American International Journal of Business Management (AIJBM)
ISSN- 2379-106X, www.aijbm.com Volume 8, Issue 8 (August - 2025), PP 68-73

THE EFFECT OF RISK TRANSFER STRATEGY ON ORGANIZATIONAL PERFORMANCE OF CLASSIFIED HOTELS IN NAIROBI CITY COUNTY, KENYA

Linet Shijedi Mayavi[1], Atieno Margaret[2], Emily Okwemba[3]
[1]MBA Student Kaimosi Friends University
[2]Lecturer Kaimosi Friends University
[3]Lecturer Kaimosi Friends University

ABSTRACT: This study examined the effect of risk transfer strategies on organizational performance of classified hotels in Nairobi County in Kenya. The study was based on the prospect theory. The study employed a cross-sectional research design. The target population consisted of 50 classified hotels operating in Nairobi County and as classified as at the year, 2023. The study adopted a census sampling method. Both primary and secondary data were used. Primary data was collected using structured questionnaires. Secondary data was obtained through document analysis from official records obtained from the hotel. The study used inferential statistics. The regression results of the study indicated that risk transfer strategies have a positive and statistically significant effect on organizational performance of classified hotels. This is supported by regression coefficient of 0.459 and p-value 0.000. The study made appropriate contribution to the hospitality industry by proposing the best suited risk transfer management strategies on performance of hotels in Kenya, regionally and globally. Further, the study served as a reference for future researchers and scholars in strategic management.

I. Introduction

Dang, Jasovska, and Rammal, (2020), defines risk management as the process by which an organization analyzes its loss exposures and picks the most suitable approaches for addressing these exposures. Management strategies are categorized into four primary types: risk avoidance, risk reduction, risk transfer, and risk retention (Biira, Tukei, Tukei, & Mboma, 2020). Risk avoidance entails refraining from engaging in an activity that may pose a danger. Avoidance may appear appealing when confronting hazards; yet, it also entails forfeiting the possible benefits that risk acceptance could have provided (Ritchie & Jiang, 2021). Risk reduction is the process of integrating loss prevention and loss control to mitigate risk. It is often referred to as risk optimization or risk mitigation. Risk transfer involves distributing the risk burden among other parties, for as through the allocation of assets across multiple asset classes (Ritchie & Jiang, 2021).

Hotels utilize the risk transfer management process similarly to other industries. Ritchie and Jiang, (2021), delineates four steps in risk management: identifying potential losses, evaluating those losses, selecting suitable risk management techniques for addressing loss exposures, and implementing and administering the risk management program. Risk management is a process wherein the recognition and assessment of risks lead to the development of strategies for managing and mitigating those risks using available managerial resources (Kim & Han, 2022).

A hotel is an establishment that offers lodging, dining, and various services for travelers and tourists. The hotel industry is seen as a crucial sector positively correlated with a nation's economic success. One of the primary significances of the hotel industry's development is the generation of jobs and a leading source of foreign exchange earnings (Naeem & Rana, 2020). Holidays are intended for enjoyment, and any unforeseen disruption is undesirable. Nevertheless, various hazards persist, accidents occur even during holidays, and there is a compelling ethical obligation for tourism service providers to establish contingency plans for at least the most prevalent uncertainty (Kim & Han, 2022).

Risks in the hospitality and tourism sector can originate from various sources, including operational, technological, and natural disasters such as floods and earthquakes, as well as criminal activities. A single negative experience can deter guests from utilizing a specific brand in the hotel sector. Historically, the global hotel sector has encountered numerous overarching threats (Naeem & Rana, 2020).

In the past 50 years, major viral outbreaks, as reported by Statista, have caused significant global disruptions, including H1N1 in 2009 (284,500 fatalities), Ebola in 1976 (13,562 fatalities), SARS (severe acute respiratory syndrome) in 2002 (774 fatalities), H7N9 (bird-like influenza) in 2013 (616 fatalities), and COVID-19 in 2020 (1.090 million fatalities). In March 2015, the international Mandarin Oriental Hotels encountered a data

breach aimed at acquiring customers' credit and debit card information related to their use of products and services, including hotel occupancy (Tsai, Linliu, Chang, & Mak, 2020).

