Strategic plan |
|---|---|---|---|---|---|---|---|---|
| performance | Pearson Correlation | 1 | .214 | .109 | -.051 | .480** | .325* | -.089 |
| | Sig. (2-tailed) | | .095 | .101 | .694 | .000 | .010 | .496 |
| | N | 62 | 62 | 62 | 62 | 62 | 62 | 61 |
| Organizational factors | Pearson Correlation | .214 | 1 | -.031 | -.200 | -.149 | .137 | -.175 |
| | Sig. (2-tailed) | .095 | | .805 | .102 | .225 | .272 | .163 |
| | N | 62 | 68 | 68 | 68 | 68 | 66 | 65 |
| Customer focus | Pearson Correlation | .109 | -.031 | 1 | .083 | .031 | .291* | -.045 |
| | Sig. (2-tailed) | .397 | .805 | | .502 | .805 | .018 | .721 |
| | N | 62 | 68 | 68 | 68 | 68 | 66 | 65 |
| Managerial characteristics | Pearson Correlation | -.051 | -.200 | .083 | 1 | -.065 | -.133 | .066 |
| | Sig. (2-tailed) | .694 | .102 | .502 | | .600 | .286 | .601 |
| | N | 62 | 68 | 68 | 68 | 68 | 66 | 65 |
| Vbm methods | Pearson Correlation | .480** | -.149 | .031 | -.065 | 1 | .324** | .162 |
| | Sig. (2-tailed) | .000 | .225 | .805 | .600 | | .008 | .197 |
| | N | 62 | 68 | 68 | 68 | 68 | 66 | 65 |
| Motivation rewards | Pearson Correlation | .325* | .137 | .291* | -.133 | .324** | 1 | .006 |
| | Sig. (2-tailed) | .010 | .272 | .018 | .286 | .008 | | .964 |
| | N | 62 | 66 | 66 | 66 | 66 | 66 | 65 |
| Strategic plan | Pearson Correlation | -.089 | -.175 | -.045 | .066 | .162 | .006 | 1 |
| | Sig. (2-tailed) | .496 | .163 | .721 | .601 | .197 | .964 | |
| | N | 61 | 65 | 65 | 65 | 65 | 65 | 65 |

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

*. Correlation is significant at the 0.05 level (2-tailed).

Correlation is significant at the 0.1 level (2-tailed).

1. Staff characteristics affects performance positively (0.214) and is significant at 0.095(α=0.1)
2. Vbm affects performance positively (0.109) and is significant at 0.101(α=0.1)
3. VBM tools affects performance positively (0.480**) and is significant at 0.000(α<0.01)
4. Rewards and incentives affects performance positively (0.325*) and is significant at 0.01(α<0.05)

### 4.3 Analysis of respondents using Regression Analysis

Linear regression is used to specify the nature of the relation between two variables.

**Table 4.3.1 Model Summary Tables**
**Correlation between independent variables and the dependent variables**

This table provides the R and $R^2$ value. The R value is 0.599, which represents the simple correlation and, therefore, indicates a moderately high degree of correlation. The $R^2$ value indicates how much of the dependent variable, price, can be explained by the independent variable, income. In this case, 35.9% can be explained, which is quite moderately large.

**4.3.1.1 Model Summary**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .599[a] | .359 | .288 | .22182 |

a. Predictors: (Constant), Do you have a strategic plan, motivation rewards, vbm strategies, staff characteristics, customer focus, vbm methods

b. Dependent Variable: performance

**Table 4.3.1.2 The Anova Table**

This table indicates that the regression model predicts the outcome variable significantly well. Looking at the "Regression" row, **Sig.** column. This indicates the statistical significance of the regression model that was applied. Here, *p* =0.000 which is less than 0.05 and indicates that, overall,

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 1.490 | 6 | .248 | 5.048 | .000[a] |
| | Residual | 2.657 | 54 | .049 | | |
| | Total | 4.148 | 60 | | | |

a. Predictors: (Constant), Do you have a strategicplan, motivationrewards, vbmstrategies, staff characteristics, customer focus, vbm methods

