THE MODERATING ROLE OF LEGAL OWNERSHIP ON MARKET INNOVATION MANAGEMENT AND THE PERFORMANCE OF MICRO, SMALL AND MEDIUM HOTELS IN NAIROBI

[1]Mary Mwihaki Munene, [2]E. Mukulu & [3]J.M. Kihoro

[1]Jomo Kenyatta University of Agriculture and Technology (JKUAT), Graduate Student, Email: mwihaki.munene.mm@gmail.com

[2]Jomo Kenyatta University of Agriculture and Technology (JKUAT), Email: emukulu@jkuat.ac.ke

[3]The Co-operative University of Kenya (CUK), Email: kihoro.jm@gmail.com

Abstract:

This paper studies the moderating role of legal factors on the relationship of market innovation management and on firm performance. Non employer firms generally do not perform well. Over the years however, many sole owned firms have proven this theory wrong by being highly industrious and yielding positive returns. This has been especially the case with micro firms. Most studies on firm performance concentrate on factors that directly affect the growth of firms such as resources, markets, training but fail to look at enterprise characteristics. Of concern in this study is that legal ownership can have a moderating role on the relationships between market innovation management and the growth of micro, small and medium enterprises.

Key Words: Legal Ownership, Legal Factors, Market Innovation, Firm Performance, Moderating Role

Background

Problem Statement

This paper seeks to investigate whether legal ownership has a moderating role on market innovation management and firm performance. According to Pofeldt (2015), non-employer firms (NEF's) that are owned by one person generally don't augur very well. However most of the micro owned non-employer firms have in recent years been found to be highly lucrative. The businesses under scrutiny were sole proprietorships, but a small percentage belonged to the partnership and corporation categories. The reason for this is the internet which has enabled entrepreneurs to access vast global markets quickly and cheaply. Decker et al (2014) are of the point of view that sole owned firms are more dynamic than employing firms are and often grow to become the large enterprises of today (Stephanie & Ellie 2014).

According to Burton (2001); Cantells (2003); Malone 2004 and Zubiff & Maxmin (2004), employment trends such as job insecurity, our sourcing and temporary employment have played a major role in the popularity of non-employment firms. Grabher (2004) and Guile (2012) point out that mobile technology has majorly contributed to the increasing growth of NEF's. (Spinuzzi 2014). Scholars show mixed dispositions on legal ownership. Some point out that individual owned firm perform better than grouped owned firms; Other scholars argue differently saying that availability of resources may enhance group owned firms innovation ability. Yet another school of thought is of the view that ownership has no effect on firm performance (La Porta et al 2000).

Various studies have been undertaken to look into challenges that entrepreneurs face but very few check on the moderation role that legal ownership has on the relationship of such factors and business performance. This study, aims at filling this gap in research. It looks at the moderating role of legal ownership on the relationship of market innovation management and the performance of MSME hotels in Nairobi, Kenya.

Specific Objective

The objective of this study is to explore the moderating role of legal ownership on market innovation in the performance of MSME hotels in Nairobi.

Literature Review and Hypothesis Development

Conceptual Framework

Legal ownership and its sub dimensional categories such as sole proprietorship, partnerships, and corporations (Pofeldt 2015), have been adopted for this study. They play a moderating role on innovation marketing management and hotel performance (figure 2.1).

