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The effects of innovation strategies on business sustainability of SMEs in hospitality service industry in Nairobi County beyond COVID-19 pandemic

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Abstract
This study investigated the impact of innovation strategies on the business sustainability of small and micro enterprises (SMEs) in the hospitality service industry in Nairobi County, particularly in the aftermath of COVID-19. Recognising the importance of innovation in navigating uncertainties, the research aimed to analyse how innovative approaches influenced the sustainability of SMEs in the hospitality sector beyond the pandemic. The study focused on registered SMEs in Nairobi's CBD, employing a descriptive research design. From a total population of 2490 SMEs, a sample of 249 was selected using stratified sampling. Self-structured questionnaires were utilised for data collection and the regression method was employed for analysis. Results of the regression model on Innovative approaches not only assisted businesses in adapting to post-COVID-19 challenges but also contributed to improved service quality and operational resilience. The study's implications extend to SMEs in similar industries, offering practical insights for fostering innovation as a key driver for sustained success. The study recommends that the CBD should improve in process, product & market innovation by creating uniqueness and innovative ideas that will attract customer to the SME`s for the hospitality business in Nairobi. According to the study, the SME`s should also invest in marketing technology that is not costly like social media marketing to brand their products for both local and international market.

Introduction

Prior to the outbreak of the pandemic, tourism sector accounted for 10.6% of employment equivalent to 334 million jobs, and 10.4% of Gross Domestic Product (GDP) equivalent to United States Dollars (USD) 9.2 trillion worldwide, with foreign tourists spending USD 1.7 trillion equivalent to 27.4% of global exported services according to World Travel and Tourism Council (WTATC, 2021). The massive implementation of travel restrictions led to 98% reduction of foreign visits in May 2020 over same time in 2019 according to United Nations World Tourism Organization (UNWTO, 2021). Domestic spending by visitors reduced by 45%, while foreign visitors spending reduced by 69.4% according to WTATC (2021). In another report released in 2020 the sector lost foreign currency from USD 4.5 to 4.7 trillion. Global GDP reduced by 49.1% from 10.6% to 5.5%, and 62 million jobs were lost equivalent to (−18.5%) according to (UNWTO, 2021). As of now, losing job opportunities continues to be the main concern because between 100 and 120 million jobs in the tourism sector are at risk globally. Currently, some jobs are financed by world government sustainability programs and

may be lost if the sector doesn`t recover as expected. The European Commission provided European (EURO) 100 billion to counter the risk of redundancy as a result of the COVID-19 pandemic through the Support to Mitigate Unemployment Risks in Emergency (SURE) program, according to Amankwah (2021), which provides credit to its members to mitigate short- term work programs.

According to Asante and Mills (2020), major cities were hit hardest by the COVID-19 pandemic in Kenya. The highest infections of COVID-19 were reported in cities such as Nairobi and Mombasa, which affected daily activities and operations. The hotel business is a key sector of the economy that requires serious attention during an infectious outbreak like the COVID-19 pandemic. In the past, serious pandemics broke out worldwide, but none was as destructive as COVID-19 (Miller, 2020). In the wake of the COVID-19 pandemic, the hospitality service industry underwent unprecedented challenges, particularly for small and micro enterprises (SMEs) operating in Nairobi County. The impact of the pandemic has been particularly severe on SMEs, which constitute a significant portion of the hospitality industry. However, the crisis necessitated a paradigm shift in business approaches, with innovation emerging as a key driver for survival and growth.

The economic fallout and changing consumer behaviour compelled businesses to reassess their operational strategies for sustained success. This study delved into the critical role of innovation strategies in fostering the sustainability of small and micro enterprises within the hospitality service sector in Nairobi County post-COVID-19.

Research Hypotheses and Theoretical Framework

H01: Process innovation strategy does not have a significant effect on sustainability of small and micro enterprise in hospitality industry in Nairobi County post COVID-19.

H02: Product innovation strategy does not have a significant effect on sustainability of small and micro enterprise in hospitality industry in Nairobi County post COVID-19.

H03: Market innovation strategy does not have a significant influence on sustainability of small and micro enterprise in hospitality industry in Nairobi County post COVID-19.

