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Enterprise Performance: A Model For Hotels In Uasin Gishu County, Kenya

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Abstract: ***The objective of the study was to develop a model of hotel enterprise performance in Uasin Gishu county Kenya. The constructs of Hughes & Morgan (2006) guided the study to develop a model of performance. The research design was a survey. A sample of 297 hotel enterprise employees participated in this study. Data was analysed using the Structural Equation Modelling (SEM) technique. Exploratory factor analysis (EFA) was used to explore possible underlying factor structure of observed variables before confirmatory factor analysis (CFA) was undertaken to verify the factor structure of the set of observed variables. The study findings indicate the factor loading matrices produced shows the variables that formed the original classification dropped and some were reclassified into new factors. Furthermore, reconstituted constructs that made up of reclassified original variables as contained in Hughes & Morgan (2006). Out of the eight items proposed to measure enterprise performance, the principal components factor analysis extracted two factors namely financial and non-financial performance.***

Keywords: Hotel Enterprise, Performance, Model, Uasin Gishu County, Kenya

I. INTRODUCTION

In today's environment, enterprise performance is a critical issue for entrepreneurs (Zulkiffli and Parera, 2011). This implies that performance is the operational ability of an enterprise to satisfy its stakeholders and must be assessed to measure an enterprise accomplishment. In addition, performance can reflect the means by which an organization achieves organizational goals and as a source of direction in helping organizations to appropriate resources in the future (Lin, 2005). That is, all conceptualization of organizational properties are related to the essence of SME performance and it is the final goal of the rationality of organizational design In addition, performance can reflect the means by which an organization achieve organizational goals and as a source of direction in helping organizations to appropriate resources in the future (Lin, 2005). In organizational behavior, performance is the core of organizational theories (Yin *et al.*, 2014). That is, all conceptualization of organizational properties are related to the essence of SME performance and it is the final goal of the rationality of organizational design (Lin, 2005). Enterprise performance is a measurement of the degree of the organizational goal achievement.

II. LITERATURE REVIEW

A. THE CONCEPT OF ENTERPRISE PERFORMANCE

The indicators used to measure enterprise performance are many; however the measures used in this study comprised of financial and non-financial performance measures that incudes sales, growth, owner's financial expectations, profits, turnover, customer attraction and retention, satisfaction and number of employees measured subjectively (Hughes & Morgan, 2006). Non-financial performance reflects sustainable development capability for achieving enterprise strategic goal and strengthening enterprise competitive advantages (Ban and Ren 2008). Non-financial indices which generally are measured from aspects of operational efficiency, growth trend and activation subscription can predict commercial perspective through reflecting process

performance of firm operation (Hean and Nguyen, 2007). Non-financial performance could be measured from three dimensions such as the achievement of initial objective, the stability of working environment, the satisfactory degree of performance, product reputation, product quality, customer loyalty degree, customer satisfactory degree and service complaint rate (Hean and Nguyen, 2007; Lin and Wu, 2014). As for financial performance, it reflects the input-output efficiency and operational outcomes which is measured based on account data of enterprise (Ban and Ren 2008). The general measurement indices include return on assets, net profit, sales growth rate and ratio of sales (Spanos and Lioukas, 2001).

Research indicates a preference for subjective financial data (Zulkiffli and Parera, 2011). The concern being small business owners often refuse to give accurate objective performance data. Furthermore, even if one gets objective data, it does not fully represent enterprise performance, the reason being entrepreneurs may manipulate the data to avoid personal and corporate taxes (Dess and Robinson, 1984; Sapienza *et al.*, 1988). As a result of this, Wall *et al.*, (2004) suggest that entrepreneurs are encouraged to evaluate their enterprise performance through subjective measures that reflect objective measures. Equally as observed by Song *et al.*, (2005), enterprise performance can be measured subjectively as this type of data allows comparisons of relationships across the type of sector, culture and economic situations. Dawes (1999) confirms this by pointing that if subjective measures are employed, entrepreneurs can use the relative performance of their business as a benchmark when responding. It is legal for small enterprise entrepreneurs to manipulate data, and to control the manipulation researchers should do so by subjectively adjusting measures (Sapienza *et al.*, 1988). This implies that most entrepreneurs consider objective measures of performance to be confidential and not shared to the public scrutiny. Thus researchers are advised to develop subjective measures to be in a position to have reliable, accurate and complete information (Covin and Slevin, 1989) and focus on firms within the same industry in this present study the hotel enterprises.