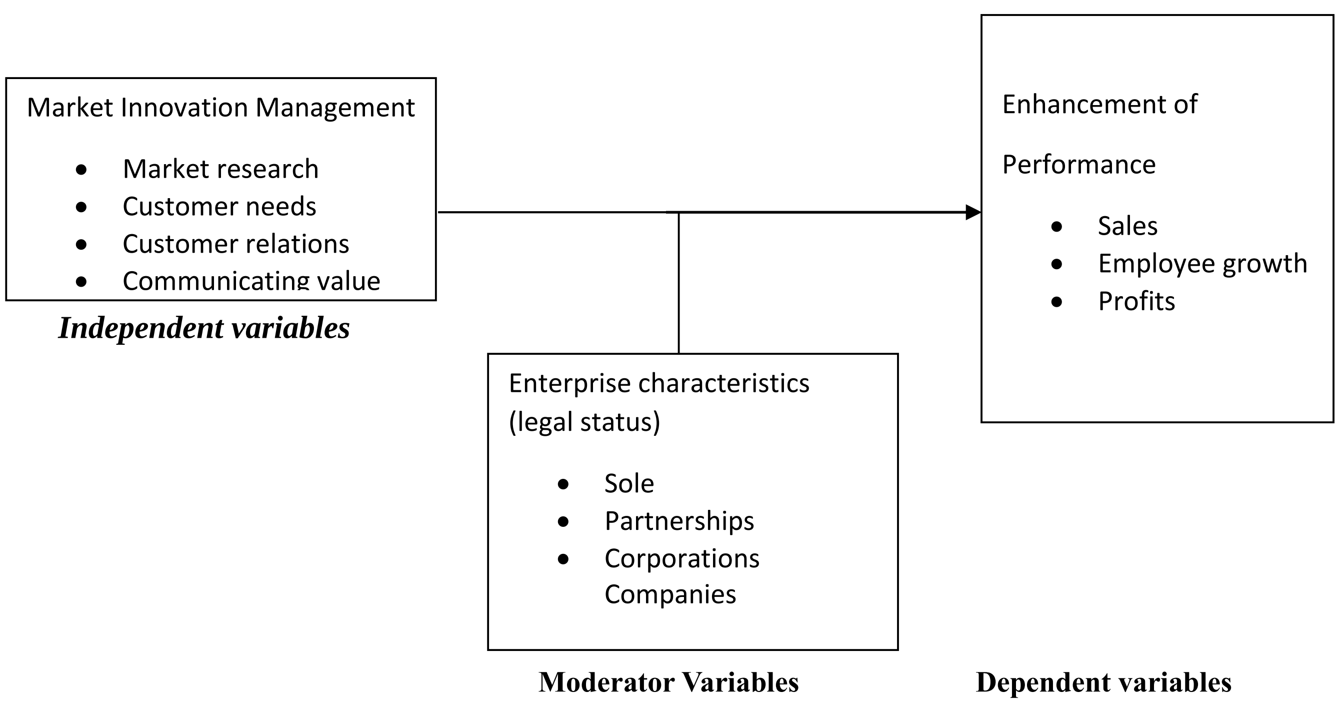

Figure 2.1: Conceptual framework adapted from Balan and Lindsay (2010); Gathenya, (2012); Pofeldt (2015).

Theoretical Framework

Theory of Need to Achieve

David McClelland's psychological theory on need to achieve majorly contributes to economic development and entrepreneurship. He talks about the need for power which is behind many entrepreneurs preferring to venture into self-owned or non-employment (NEF's) businesses. This way they are able to make independent decisions and make the most from their goals. If the need for achievement level is high, there will presumably be more people who behave like entrepreneurs (Islam, 1989).

Theory of Innovation Management

Schumpeter (1994) pointed out that entrepreneurs are people who rearrange the order of things in an economy in order to remain competitive in the market place. From this he came up with the concept of new combination of resources which covers five cases of innovations: one of which looked at market innovation management. This focuses on markets that never existed before or that are improved. To achieve this, entrepreneurs must be innovative. What he referred to as creative destruction to enable them enjoy temporary monopoly with higher profit margins

Legal Ownership

According to the republic of Kenya hotels and restaurants authority cap 494 a hotel can be licensed as a sole proprietorship, partnership or limited liability company with at-least 10 shareholders. Sole proprietorships are businesses owned and conducted by one person. Partnerships are normally owned by 2-20 persons. Limited liability companies are a form of business entity and may either be private or public. A private company is usually created by persons having a common bond, e.g. family, friends, investment objective, etc. www.kenyalaw.org 2009).