Globally, hotel is a temporary lodging establishment featuring rooms and amenities for comfort. The hotel room occupancy rate is crucial as it indicates the level of success in room sales. A greater occupancy rate indicates that the rooms may be fully booked. Overall, the global hotel supply and demand, measured by the number of rooms, has a deficit in occupancy levels (Novia, Syah, Indradewa, & Pusaka, 2020). In 2021, hotels and lodges documented over 1 billion unsold room nights, surpassing the unsold room nights recorded during any global financial crisis or recession since 2000. The profitability of hotels and lodges remained ambiguous due to movement restrictions in numerous countries. In 2020, these establishments experienced unprecedented lows in occupancy, average daily rates, and revenue per available room, which are the primary performance metrics (Dube, Nhamo, & Chikodzi, 2021).

Regionally, in Namibia, a report indicated that hotels and lodges are prioritized sub-sectors for economic development and represent one of the rapidly expanding sectors of the Namibian economy. The 2016 National Labor Force Survey predicts that hotels and lodges employed 47,840. Regrettably, the operations of hotels and lodges in Namibia have been impacted since the onset of the COVID-19 pandemic. Data collected from the Namibia Airports Company and the Hospitality Association of Namibia indicated that hotel and lodge room and bed occupancy rates were 14.1 and 15.2 basis points in June 2020, a decline of 87.3 and 84.1 basis points compared to June 2019 levels (Kauatuuapehi, Abel, Mukarati, Abel, & Le-Roux, 2023).

Locally, the hotel sector in Kenya consists of both classified and non-classified establishments that are vital for the country's economic growth. Classification is a pre-qualification evaluation of designated necessary products that ensures safety and comfort. The star rating of hotels signifies the quality and condition of guest amenities, encompassing the number of rooms, which serves as the basis for all classifications. The primary aim is to enhance and advocate for the quality of product and service delivery to ensure sustainability. Hotels rated under the East African Community standards are typically chosen based on their extensive information resources and managerial capabilities. The Tourism Regulatory Authority indicates that Kenya has 211 classed hotels with star ratings ranging from 1 to 5, totaling a capacity of 16,554 rooms (Murimi, Wadongo, & Olielo, 2021).

The Kenyan tourism and hospitality sectors are significant contributors to economic growth, representing over 10% of the nation's GDP, 6% of formal employment, and nearly 7% of informal sector employment. In recent years, hotels in Kenya recorded low room occupancy rates of 19% in 2020, 24% in 2021, and 2022, in stark contrast to occupancy rates of 37% in 2018 and 34% in 2019. From the year 2020 to 2023, the occupancy rate in Nairobi County stuck at a mean of 25.2% (KNBS, 2023). The room occupancy rate attained a peak of 51.3% in 2006 and a nadir of 19% in 2020. Current statistics demonstrate that hotels require an occupancy rate of 30-40% to achieve break-even status (Onsomu, Nyabaro, Munga, & Shibia, 2021)

The hotel sector in Kenya encounters multiple risks, including pandemics, operational difficulties, technology obstacles, and natural calamities such as floods, earthquakes, and criminal activities. The hotel return on investment in Kenya and specifically Nairobi County was at 25% from 2020 to 2023, in contrast to 37% and 34% in 2018 and 2019, respectively, attributable to the repercussions of COVID-19 and evolving consumer preferences (KNBS, 2022 & 2023). Data indicates that hotels generally require a return on investment of 30-40% to achieve financial equilibrium. Following the pandemic, two prominent hotels, Intercontinental Nairobi and Hilton, located in Nairobi County, ceased operations after decades of service (Wachira & Kandie, 2021). Although risk management is essential for safeguarding hotels against uncertainties, there is scant empirical information about the effects of particular risk management strategies on hotel performance. Discourse regarding the incorporation of risk management strategies in Kenyan hotels is scarce, typically addressed only briefly in significant economic reports. Consequently, hotel management must implement effective ways to mitigate potential repercussions stemming from this vulnerability. The influence of risk transfer strategies on hotel performance in Nairobi County remains underexplored (Dadulla, Cabatingan, & Delantar, 2024). Prior research has indicated a propensity to favor short-term gains at the expense of long-term benefits, resulting in notable deficiencies in the establishment of comprehensive frameworks for long-term value generation and risk management in hotels. Therefore, this study aimed to address these gaps by examining the effects of risk transfer strategies on the performance of classified hotels in Nairobi County over the long term.