Sales in an enterprise represent the products that go out of the enterprise and cash flows into the enterprise, good sales records are therefore very important for the efficient performance of an enterprise (Nassiuma, 2011). This could imply, fall in sales is a result of unavailability of goods at the time when the customers need them, high competition, expired products, obsolete products, and poor quality of the products offered by enterprises. Profit means net increase in the owners' wealth (Smither, 1998). In addition, he alludes that profit in the enterprise provides the financial strength to support human resources hence increased enterprise performance. Customer retention as an indicator of performance has been described to as a relationship between relative attitude towards an enterprise and repeat patronage behaviour; a situation when repeat purchase behaviour is accompanied by a psychological bond; and repeat purchase intentions and behaviours (Peter & Olson, 1990); as a favourable attitude toward a brand in addition to purchasing it repeatedly, indicating performance.

III. RESEARCH METHODOLOGY

A. MEASUREMENT OF VARIABLES IN THE STUDY

The measurement of variables in structural equation modelling (SEM) represents the scale for each construct to be measured. Each construct in the proposed model (Figure 3.4) was designated as either an endogenous or an exogenous construct. An endogenous construct was one that receives a directional influence from some other construct in the model. That is, an endogenous construct is hypothesized to be affected by another construct in the model (MacCallum, *et.al.*, 1995). As suggested by MacCallum *et.al.*, (1995) an endogenous construct may also emit directional influence to some other construct in the model. Enterprise performance measures was developed using previously used items by Hughes & Morgan (2006) and included sales, growth, owner's financial expectations, profits, turnover, customer attraction and retention, satisfaction and number of employees. However, the measurement scales available to measure a construct was first refined and modified before being used to assess the construct proposed in this study. The following section gives the scales and scale items that were employed in the measurement of all the constructs.

B. ENTERPRISE PERFORMANCE VARIABLE

Enterprise performance included two indicators; financial and non-financial measures. The items that were used to measure each indicator were summated, and summated scales were used to assess enterprise performance constructs. Five factors measured enterprise financial performance and three items measured enterprise non-financial performance. A five-point Likert type scale was used to measure these items. Enterprise performance items were coded D1a-D8a with their respective error terms (e1-e8) as presented in Figure 3.1.

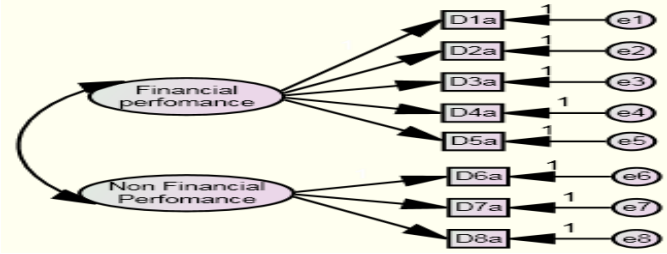

Figure 3.1: Summated Hypothesized Measurement Model for Enterprise Performance

FINANCIAL PERFORMANCE

D1a Over the last year, our enterprise has generated a high sales revenue.

D2a Over the last year, our enterprise has achieved rapid growth.

D3a Over last year, our enterprise has fully met our owner's financial expectations.

D4a Our current profitability is higher than that of other comparable businesses.

D5a Our current turnover is very much higher than that of other businesses.

NON-FINANCIAL PERFORMANCE

D6a Over the last year, we have been very successful in attracting and retaining new customers.

D7a Over the last one year, the performance of our hotel has been very satisfactory.

D8a Over the last one year, our enterprise increased the number of employees.

IV. RESULTS AND DISCUSSIONS

A. DESCRIPTIVE STATISTICS FOR ENTERPRISE PERFORMANCE

Employees of hotel enterprises were required to respond to issues related to enterprise performance that included two indictors; financial performance and non-financial performance coded DIa-D8a. The construct had a total of eight items. The scale ranged from SD = strongly disagree, D = disagree, N = neither disagree nor agree, A = agree and SA = strongly agree. Enterprise performance item description is presented in Table 4.1.

HEE Items	Description
D1a	Sales
D2a	Growth
D3a	Financial expectations
D4a	Profit
D5a	Turnover
D6a	Attracting new customers
D7a	Satisfaction
D8a	Increase in employees

Table 4.1: Description of Enterprise Performance Factors as Applied In Statistical Analyses

The descriptive statistics for enterprise performance included means, standard deviations and t-test as presented in Table 4.2.

