

## **FINANCIAL MANAGEMENT PRACTICES AND GROWTH OF THREE STAR HOTELS IN NAIROBI COUNTY, KENYA**

BY

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### **ABSTRACT**

The hospitality industry plays an important role in economic development through employment creation, tourism growth, and contribution to national income. In Kenya, three-star rated hotels represent a significant segment of the hospitality sector as they provide affordable accommodation and services to both domestic and international travelers. This study examined the influence of financial management practices on the growth of three-star rated hotels in Nairobi County, Kenya. The study focused on four key financial management practices: budgeting practices, cash flow management, financing decisions, and cost control practices. The research was guided by the Resource-Based View (RBV) theory and supported by Incremental Budgeting theory, Cash Conversion Cycle theory, Pecking Order theory, and Activity-Based Costing theory. A correlational research design was employed to examine the relationship between financial management practices and hotel growth measured using occupancy growth rate. The target population consisted of 134 registered three-star rated hotels in Nairobi County, from which a sample of 67 hotels was selected using simple random sampling. Data were collected using structured questionnaires administered to finance department heads and analyzed using descriptive statistics and multiple regression analysis. The findings indicate that financial management practices significantly influence hotel growth, with cash flow management emerging as the most influential predictor of hotel growth.

**Keywords:** Financial Management, Three Star Hotels, Business Growth, Budgeting, Cash-flow Management, Financing Decisions, Cost Control.

### **Introduction**

The hospitality industry is significant on the economic growth by creating jobs, tourism growth and contribution to the national income. Hotels provide accommodation, conference services, food and beverage services and other hospitality services that facilitate both domestic and international travel. With the ever-increasing global tourism, hospitality industry has emerged as a significant source of economic growth and international trade.

Hotel industry in Kenya is a core aspect of tourism industry. The Nairobi County is the commercial and tourism centre of the country and boasts of a diverse number of hospitality facilities such as luxury hotels, mid scale hotels and budget accommodation facilities. Of these facilities, three-star hotels have a special significance due to the middle range of the accommodation they provide, including business travelers, national tourists, and those visiting other

countries in search of affordable yet comfortable hotel services.

Hotels rated three stars normally offer basic hospitality services including accommodation, restaurant services, conference rooms, internet connectivity and transport services. These facilities are therefore of great significance in aiding the growth of tourism and business travels in Nairobi County. Nonetheless, even though they are very significant in the hospitality industry, most three star rated hotels face the challenge of maintaining growth due to the increase in operational costs, market competition and financial management limitations.

Good financial management practices are thus critical towards achieving sustainable development in the hospitality industry. The practices of financial management determine the manner in which the organization spends the available financial resources, controls spending on operations and thus, liquidity required to run the operations of the organization.

Budgeting practices help the managers to plan financial activities, and financial performance. Cash flow management is a method that assures organizations do not run out of liquidity to fund their operations and to pay off their financial commitments. The decision-making on finances defines how organizations access financial resources needed to invest and expand their operations, and cost control practices also assist in regulating the operational expenses and enhancing financial discipline.

#### **Literature Review**

Financial management practices determine the way organizations plan, allocate and control financial resources to obtain operational efficiency and sustainable growth. These practices are especially significant in the hospitality industry since hotels are involved in a hospitality environment that has the characteristics of changing demand, seasonal patterns of revenue and increased operational costs. Good financial management systems can empower hotel managers to ensure that there is liquidity, control operational spending and investment decision making that can lead to improved service delivery and competitiveness. As a result, companies that have a good financial management system have a higher likelihood of obtaining a better organizational performance (Atrill & McLaney, 2020).

Hotels are in a very competitive environment where operations, cost management and quality of service affect the sustainability of the business. Financial management practices are thus a very important managerial role that defines the way that hospitality organizations use their resources, control their costs of operations and the liquidity needed to run their day-to-day activities. Good financial management systems allow the managers to track the performance of the departments and react to market changes. The systems also assist in better coordination of operations in financial activities among departments. As a result, the good financial management practices can help in ensuring stability in operations and long-term growth in hospitality industry.

#### **Theoretical Review**

The paper is based on the theory of Resource-Based View (RBV), according to which the competitive advantage of the firm is gained with the help of

effective use of the internal resources and capabilities (Wernerfelt, 1984; Barney, 1991). It is based on this view that organizations that establish robust managerial systems and internal strengths are in a better position to attain long-term growth and competitive advantage. Companies successfully operating their internal resources can thus enhance operational efficiency and enhance their competitive advantage. Therefore, the RBV theory can be a valuable framework to explain the role of internal financial management practices in organizational growth.

In the hospitality sector, budget allocation, liquidity management, financing options and cost management are some of the most important internal capabilities that facilitate operational efficiency and financial stability. These practices help managers of the hotels to efficiently allocate financial resources and still have the liquidity needed to operate the hotel on a daily basis. Good financial management systems also enable the organizations to deal with operational risks that comes as a result of fluctuation in demand and seasonal revenue trends. By building an effective financial maneuvering capability, hotels are thus in a better position to stay competitive in the dynamic tourism markets. The RBV approach thus describes the role of internal financial management practices in the development of three-star hotels.