1.2 Study objective

To determine the effect of risk transfer strategy on organizational performance of classified hotels in Nairobi City County, Kenya.

1.3 Hypothesis of the Study

H_{04}: Risk transfer strategy has no significant effect on organizational performance of classified hotels in Nairobi City County, Kenya.

II. Literature Review

2.1 Theoretical Literature review

2.1.1 Prospect theory

This theory was first introduced by Kai-Ineman and Tversky in the year 1979. Prospect theory also known as loss-aversion theory, posits that individuals exhibit a greater aversion to losses than to equal gains, demonstrating a higher propensity to engage in risk-taking to avert a loss rather than to secure a comparable gain (Treadwell & Lenert, 1999). Individuals undervalue outcomes that are only likely in contrast to those that are assured. This phenomenon, known as the certainty effect, fosters risk aversion in scenarios with certain rewards and promotes risk-seeking behavior in situations with assured losses (List, 2004).

Advanced prospect theory about the cumulative representation of uncertainty posits that cumulative prospect theory is applicable to both uncertainty and risky prospects with many outcomes, permitting distinct weighting functions for gains and losses (Wakker, 2010). The theory critiqued the expected utility theory, which had dominated as the primary normative descriptive model of decision-making under uncertainty for several decades (Saliya, 2020).

According to Harrison and Swarthout, (2023), individuals assess outcomes in relation to a reference point. Losses are perceived more acutely than equivalent gains, and the subjective value of both gains and losses decreases as their magnitude increases. People often overrate small probabilities while underrating larger ones. This results in non-linear decision-making, wherein rare events, such as lotteries, may be overvalued, while probable outcomes are undervalued (Thoma, 2024).

The theory is applicable to this study as it explains the thinking behind the choice of risk transfer strategies that are likely to be adopted by managers in area of study. By acknowledging the inclinations cited by the theory, the study will be aware of the biases and note its role in making of sensible decisions and in choosing strategies. Additionally, assimilating prospect theory into risk management strategies will offer valuable insights into human behavior concerning loss aversion, value perception, and probability weighting. By acknowledging these psychological factors and adjusting communication and decision-making processes accordingly, the hotels will be able to improve their ability to navigate uncertainties effectively.

2.2 Empirical literature review

Lambaino, Guyo, Otieno, and Getuno, (2018) empirically examined impact of risk transfer strategies on supply chain resilience within the petroleum sector in Kenya. The descriptive method, namely regression analysis, was employed to analyze the data. The data was collected via self-constructed questionnaires from 87 registered oil marketing enterprises, revealing a positive albeit weak correlation between risk transfer and supply chain resilience. The study shows that risk transfer tactics positively impact supply chain resilience.

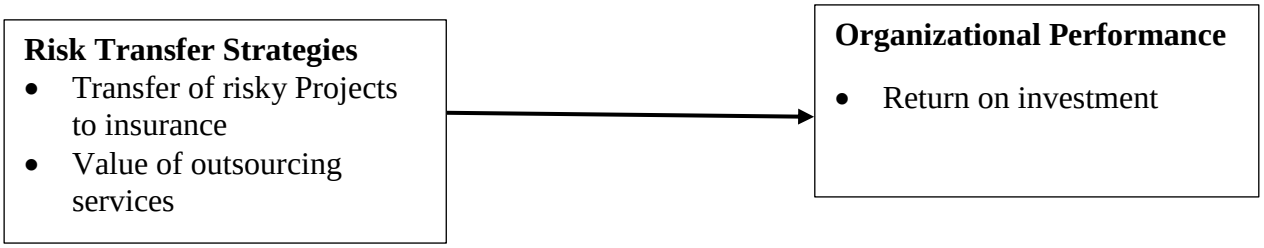
Biira and Tukei, (2022) analyzed the correlation between risk transfer strategies and the organizational performance of Total Uganda Limited. The research employed a descriptive study design utilizing both quantitative and qualitative data collection methods, with a preference for quantitative approaches. Quantitative data were gathered using questionnaires administered to 126 participants. Qualitative data were gathered through interviews with important informants. Correlation and regression analysis were employed for the quantitative data, while content analysis was utilized for the qualitative data. The results verified that risk transfer strategies significantly influenced organizational performance.