Hotel Enterprise Employees (N = 297)			
Items	*M*	*SD*	*t*
D1a	3.70	0.94	67.60**
D2a	3.93	2.51	26.96**
D3a	3.75	0.94	68.63**
D4a	3.34	1.33	43.32**
D5a	3.37	1.34	43.24**
D6a	4.13	0.96	74.25**
D7a	3.70	1.22	52.21**
D8a	3.57	1.45	42.38**
Grand	3.69	1.34	

Table 4.2: Descriptive Statistics for Enterprise Performance

The respondents were asked to respond to eight items measuring enterprise performance. In general, the hotel enterprise employees tended to be positive on enterprise performance items (Grand mean = 3.69, SD = 1.34). The t-test of all the eight items that measured enterprise performance was significant at $p<0.05$, indicating that the sample size was large enough and the difference between the sample means represents a real difference between the population from which they were sampled. These imply that employees of hotel enterprises regard enterprise performance constructs; enterprise financial and non-financial performance items highly.

The results indicate, on enterprise financial performance construct, the hotel enterprise employees (M= 3.70, SD= 0.94) tended to be positive that the hotel enterprise has generated a high sales revenue over the last years. Equally, the hotel enterprise employees (M= 3.93, SD= 2.51) tended to agree that the hotel enterprise had achieved rapid growth over the last one year. Furthermore, the hotel enterprise employees (M= 3.75, SD= 0.94) tended to agree that, the enterprise has fully met the owners financial expectations over the last one year.

Additionally, hotel enterprise employees (M= 3.34, SD= 1.33) were non-committal that the profitability of the hotel enterprise is higher than that of other comparable businesses. Equally, the hotel enterprise employees (M= 3.37, SD= 1.34) were non-committal that hotel enterprise turnover is higher than that of other businesses.

Finally, regarding non-financial performance, the hotel enterprise employees (M= 4.13, SD= 0.96) agreed that over the last year, the hotel has been successful in attracting and retaining new customers. Furthermore, the hotel employees (M= 3.70, SD= 1.22) tended to agree that, the performance of our hotel has been satisfactory over the last year. In addition, the employees (M= 3.57, SD= 1.45) tended to agree that, the hotel enterprise increased the number of employees over the last year. The study findings could imply that the hotel enterprises in Uasin Gishu County, Kenya have been performing by increasing the number of employees since start-up phase.

B. FACTOR ANALYSIS

The questionnaire items were pre-tested in order to validate the scale items to be used. Enterprise performance had a total of eight items. The study employed exploratory factor analysis (EFA) with a principal component extraction for each construct. The analysis in this section is based on the employees of hotel enterprises.

C. FACTOR ANALYSIS FOR ENTERPRISE PERFORMANCE

Enterprise performance was treated as an exogenous variable; the latent variables included financial and non-financial performance with sales, growth, owners financial expectations, profits, turnover, customer attraction and retention, satisfaction and number of employees treated as the observed items as presented Table 4.3.

Construct and Items	Factor 1	Factor 2
Financial performance		
D4a	0.874	
D5a	0.834	
D3a	0.669	
D1a	0.617	
D2a	0.640	
Non-financial performance		
D7a		0.808
D6a		0.773
D8a		0.696

Variance Explained	33.840	24.072
Eigen values	3.235	1.398
Cronbach's Alpha α – 0.721		
Kaiser-Meyer-Olkin MSA- 0.731		
Bartlett's Test of Sphericity- 0.000		
N = 297		

Table 4.3: Derived Rotated Factor Loading Matrix for Enterprise Performance

The results indicate the rotated factor loading matrices that were produced by the SPSS version 20 program. The columns show variances explained by the factors, while the rows indicate the original variables grouped under the original constructs adopted from Hughes & Morgan (2006). The factor loading matrices produced shows the variables that formed the original classification dropped and some were reclassified into new factors. The reclassifications per the factor analysis were carefully interpreted to make sure that they fitted the label of the factor. The labels in turn were checked to ensure that they truly reflected the latent variable.

The columns, titled factors, appear in decreasing order of variance explained by factors. The rows indicate reconstituted constructs that are made up of reclassified original variables as contained in Hughes & Morgan (2006). Out of the eight items proposed to measure entrepreneurial intensity, the principal components factor analysis extracted two factors namely financial and non-financial performance.