Various scholars are of the opinion that incorporated firms grow faster than unincorporated firms (Demirgue et al 2006). Independent firms are more flexible whereas firms affiliated with a group have access to different resources. (Hansman & Kraakman 2000). Thomsen and Pedersen (2000) posit that the relationship between ownership concentration and firm performance depends on the identity of the large (controlling) shareholders. Findings by La Porta et al (2000) Point out that when the legal framework does not offer sufficient support for the outside investors, individual investors and entrepreneurs are forced to maintain large positions in their companies which result in a concentrated form of ownership. Evidence from their study shows a lack of significant role of ownership on firm performance thus corporate governance or lack of it according to them is immaterial to firm growth.

Market Innovation Management

Market innovation management has been characterized as a culture of the organization that requires customer satisfaction to be put at the core of business operations. Due to the changing needs of the customer, and other changing trends in the economy, an entrepreneur's main concern must first and foremost be innovation that is based on customer needs. Firms must also manage their innovations in such a way as to make them original and strikingly different from competitors, by so doing; they will be assured of staying above other industry players and hence enjoy high profits. Marketing begins with research. There are various ways through which an enterprise can find out and understand customer needs these include; asking questions, and delivering solutions to said questions.

Conclusions

Individuals venture into self-employment with an aim of achieving success. They may as a result opt to venture into NEF's which may include sole proprietorships, partnerships or corporations. Various studies have been undertaken to look into challenges that entrepreneurs face but very few go a step further to check on the moderation role that legal status has on the relationship of such factors and with business performance. This study, aims at filling this gap in research. It looked at the moderating role of legal status on the relationship of market innovation management and the performance of MSME hotels in Nairobi, Kenya.

Methodology

The study employed an exploratory research method. The population in this study consisted of approximately 1003 Nairobi hotels. The data was cleaned using systematic random sampling by selecting every third item from a list hotels obtained from the ministry of tourism to arrive at a total of 334 Nairobi hotels. A sample size with finite population correction of 100 hotel managers (30/100 x 334=100), was targeted. This number represents about 30% of the total number of hotels in Nairobi, which is adequate to constitute a sample in a study of this nature (Magady & Krebs, 2015). It was expected that approximately 80% of the proportion of the hotels were committed to innovation management. To achieve 100% response rate 125 questionnaires, (100/80 x 100=125) were distributed to give every person within the target population a known zero chance of selection (Mugenda & Mugenda, 2003). The higher the number responses by the sample the more representative it is of the entire population (Kothari, 2007).

Questionnaires were used as the research tools. A pilot study of 25 hotels was undertaken to test reliability of the research instruments. Cronbach Alpha helped in testing the research instruments for reliability (Cronbach, 1951). On the basis of the pilot findings, the questionnaires were revised to ensure accuracy of the data. Qualitative analysis e.g. graphs, tables and inferential statistics and quantitative analysis techniques e.g. Hierarchical regression analysis were adapted to synthesis the data into a more manageable and meaningful form.

Results and Discussion.

Introduction

This chapter presents results and discussion of the data collected in the course of the current study. The main study objective aimed at determining the moderating role of legal ownership on the relationship between market innovation management and the performance of micro, small and medium (MSME) hotels in Nairobi. The chapter is organized into various categories which include response rate, analysis and interpretation and discussion of results.

Marketing Innovation Management and Performance of Hotels in Nairobi

Market innovation was measured using ten items; these were presented to respondents on a five point likert scale. Out of these items a composite variable was created by taking the mean of the items to form the first main study variable, in this case the X1 variable. The coefficient of cronbach alpha for the ten items was 0.979**,** which is considered an acceptable coefficient because it is well above the required threshold of 0.7. Over 70% of the hotels showed a sense of commitment to market innovation management.