Thuku, (2021), specifically assessed the influence of risk transfer mechanisms on the efficacy of insurance companies. The study's target group consists of 66 managerial-level experts, with three representatives from each of the 22 insurance companies involved in the risk management process. The study utilized a descriptive census survey. Both descriptive and explanatory research methodologies were utilized. Self-administered questionnaires were utilized to collect main data. Multiple regression analysis was utilized to ascertain the nature and magnitude of the relationship between the independent and dependent variables. The study revealed that risk transfer strategies did not have a statistically significant impact on the organizational performance of insurance companies in Nyeri County.

Kamunya, (2021) specifically evaluated the influence of risk transfer strategies on the performance of non-governmental organization initiatives in Nairobi City County. The research utilized a descriptive methodology and sought random stratified sampling. The data was collected utilizing a standardized questionnaire. Descriptive and inferential statistics were utilized to derive field results. Regression study utilizing a linear model demonstrated a strong relationship between risk transfer strategies and project performance.

2.3 Conceptual framework

A conceptual framework is an organized system of ideas, concepts, and theories that offers structure and direction for comprehending a certain phenomenon or undertaking research (Mugenda & Mugenda, 2003). The conceptual framework of the study is shown below.



Independent Variable **Dependent Variable**

III. Research Methodology

3.1 Research philosophy

The research was directed by the philosophy of positivism. The positivist framework guiding this study posits that observable phenomena result in the generation of credible data. Researchers employing quantitative methodologies such as enumeration and measurement are referred to be positivists. Positivism enables the application of statistical techniques to evaluate hypotheses and analyses research data obtained by quantitative research methodologies (Zukauskas, Vveinhardt, & Andriukaitiene, 2018).

3.2 Research design

A cross-sectional study design was utilized in this study. Abutabenjeh and Jaradat, (2018) asserts that the design entails gathering data at a specific moment through the use of a questionnaire. The research gathered data at a specific time utilizing questionnaires from participants in the designated hotels in Nairobi County, Kenya.

3.3 Target population

The target population refers to the complete set of an actual group of individuals, events, or items that the study's results aim to influence. Information is sought for a specific population (Kothari & Gaurav, 2014). The target population comprised of 50 Respondents comprising of a single operations manager or their representative from each hotel as contained in Table 3.1. It is intended that the targeted population sets a clear direction on the scope and object of the research and data types.

Table 3. 1: Target population

Classification	Number	Respondents	Percent (%)
5 Star	10	10	20
4 Star	16	16	32
3 Star	15	15	30
2 Star	9	9	18
Total	**50**	**50**	100

Source; (KIPPRA, 2021; Tourism Regulatory Authority, 2023)

3.4 Sample and sampling technique

Given the smaller number of respondents to be interviewed from classified hotels operating in Nairobi County, Kenya, the study employed census sampling technique. In a census, as noted by Kothari and Gaurav, (2014) data are collected through complete enumeration, hence the sample size is equal to the population size. Therefore, all the 50 hotels involving 50 respondents as contained in Table 3.1 were be considered.