The two factors explained 33.840 and 24.072 of the variance (57.91% total). The Kaiser-Meyer-Olkin measure of sampling adequacy statistic was 0.731 and Bartlett's test of sphericity was significant ($p<0.001$) indicating that the data were acceptable for factor analysis. Equally, the reliability of the eight questions measuring enterprise performance yielded a Cronbach's alpha value of 0.721 which was well above the recommended minimum of between 0.60 and 0.70. The results further indicate that the two factors extracted had Eigen values above 1.0, showing that enterprise performance construct can be measured by the two factors, factors of financial and non-financial performance measures.

ENTERPRISE PERFORMANCE QUESTIONS ASSESSMENT

It is evident from Table 4.3 that of the two constructs equal the likely factors that is financial and non-financial performance. The interpretation of the results of the factor analysis on all two constructs is explained below;

Questions D4a, D5a, D3a, D1a and D2a were highly correlated and measured items belonging to one factor, Factor 1 (Enterprise financial performance). The findings support Hughes & Morgan (2006) suggestions that the items are true measures of enterprise financial performance**,** thus reclassified under Factor 1.

Questions D7a, D6a and D8a were highly correlated and measured items belonging to one factor, Factor 2 (Enterprise non-financial performance), the suggestions of Hughes & Morgan (2006) that the items measured the concept was supported.

D. ANALYSIS OF THE MEASUREMENT MODEL

A measurement model was used to specify the relationship between observed variables and latent variables. This was followed with a structural model which was used to specify the relationship among the latent variables. This was done in order to determine the direct and indirect effects among the latent variables. The data for this section were analyzed with a Structural Equation Modelling (SEM) approach using AMOS version 18.0 in conjunction with SPSS version 20.0 software package and Microsoft Excel 2010. The model was tested with a two-step method as suggested by Castaneda (1993) and Joreskog (1993). That is, prior to using SEM to test the proposed model, confirmatory factor analysis (CFA) with maximum likelihood was conducted to reduce the number of variables for each construct; this was done basing on the arguments of Kline (1998), who suggest that latent variables should not have more than ten observed variables.

CFA combines items correlated to one another but independent of other subsets of items into an underlying factor (Tabachnick & Fidell, 2001). Using the Eigen value of over 1.0 and a factor loading of 0.6 for factor inclusion, CFA is useful for determining the number of sub-constructs. The mean scores of each factor for multiple factored variables, was calculated and treated as indicator variables to measure latent variable. Since the unit of the indices (the composite mean score in this study) is different when they have different numbers of items, using mean scores reduces the effect of units and controls them. For the directional consistency, negatively stated items were reverse coded when averaging the scores.

The construct enterprise performance was measured using eight items that had two sub indicators; financial and non-financial performance. The scale reliability was 0.721, and the factor loadings ranged from 0.617 and 0.874 Table 4.15. These two factors and the scale reliabilities were within the accepted range of factor loadings. The result from EFA indicates that the scale has two sub-scales; financial and non-financial performance.

As mentioned earlier, the subscale scores were computed by averaging the scores from individual items based on the EFA results. This process was performed to reduce the number of observed variables in each latent variable, and was included as observed variables in the further SEM analysis. Holmes (2001) allude that observed variables are considered to have high reliability when the squared factor loading for each one is more than 0.60. Any observed variable for which the squared factor loadings were less than 0.60 in this study were therefore removed from the model.

This study assessed validity by comparing the Average Variance Extracted (AVE) value with Correlation Squared as recommended by Fornell and Larcker (1981). The fit of the individual parameters was assessed by first determining the feasibility of the estimated values. In line with the findings of Byrne (2001), the assessment focused on whether the estimates were in the admissible range or not. These included negative variance, correlation exceeding one, and non-positive definite correlation matrix. When these problems were encountered, the indicator was removed from the model.

Of the 297 responses, no cases were dropped from the analysis because there were no missing value(s). The actual number of cases used for the SEM analysis was 297.

EXAMINATION OF THE FIT OF THE MODEL

The general sequence of assessing the fit between the model and the data in this study was first to review the selected fit indices, and then proceed to indices that provide a more detailed assessment on the fit of various parts in the model. The selected fit measures for the measurement model in the current study as suggested by Hu and Bentler's (1998) and Kline's (1998) is presented in Table 4.4.