The study was guided by the Schumpeterian theory of innovation (Schumpeter, 1934). The theory suggests there are continuous processes of change in economies and markets. Therefore, there is a need for process, product, and market innovations to catch up with inevitable changes. According to the theory, dynamic economies account for change and growth, personifying the entrepreneur. Schumpeter refers to entrepreneurship as setting up a business, risk-taking, innovation, and agent of change (Schumpeter, 1939). The economist argues that innovation, entrepreneurship, and economic growth are essential in a dynamic business environment (Schumpeter, 1942). Generally, entrepreneurship involves innovation and entrepreneurial activities used in production, which leads to change in economic development.

In his argument (Schumpeter, 1954), Schumpeter attributed economic development to innovations like launching new products and modifications, enhanced production processes, increased market share, and advanced supply chains, among others. This paper shares the view that innovation, as the transformation process of industries, is responsible for transforming economic structures through the process he referred to as 'creative destruction'.

According to this theory (Schumpeter, 1939), innovation enhances economic growth and is driven by the entrepreneur as the innovator. An entrepreneur allocates the current resources for use and for creating a combination of additional innovations. Schumpeter views entrepreneurship as a factor of production that contributes to economic change. Also, an entrepreneur can change production

methods through new inventions, new raw materials supplies and new product distribution channels by reorganising an industry.

Business growth is realised through making profits and investing resources in innovation (Schumpeter, 1942). According to Schumpeter, innovation does not imply inventing new products. Still, it entails inventing new business formulas, mixing production processes to manufacture different products and services, and using existing resources, new technology, and materials in production. Firms seeking more profits must innovate to drive competition and economic development.

This theory by Schumpeter (1934) depicts the role of entrepreneurship and innovation in competition for economic development. For economic development to occur, innovative strategies in creating value chains are needed. The theory also has various innovation strategies that can be used to create value. Based on this theory, innovation is used as the basis of competition and economic growth.

Empirical literature Review

According to Adam and Alarifi (2020), innovation was adopted to survive competition and technological change and prepare for future crises. Innovation in this article refers to changing management to improve operations in an organisation from a bird`s view of SMEs. Innovation changes in process, product and market strategies to suit customer needs, fit into competition and bring profit to the organisation. Alonso (2022) aligns with the current study when he asserts that SMEs are financially limited in crises due to weak stock markets, lack of information, and many other economic problems; therefore, they need to cooperate with innovation to survive.

A study by Miller (2020) reviewed new management innovations by integrating innovation management and sustainable and frequentative cycles. The study found that the exploration of sustainable and repetitive cycles in manufacturing played a role in using customer innovation practices. On process innovation, (Bowen, 2023) alluded that it was apparent that process innovation was key in ensuring product development by sustaining the dynamics of the market environment within their manufacturing operations. This paper contends that there is a need to concentrate on customer strengths instead of the challenges of the rigid dogma of specific development methodology as organisations engage in process innovation.

Dowell (2023), in a study on hospitality SMEs' innovation responses to multifaceted crises, focused on reasons SMEs in hospitality and tourism businesses restructured during and after the COVID-19 pandemic. Product innovation was the most popular organisational innovation strategy that seems to have been experienced. During and after COVID-19, firms were called to restructure their products by adjusting their structure, size, and format. Product innovation also adopted downsizing due to economic stagnation caused by the pandemic. However, the study revealed negative effects on businesses financially, technologically, and innovatively in terms of downsizing strategies. Gitau & Mang'ana (2021) supported the findings by revealing that during the economic depression, SMEs adopted a downsizing strategy to sustain cash flow and remain afloat.

Gustavsson and Larsson (2020) found that the pandemic called for market innovation in most organisations. Although the uniqueness of products or services was important during and after the pandemic, creativity in marketing efforts was most needed. Businesses using a differentiation strategy usually emphasise service delivery and support. The study was supported by Bianchi (2022), who revealed the need for an environmental ambience to strengthen relationships and make marketing innovation easier.