The Moderating Role by legal ownership on the Relationship between Market Innovation Management and Hotel Performance.

Ho_1: There is no significant moderating role by legal ownership) on the relationship between market innovation management and the performance of MSME hotels in Nairobi.
Graphs were drawn to determine the moderating role of legal ownership on market innovation management variables. Models were also used to confirm the results of the graphs. Graphs give a rough idea of the moderation effect between variables. If the lines on the graph are parallel, there is no moderation effect. If the lines on the graph cross the moderation is likely to be significant. The actual results can be confirmed using the heirarchical regression model.

As shown in figure 4.1, market innovation management and legal ownership the curves are parallel to one another. This indicates that there is likely to be no moderation effect by legal ownership on market innovation management and on firm performance. Since the change in R^2 when the moderation variable is added as a predictor is not significant, we observe that the moderator is not a significant predictor. When the interaction term was added, there was no significant change (change in $r^2 = 0.001$, $P = 0.672$). This implies that legal status has no significant moderation effect on the relationship between market innovation management and hotel performance. This is illustrated in table 4.1

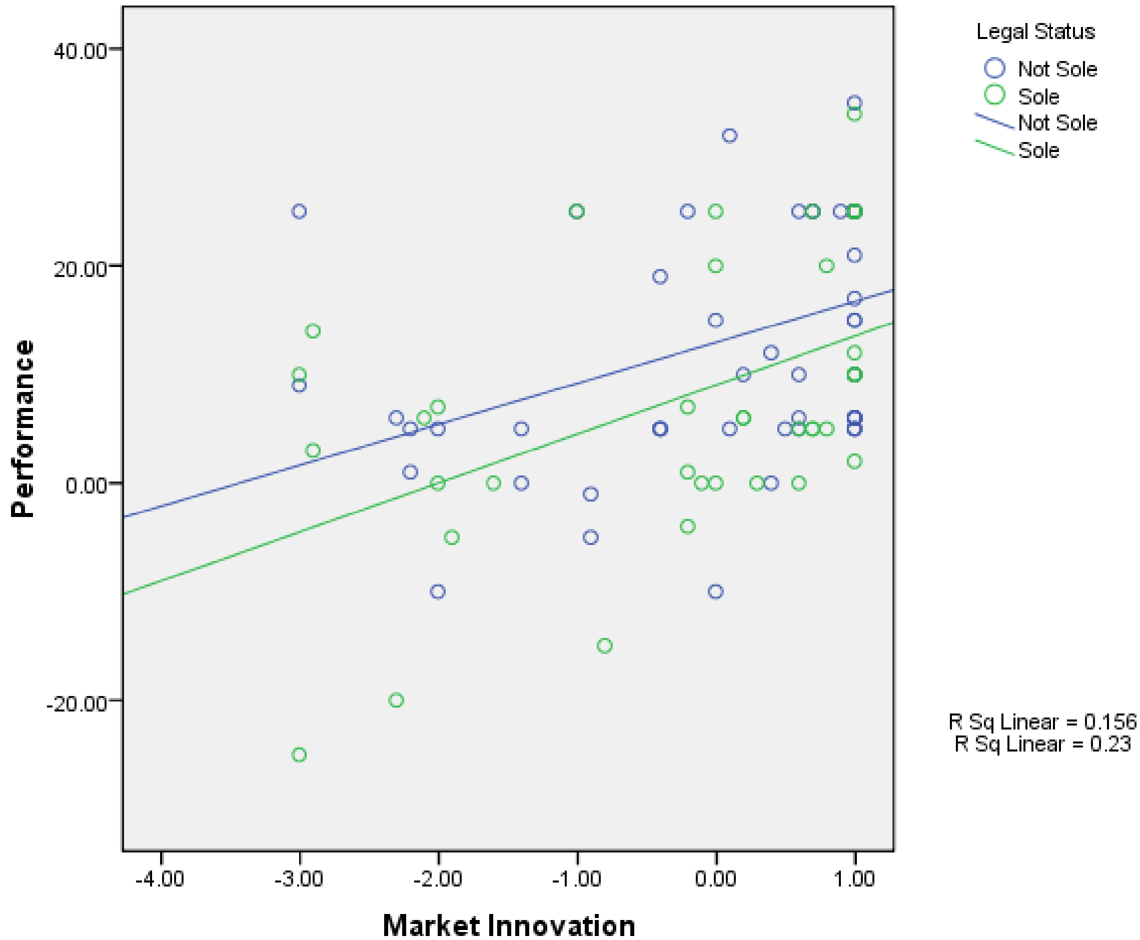

Figure 4.1: Moderating role of legal status on market innovation and on the performance of Nairobi MSME hotels.

Table 4.1: Testing the moderating effect of legal ownership on market innovation management

Testing the Moderating Effect of Legal Ownership (Z1), on market innovation management (X1), and on Hotel Performance.				
Model	R	R Square	R Square change	Sig. F Change
X1	.458[a]	.210	.210	.000
X1/Z1	.485[b]	.235	.025	.077
X1/Z1/X1*Z1	.486[c]	.236	.001	.672

a.Predictors: (Constant), X1

b.Predictors: (Constant),X1,/(legal Ownership);

Results Discussions

This study looked at the moderating role of legal status on market innovation management variables and on hotel performance. Results revealed that hotels, which engaged in market innovation management when observed jointly with legal ownership, experienced an increase in performance. This increase was due to the additional strength contributed by the moderating variable. From these results, it is clear that sole proprietorships performed better than partnerships. There was however no moderation role by legal status on market innovation management and on hotel performance. This meant that it was not a must for the hotels to be sole proprietorships in order for them to be able to perform well.