Fit Indices	Acceptable Level
p- value of the model's Chi-Square (χ2)	Over 0.05, the closer to 1.00 the better
Chi-square/df	Less than 3.0
Bentler's Comparative Fit Index (CFI)	Over 0.9, the closer to 1.00 the better
Bentler and Bonnett's Normed Fit Index (NFI)	Over 0.9, the closer to 1.00 the better
Joreskog-Sobrom Goodness of Fit Index (GFI)	Over 0.9, the closer to 1.00 the better
Root Mean Square Error of Approximation (RMSEA)	Less than 0.05

Table 4.4: Fit Indices of the Structure Model Considered in this Study

The fit indices considered in this study were Chi-square/df, Bentler's Comparative Fit Index (CFI), Bentler and Bonnett's Normed Fit Index (NFI), Joreskog- Sobrom Goodness of Fit Index (GFI), and Root Mean Square Error of Approximation (RMSEA). Kline (1998) suggests that the smaller Chi-square values and the ratio of Chi-square/df that is less than 3.0 are indicative of a better model fit. Since Chi-square values are very sensitive to both sample size and the assumption of multivariate normality, a chi-square test could be significant with the sample size used in this research. It is unrealistic in most SEM empirical research to find well-fitting hypothesized models where the Chi-square value approximates the degrees of freedom (Klem, 2000; Byrne, 2001). For this reason, Chi-square usually is not considered as the absolute standard by which the goodness of fit of a model is judged. These researchers suggest Chi-square/df as a more appropriate fit index. CFI, GFI and NFI are more standardized and less sensitive to sample size than the Chi-square statistic. These values are recommended to be at least 0.9 for an acceptable fit (Hu & Bentler, 1998; Kline, 1998), and a value of less than 0.05 and 0.08 indicate acceptable model fit for RMR and RMSEA, respectively (Byrne, 2001; Hu & Bentler, 1998).

Furthermore as suggested a path model demonstrates an ideal fit to the data, the p- value associated with the model chi-square test should exceed 0.05, the closer to 1.00 the better (Hatcher, 1994; Muijis, 2008). Equally, they point that a model does not have to demonstrate all of these characteristics in order to be acceptable. The chi-square test and goodness of fit indices to evaluate the fitness of a theoretical model can be used. Nonetheless, this study compared the output against all the requirements in order to have the confidence to accept or reject the model being tested.

E. CONFIRMATORY FACTOR ANALYSIS FOR ENTERPRISE PERFORMANCE

The confirmatory measurement model to be tested postulated a priori that enterprise performance is a two factor structure composed of factors of financial and non-financial performance. Further examination of the model indicated that the two factors were correlated and that there were seven observed variables.

The results of the initial measurement model did not fit the data well. The chi-square statistic valued at 123.045 with 19 degrees of freedom was statistically significant at the 0.000 level, indicating a poor fit. The other fit statistics indicated that the model were a bad fit (χ^2/df = 6.476, GFI = 0.892; AGFI = 0.796; CFI=0.865; RMSEA = 0.136). All the fit indices used were not within the acceptable limits. The modification indices however suggested that a better fit could be achieved by modifying this measurement model. The initial fit indices for enterprise performance model are presented in Table 4.5.

Fit indices	Chi square	χ2/df	GFI	AGFI	CFI	RMSEA
Levels	123.045	6.476	0.892	0.796	0.865	0.136
P-value	0.000					
N = 297						

Table 4.5: Initial Fit Indices for Enterprise Performance

The modification indices however suggested that a better fit could be achieved by modifying this measurement model. Figure 4.1 presents the initial measurement model for enterprise performance.

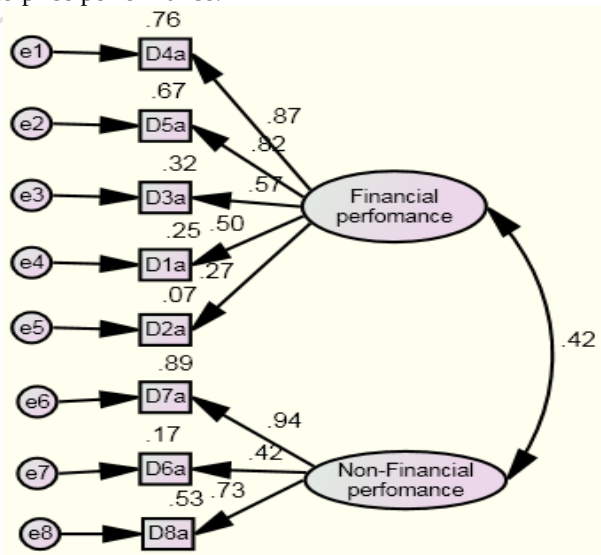

Figure 4.1: Initial Measurement Model for Enterprise Performance

The initial model was improved to fit the sample data better. After examining modification indices that is covariances and regression weights, the modification model was developed by adding a single headed arrow between financial performance and item D6a. Correlating the error terms between items D4a and D1a; items D3a and D7a; items D4a and D6a; D5a and D8a. The results yielded a very good model fit, Table 4.6.