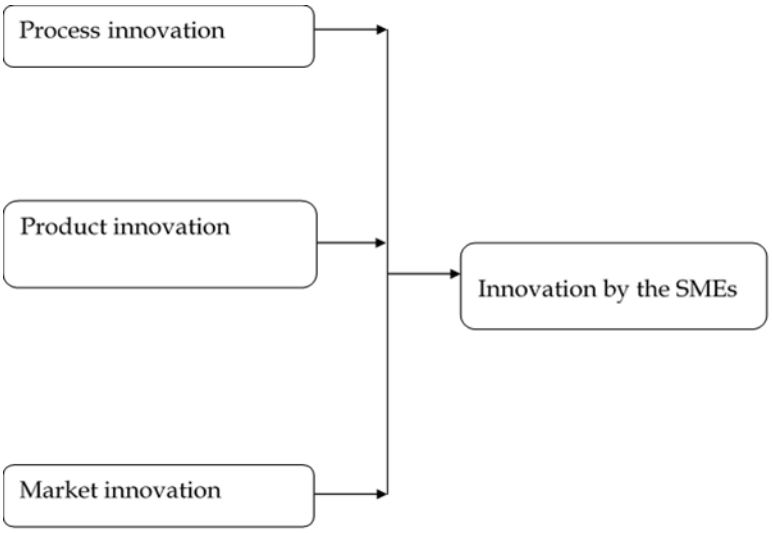
Bianchi (2022) conducted a study to ascertain the effects of COVID-19 on tourism and hospitality industry SMEs in the Republic of Chile. The study asserted that SMEs used innovation strategies to

survive the prolonged crisis. The study revealed that COVID-19's effect on hospitality SMEs caused a decline in demand occasioned by lockdowns, restrictions, and lack of support from the government, hence loss in the industry. This called for businesses to develop innovation strategies to counter the effects of the pandemic.

Alonso (2022) conducted a study on shareholders' opinions and management's vision for the future with threats from COVID-19. According to the study, the unexpected interruption caused by COVID-19 paralysed and devastated many businesses. The study showed that besides business owners and management being constrained by restrictions and uncertainty caused by the pandemic, those still willing to continue with business operations will need to use adaptive skills to cope with the crisis.

Conceptual Framework

Figure 1 below shows the conceptual framework demonstrating the three levels of innovation: process, product, and market innovation.



Independent Variable *Dependent Variable*

Figure 1: Conceptual Framework

Materials and Methods

The study used a descriptive survey research design. Data was collected using questionnaires, analysed and presented as frequencies and percentages using tables. The study area was Nairobi Central Business District (CBD), and the target population was 2490, out of which 30,252 were registered AMEs in Nairobi City County (Nairobi City County Licensing office, 2023). Table 1 below illustrates the target population categories.

Table 1: Target Population

Stratas	Population
Eateries and Restaurant services	570
Accommodation Services	460
Catering services	680
Gym and Fitness services	540
Event planning services	240
Total	**2490**

Source: Nairobi County Government licensing office, 2023

This study adopted stratified sampling to select participants from the target population. A sample was calculated using Saunder's formula, as shown below, and a 0.05 significance level.

Stratified Random Sampling was used to get the Sample size from the target population. Mugenda and Mugenda (2003) argue that a sample from 10 to 30% moderately represents the total population of a research study. This study's sample was 344 SMEs in the service sector, as indicated in Table 2 below. The sampling frame included Eateries and restaurant services, Accommodation services, Catering services, and Event planning services. The sample was calculated using the formula.

$$t = \frac{T}{1 + T\,(y)2}$$

Where:

t = Sample

T = Population Size

Y = Significance Level, expressed as decimal (0.005) Repetition of the formula above

In this exercise, pre-testing was carried out on 10 per cent of 344 participants. The participants in the pre-testing exercise were not included in the rest of the study population. The information was obtained and then subjected to quantitative analytical techniques. In the study, pretesting was used to establish if respondents understood the research questions for reliable feedback and validity of data.

Table 2: Sample size

Classes	Population	Sample Size
Eateries and Restaurant services	570	77
Accommodation Services	460	66
Catering Services	680	78
Gym and Fitness services	540	76
Event planning Services	240	47
Total	**2490**	**344**

Source: Researcher, 2023

Data was gathered using a self-structured questionnaire to guarantee the credibility and reliability of the instruments. The researcher engaged the assistance of four research assistants to each drop off one

hundred questionnaires to the participants. In five working days, all questionnaires were dropped off to Nairobi Central Business District (CBD) participants.