On issues that are related to legal ownership, scholars of various studies show mixed dispositions. Some point out that individual owned firms perform better than grouped owned firms; this is because of the personalized attention that they are able to provide and their flexibility in decision making thus making them more innovative. Also use of the internet has enabled them to go global quickly and cheaply (Pofeldt 2015). Other scholars argue differently stating that availability of resources may enhance group owned firms ability to better manage their innovations than individually owned hotels. Yet another school of thought is of the view that ownership has no effect on firm performance (La Porta et al 2000).

Summary, Conclusions and Recommendations

Summary

The general objective of the study was the moderating role of legal ownership on market innovation management and on the performance of Micro small and medium hotels in Nairobi. Out of a population of 334 respondents, a sample of 100 hoteliers was interviewed.

Objective: Moderating Role of Legal Ownership on Market Innovation Management and on Hotel Performance

It was clear from the results that legal ownership played a positive role in the performance of the Nairobi MSME hotels. Sole proprietorships were generally found to experience a better performance than partnerships. This may be due to the entrepreneurial nature of many sole owners, availability of the internet allowing them to go global quickly and cheaply, it is also very clear who gets the credit for the success of the firm in sole proprietorships, and hence an individual may strive to work hard in order to gain recognition for his/her efforts. On the other hand firms that are in groups such as corporations may have more resources, which may work positively for their growth. No moderation role was found to exist by legal ownership on the relationship between market innovation management and on hotel performance. This meant that it was not a must for a hotel to be a sole proprietorship in order for it to succeed in its market innovations.

5.3 Conclusions

It can also be concluded from the study results that the legal ownership had a positive role in innovation management and on hotel performance. There were however, no moderating role by legal ownership on market innovation management and hotel performance.

Suggestions for Further Research

The factors on the moderating role by legal ownership between market innovation management variables and on hotel performance were not dealt with exhaustively. Other than market innovation management, studies can also be carried out on other types of innovations such as process, supplier product to name just but a few. Further research also needs to be conducted on other enterprise characteristic variables such as hotel size, organizational structure and location to mention just but a few.

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