b. Dependent Variable: performance

**Is the model useful?**
**$H_0$: $\beta_1 = \beta_2 = \beta_3 = \beta_4 = \beta_5 = 0$**

**$H_A$ at least one is not 0 i.e. Bi≠0**
F=5.048
P=0.000 < 0.1 (α = 0.1 =10% level of significance)
So we reject $H_0$

AT LEAST ONE OF THESE COEFFICIENTS IS NOT ZERO

SO THE MODEL IS USEFUL

**Table 4.3.1.3 Table of coefficients**

**Coefficients[a]**

| Model | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. | 95% Confidence Interval for B | |
|---|---|---|---|---|---|---|---|
| | B | Std. Error | Beta | | | Lower Bound | Upper Bound |
| (Constant) | .281 | .384 | | .732 | .467 | -.489 | 1.052 |
| Staff characteristics | .130 | .054 | .280 | 2.422 | .019 | .022 | .237 |
| Customer focus | .016 | .042 | .044 | .370 | .013 | -.069 | .100 |
| vbmstrategies | .156 | .230 | .076 | .679 | .500 | -.304 | .616 |
| Vbm methods | .139 | .032 | .514 | 4.316 | .000 | .074 | .204 |
| Motivation rewards | .135 | .131 | .127 | 1.024 | .090 | -.129 | .398 |
| Strategic plan | -.172 | .164 | -.118 | -1.050 | .298 | -.502 | .157 |

a. Dependent Variable:performance1

**Regression Equation**

*Performance = 0.281 + 0.130(sc) +0.016(cf) +0.156(vbms) +0.139(vbmm) +0.131(mr)-0.172(sp)*

### 4.4 Analysis of variables using T TEST

**T TEST (t)**

The four variables below are significantly related to the dependent variable performance

1. Staff characteristics is significant at p= 0.019(p<10%), t=2.44
2. Customer Focus is significant at p= 0.013(p<10%), t=0.370
3. Vbm methods is significant at p= 0.000(p<10%), t=4.316
4. Motivation and Incentives is significant at p= 0.09(p<10%), t=1.024

The two variables below are not significantly related to the dependent variable performance

1. Strategic plan is not significant at p= 0.298(p>10%), t=-1.050
2. Vbm strategies is not significant at p= 0.500(p>10%), t=0.679

### 4.5 Analysis of reliability of each of the independent variables

**Scale reliability**

Scale reliability for each of the five scales (staff characteristics, focus, VBM methods, VBM strategies and strategic plan) was calculated using Cronbach's alpha to ensure internal consistency of the instruments and the items. The higher the score, the more reliable the generated scale is. (Nunnaly, 1978) has indicated 0.7 to be an acceptable reliability coefficient but lower thresholds are sometimes used in the literature. In this study the value found is 0.657 which is approx 0.7 so the instrument was viable

**4.5.1 Reliability Statistics**

| Cronbach's Alpha | N of Items |
|---|---|
| .657 | 5 |

### 4.5 Analysis of reliability of all of the independent variables

**Factor Analysis**

Factor analysis to confirm the construct validity of the scales was performed adequately. Kaiser (1974) recommends accepting values greater that 0.5 as acceptable while values below this should lead you to either collect more data or rethink the values to include.

The alpha coefficient and factorial validity for the five instruments 0.464 which is approx 0.5 so the scales were valid:

**4.5.2 KMO and Bartlett's Test**

| | | |
|---|---|---|
| Kaiser-Meyer-Olkin Measure of Sampling Adequacy. | | .464 |
| Bartlett's Test of Sphericity | Approx. Chi-Square | 36.044 |
| | df | 10 |
| | Sig. | .000 |

## 5.0 Conclusions and Recommendations

### 5.1 Summary of findings

The summary of the findings from the data collected were that

(i) Strategic value-based management influences the performance of hotels positively.
VBM methods were found to be highly influential to performance at significance of p= 0.000(p<10%), t=4.316

(ii) VBM strategies were found to be less related to performance because of the factors related to their adoption at significance of at 0.101(α=0.1)
Organizational factors were found to be positively related to performance
at p= 0.019(p<10%), t=2.44

(iii) It was also concluded that many people in the organization were not familiar with VBM Tools.

(vii) Mangers were found to be of less experience between 5 and less years in the hotels';

### 5.2 Recommendation

Based on the findings above it is recommended that hotel managers:-

(i) Implement value based management so as to improve performance in every area of their organization.

(ii) Managers ought to train staff on the use of VBM tools in order to be able to measure their performance.

(iii) Organizational factors such as poor management and leadership styles were interfering with the implementation of VBM.

(iv) Employers need to invest in qualified managers and staff schemes because motivated staff will improve performance and staff turnover.

### 5.3 Limitations of the Research

The researcher faced challenges while doing the research because most of the respondents were not ready to answer the questionnaires because of time factor and also because they did not think that the research was helpful to them. Further research is also recommended to find out other determinants of organizational performance apart from VBM.

### 5.4 Further Research

Further research is required to replicate this research to other sectors of the economy or even to other countries;

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