The questionnaire in this study adopted a 5-point Likert scale with open-ended and closed-end questions to gather data. Participants were contacted via email and telephone to agree on the modalities of conducting interviews and collecting questionnaires.

The researcher used Regression analysis methods to quantitatively analyse data in this study.

Data was assessed using SPSS (Version 23). The researcher compiled data using frequencies, mean, and standard deviation, summarised and inserted it in tables. Variables were evaluated according to the model below.

$Y_i = \beta_0 + \beta_1 X_{1i} + \beta_2 X_{2i} + \beta_3 X_{3i} + \varepsilon_i$

Where, Y = Dependent variable (SMEs sustainability in the service sector in Nairobi County)

β_0 = A term which is constant – subscript i

$\beta_1, \beta_2, \beta_3,$ and β_4 = Coefficients representing the condition of the independent variables

X_1= Process innovation

X_2= Product innovation

X_3= Market innovation

ε =Error term

Ethical consideration was done, and the researcher was authorised by both Mount Kenya University and the National Council of Science and Technology before commencing data collection in the county.

Results and discussions

The Mean and standard deviation analyses were conducted and are represented in Table 3 below.

Table 3: Innovation Strategy on a scale of 1-5

	N	Minimum	Maximum	Mean	SD
We have enhanced our **products** through improving the quality of our services.	221	2.00	5.00	3.6787	.68154
There is an improvement of our **process** to ensure quality innovativeness	221	2.00	5.00	3.4751	.61464
We have introduced technology to assist in **marketing** as well as brand our product to access both local and internal market.	221	2.00	5.00	3.4118	.80207

Source: Research data, 2023

The findings presented in Table 6 above showed small and micro-enterprises moderately enhanced their products by improving the quality of their services to our clients to remain resilient at a mean of 3.6787, above the minimum score of 2 and below the maximum score of 5. The findings revealed some

increment in process innovation through uniqueness and quality service delivery with 3.4751, meaning above the minimum score of 2 and below the maximum score of 5, hence had low standard (SD) =0.61464, revealing that most small and micro-enter similar level of improvement in process innovation.

Marketing innovation was among the lowest improvements through the introduction of technology to assist in marketing, as revealed by a mean of 3.4118, above the minimum score of 2 and below the maximum score of 5. However, the standard deviation was slightly higher at 0.80207 than other innovations, which indicates higher variation in the adoption of marketing innovation across Small and micro-enterprises.

The sustainability of small and micro-enterprises in Nairobi County was also assessed using mean and SD. The results are tabulated in Table 4 below.

Table 4: Business Sustainability

	N	Minimum	Maximum	Mean	SD
Our business has improved in profitability after Covid-19 pandemic	221	3.00	5.00	3.9005	.68027
Our operation cost has reduced after Covid-19 pandemic.	221	3.00	5.00	3.6290	.56236
The enterprise has increase in number of customers.	221	3.00	5.00	3.6290	.69274
We have spent in terms of size of the business.	221	2.00	5.00	3.3937	.79416

Source: Research data, 2023

Findings in Table 4 revealed Small and micro-enterprises had improved in profitability after the COVID-19 pandemic, with a Mean =3.9005, above the minimum score =2 and below the maximum score of 5. The variation was moderately low, with a Standard Deviation of 0.68027, indicating most of the firms made significant improvements in profitability. Small and micro-enterprise operation costs have moderately reduced after the COVID-19 pandemic, with a mean of 3.6290, above the minimum score of 2 and below the maximum score of 5. The variation was low, as revealed by a standard deviation of 0.56236, indicating that the cost had reduced in the COVID-19 period.

As per the study findings, small and micro-enterprises could moderately increase the number of customers, with a mean score of 3.6290. However, there was moderately high variation in different Small and micro-enterprises customer increments (standard deviation of 0.69274). Finally, the findings showed that SMEs were slightly expanded in business size, with a mean score of 3.3937. The variation was the highest compared to other Small and micro-enterprise sustainability performances (standard deviation of 0.79416).