3.5 Data collection instruments

Self-administered questionnaires were employed to collect primary data. Secondary data was obtained from audited financial and hotel records of designated hotels in Nairobi County

3.6 Data analysis, presentation and discussion

The collected data was sorted, cleaned, and coded before exporting to SPSS. Inferential statistics were employed to delve deeper into the relationships between risk retention strategies and hotel performance. Linear

regression analysis was conducted to examine the strength and direction of associations between risk transfer strategies, and organizational performance.

$$Y = ß0 + \beta_1 RTS + \varepsilon$$

Where;
Y= organizational performance
$ß_0$- constant
β_1 = Beta for the two variables
RTS- Risk transfer strategy
ε = error term

4. Regression results

The study utilized linear regression analysis to examine the relationship between risk transfer strategies and organizational performance in a context of classified hotels in Nairobi County. The regression results are displayed in Table 2.

Table 2: Regression coefficients

Variables	Unstandardized Coefficients		t	Sig.
	B	Std. Error		
(Constant)	0.242	.091	2.66	.000
RTS	0.459	.145	3.12	.000

Source: Study Data (2025)

a. Predictors: (Constant), RTS
b. Dependent Variable: Organizational performance

Table 4.42 regression results produced a regression model

Y= 0.242 + 0.459 RTS

The value 0.242 in regression equation represents the constant of the regression model in the study. The constant value was found to be statistically significant, since its t-calculated value of 2.66 which was higher than the critical t value of 2.038 and the constant's probability value was below the significance threshold of 0.005 (0.000<0.005). The study's constant indicates that when classified hotels do not employ risk transfer strategies, the return on investment in classified hotels will be at 0.242 units.

4.1 Risk Transfer strategies and organizational performance of classified hotels

The objective of this study was to assess the effect of risk transfer strategies on the organizational performance of classified hotels in Nairobi County. The null hypothesis of the objective was risk transfer strategies has no significant effect on organizational performance of classified hotels in Nairobi City Count.

The regression analysis in Table 4.43 shows that the risk transfer strategies variable had a regression coefficient of 0.459, with a p-value of 0.000. These results were supported by computed t statistic of 5.12 which was higher than the t critical value of 2.037. These results implied that risk transfer strategies has a positive and significant effect on the organizational performance classified hotels in Nairobi City County. Therefore, the null hypothesis, which suggested that the risk transfer strategies of classified hotels has no significant effect on the organizational performance of classified hotels, was rejected. The findings imply that implementing risk transfer strategies in classified hotels enhances organizational performance by increasing return on investment by 0.459 units.

These results are in agreement with Lambaino, Guyo, Otieno, and Getuno, (2018) who empirically examined impact of risk transfer strategies on supply chain resilience within the petroleum sector in Kenya. The study results indicated that implementing risk transfer strategies improves the overall supply chain resilience within the petroleum sector in Kenya. The results were also in agreement with Biira, Tukei, Tukei, and Mboma, (2020), whose study findings indicated a strong correlation between risk transfer strategies and the organizational performance of Total Uganda Limited.

The results were also in agreement with Kamunya, (2021) whose findings indicated that risk transfer strategies has a significant effect on the performance of non-governmental organization firms in Nairobi City County. The results were also consistent with to Thuku, (2021), who specifically determined the impact of risk transfer strategies on the performance of insurance firms. The study findings indicated that risk retention strategies has a significant relationship with performance of insurance firms.

IV. Conclusions and Recommendations

5.1 Conclusions

The regression results indicated that risk transfer strategies had a positive effect with a beta coefficient (β) of 0.459 and p-value of 0.000, which is less than the significance level of 0.05, indicating the effect was significant.

This suggests that risk transfer strategies have positive and significant effects on the organizational performance of classified hotels in Nairobi City County. Thus, the study concluded that risk transfer strategies improves organizational performance by increasing return on investment. Therefore, the study concluded that risk transfer strategies has a positive and significant effect on organizational performance of classified hotels.

5.2 Recommendations

Inferential findings, indicated a positive and significant effect between risk transfer strategies and the organizational performance of classified hotels. The study therefore recommends that hotels should improve risk transfer strategies by efficiently utilizing insurance, outsourcing, and contracts to reduce major hazards, safeguard assets, and improve overall organizational performance.

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