Fit Indices	Chi square	χ2/df	GFI	AGFI	CFI	RMSEA
Levels	58.745	1.895	0.959	0.912	0.969	0.047
P-value	0.003					
N = 297						

Table 4.6: Final Fit Indices for Enterprise Performance

The modified measurement model for enterprise performance was developed by implementing the suggested modifications. The overall fit indices of this modified measurement model were found to be acceptable. (χ^2 (31) = 58.745 ($p<0.05$); χ^2/df=1.895; GFI=0.959; AGFI = 0.912; CFI = 0.969; RMSEA = 0.047). The modified model was therefore considered a good fit to the data. Figure 4.2 presents the modified measurement model for enterprise performance.

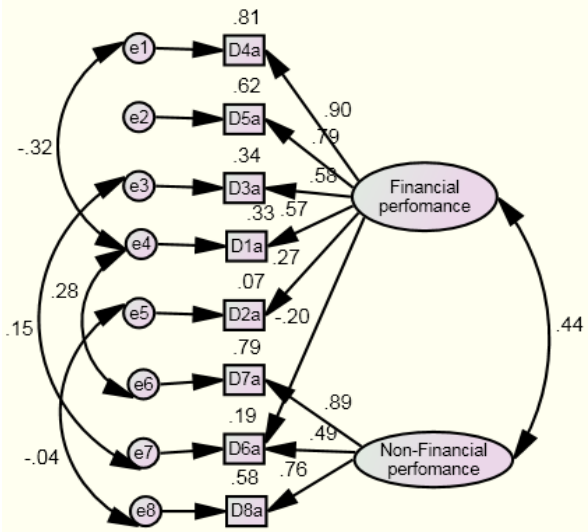

Figure 4.2: Modified Measurement Model for Enterprise Performance

The interpretation of the modified model is presented next. Firstly, the results indicate that item D2a-'Over the last year, our hotel enterprise has achieved rapid growth', and D6a-'Over the last year, we have been very successful in attracting and retaining new customers', had low loadings of 0.27 and -0.20, showing that they are the poorest indicators of enterprise financial performance.

Furthermore, items D4a, D5a, D3a and D1a have high loadings of 0.90, 0.79, 0.58 and 0.57 and are true measures of enterprise financial performance. In addition, enterprise financial performance explains about 81%, 62%, 34%, 33%, 7% and 19% of variance on items D4a, D5a, D3a, D1a, D2a, and D6a respectively.

Finally, item D6a-'Over the last year, we have been very successful in attracting and retaining new customers', had low loadings of 0.49, indicating it is a poor indicator of enterprise non-financial performance. However, items D7a-' Over the last one year, the performance of our hotel has been satisfactory', and D8a-' Over the last one year, our enterprise increased the number of employees', has high standard loadings of 0.89 and 0.76, indicating they are true measures of enterprise non-financial performance.

Examining the standardized residual covariance displayed in Table 4.7 showed that no value exceeded the standardized value cut-off point of 2.58. The highest value was 2.185 which confirm that the model was a good fit to the data.

Items	D7a	D6a	D8a	D4a	D5a	D3a	D1a	D2a
D7a	0.152							
D6a	0.913	0.222						
D8a	0.085	-0.635	-0.031					
D4a	-1.295	-0.573	-0.133	0.000				
D5a	0.106	-0.408	1.614	0.543	0.000			
D3a	2.185	0.945	2.043	-0.578	-1.343	0.000		
D1a	1.000	1.850	1.781	-0.246	-1.665	-2.814	-0.062	
D2a	1.528	1.028	1.127	-1.012	-0.272	1.413	2.033	-0.017

Table 4.7: Standardized Residual Covariance (Final Enterprise Performance Model)

F. TESTING THE PROPOSED STRUCTURAL MODEL AND HYPOTHESES

A summary of the structural model manifest variables in this study is presented in Table 4.8.

Constructs	Factors	Super/Manifest Items
Enterprise Performance	Financial performance	D4a, D5a, D3a, D1a, D2a
	Non-financial performance	D7a, D6a, D8a

Table 4.8: The Structural Model, Super Variables

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