Table 5: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
Constant	-.618	.204		-3.033	.003		
Process innovation	.116	.052	.097	2.258	.025	.749	1.336
Product innovation	.154	.062	.152	2.480	.014	.368	2.720
Market innovation	.380	.075	.316	5.098	.000	.359	2.789

Dependent Variable: Business Sustainability

Source: Research data, 2023

The findings in Table 5 above reveal that process, product, and market innovation strategies positively correlated with business sustainability ($p<0.05$). The results imply that the market innovation Strategy was the most preferred, with the highest effect of 31.6% on the sustainability of the business, followed by product innovation at 15.2% and the least process innovation strategy at 9.7%. In conclusion, the results suggest that Process, Product, and Market innovations are all significant predictors of Business Sustainability, with Market innovation having the strongest impact among the three types of innovation.

Assessing the effects of innovation strategy on the sustainability of small and micro-enterprise businesses in the hospitality industry in Nairobi County post-COVID-19, the study showed a positive and significant impact on process, product, and market innovation strategy on the sustainability of small and micro enterprises in the hospitality service industry in Nairobi County beyond COVID-19. They were adopted to test the study hypotheses.

Test of Hypothesis

H01: There isn`t any significant effect of process innovation Strategy on the sustainability of small and micro enterprises in the hospitality industry in Nairobi County beyond COVID-19.

According to Table 5 above, the null hypothesis was rejected, and an alternative hypothesis was selected since the significant value was below 5%. This implied a positive and significant effect of process innovation strategy on the sustainability of small and micro enterprises in the hospitality industry in Nairobi County beyond COVID-19 ($\beta1 = 0.116$). Lopes et al. (2022) concur that introducing a process strategy in manufacturing firms has value for products and increases efficiency in organisations. This also concurs with Kneipp et al.'s (2019) findings, which revealed innovation practices had a positive significant impact on a firm's sustainable performance. Edit citation.

H02: There isn`t significant impact of product innovation strategy on sustainability of small and micro enterprise in hospitality service industry in Nairobi County beyond COVID-19.

Similarly, according to Table 5 above, the null hypothesis was declined ($p<0.05$). Thus, it positively affected product innovation strategy on the sustainability of small and micro enterprises in the hospitality service industry in Nairobi County beyond COVID-19 ($\beta2 = 0.154$). The results concur with Kahingo and Waithaka (2018), where product innovation strategy significantly positively affected MFIs' sustainability; however, the influence was moderate. Wairimu and Kirui (2020) also found that

product innovation strategy significantly and positively influenced the organisation's business performance. The study, however, focused on the manufacturing industry, that is, tea processing factories, which are among the medium enterprises. This meant that the product innovation strategy was a business survival strategy applied by different firm sizes to remain competitive and productive. Edit citation.

H03: There isn`t significant influence of market innovation strategy on sustainability of small and micro enterprise in hospitality service industry in Nairobi County beyond COVID-19.

According to the results, the Alternative Hypothesis, according to Table 5 above, was accepted since the P-value was > 5%. Hence, there was a positive and significant effect of market innovation strategy on the sustainability of small and micro enterprises in the hospitality service industry in Nairobi County beyond COVID-19 (β3 =0.380). According to Okeyo and Lewa (2020), a strong market innovation strategy achieved through market strategy led to a competitive advantage in Kenya's banking sector. This implied that a strong market innovation strategy significantly impacted business sustainability.

Conclusion

As the main objective, the researcher wanted to establish the significant effect of innovation strategy on the sustainability of SMEs in the hospitality industry in Nairobi County beyond COVID-19. The innovation strategy was mainly contributed by product improvement through the quality of service to customers. Market innovation was brought about by adopting new marketing strategies and creating new market opportunities. Finally, process innovation was slowly attributed to ICT innovation for efficiency and accountability in service delivery.

This study advocates for hospitality businesses in Nairobi, CBD, to improve process, product, and market innovation by creating unique ideas to attract customers to SMEs. SMEs should also invest in marketing technology that is not costly, like social media marketing, to brand their products for both local and international markets.

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