#### **Budgeting Practices and Growth**

The management of cash flow is a vital part of financial management since it forms the liquidity status of an organization. Liquidity management is a concept that guarantees that organizations have adequate working capital to facilitate the daily operations and fulfill financial commitments. The financial management theory suggests that organizations that manage their liquidity effectively can operate at a steady level and prevent fines (Ross, Westerfield and Jordan, 2023). Sustaining sufficient liquidity thus facilitates business continuity and financial strength. Liquidity management helps in achieving financial stability in organizations.

Cash flow management is a significant issue in the hospitality industry since the revenues of hotels vary with the extent of occupancy, seasons, and demand in the market. Hotels need to have effective cash flow systems to guarantee that the activities of the hotel like

paying staff, suppliers and maintenance costs are well sustained. A good liquidity planning helps hotel managers to be financially stable even when occupancy is low. Moreover, effective cash flow management enables hotels to invest in service enhancement and growth of operations. Therefore, liquidity management is a factor that leads to business growth.

### **Cash Flow Management and Growth**

Cash flow management is a critical aspect of financial management since it will determine the liquidity status of an organization. Liquidity management is a way of ensuring that organizations have enough working capital to cover their day-to-day operations and fulfill its financial commitment. The financial management theory states that entities that have robust liquidity management frameworks are in a better position to maintain stability in operations and prevent financial distress (Ross, Westerfield and Jordan, 2023). Sustaining a reasonable level of liquidity thus facilitates continuity of operations and financial stability. Sound liquidity management helps in financial stability in organizations.

Cash flow management is significant in the hotel and hospitality industry since hotel revenues vary with the occupancy rates, seasons of tourism, and the demand in the market. Hotels, therefore, need to have a good cash flow system in place to facilitate the smooth running of their operations like staff salaries, payments to suppliers, maintenance costs, etc. Proper liquidity planning helps hotel managers to ensure financial stability even when the occupancy is low. Moreover, good cash flow management will enable the hotels to invest back into service enhancement and expansion of operations. In turn, proper liquidity management will lead to business development.

### **Financing Decisions and Growth**

When it comes to financing decisions, the decisions determine how organizations access financial resources needed in investment and expansion processes. Pecking Order theory goes further to state that companies tend to finance their operations internally firstly before external financing is considered as the internal sources of finance are less risky in terms of financial risk and information

asymmetry (Myers and Majluf, 1984). Organizations, however, can also opt to pursue external funding in instances where internal funds are not enough to fund capital investments. Managers should thus consider financing options keenly before making any significant decisions on investments. The right financing plans thus affect the sustainability of an organization.

Financing decisions are especially critical in the hospitality industry due to the high capital investment needs during the operation of hotels, especially to develop infrastructure, upgrade facilities, and improve services provided in a hotel. Hotels thus have to strike the balance of investment requirements and financial risk. Good finance plans allow the hotels to renovate facilities, better service delivery and increase the operational capacity. Hotels which embrace sound financing choices are in a better position to be competitive in the hospitality industry. In turn, sound financing choices will help to develop business in the long term.

### **Cost Control and Growth**

Cost control entails observing the operating expenses with the aim of enhancing efficiency and financial discipline. The importance of proper cost allocation in enhancing managerial decision making and operational efficiency is highlighted in the Activity-Based Costing (ABC) theory (Kaplan and Cooper, 1988). Organizations can utilize cost drivers to create better resource allocation and minimize operational inefficiencies by tracking the operational expenditures. Proper cost management consequently translates to efficiency in financial resources by organizations. These are especially considered in industries that are characterized by high operation costs.

Cost control systems within the hotel operations allow the managers to keep track of the cost that goes into labor, utilities, maintenance, and food supplies. Periodic tracking of these costs will enable managers to determine the spending area that may be too high and take corrective actions. Best cost control practices hence lead to high financial performance and sustainability. Hotels which have a well-managed cost management system can strike the right balance between financial discipline and service quality. Therefore, cost management is significant in the long-term business development.

### **Empirical Review of Literature**

The connection between financial management practices and organizational performance in various industries has been widely studied in the empirical literature. Research has shown that budgeting, cash flow management, financing decision and cost control practices are significant in enhancing financial performance and growth of a business. Nonetheless, most of the current studies have been done on manufacturing companies, small and medium organizations, and non-profit organizations but with relatively little attention paid to the hospitality industry. Hotels are businesses that are faced with demand volatility, seasonality in revenues, and relatively high costs of operations. These attributes can impact on the effects of financial management practices on organizational outcomes.

In response, the relevance of the results of other industries to the hotel business is only partially known. The impact of financial management practices on hotel development thus will be a topic that needs to be researched sector-specifically in the hotel industry. This part will summarize empirical research on budgeting practice, cash flow management, financing decision-making, and cost control. The review integrates the evidence available on the subject and points out the gaps in research. The empirical basis of the current study is thus laid in this discussion.

### **Budgeting Practices and Growth**

The association between organizational performance and budgeting practices in various sectors has been studied in a number of studies. Tonui and Njoka (2024) studied the budgeting practices used in Community-Based Organizations in Kericho County and discovered that despite the regular preparation and review of budgets, forecasting of future cash flows was not commonly used. Regression analysis established that financial performance was highly predicted by budgeting. The research was however based on non-profit organizations which are not like profit-driven hotels in competitive hospitality markets.

Nyambutora and Omwenga (2023) examined capital management practices in agribusiness SMEs in Kisii

County and determined that budgeting had a significant impact on financial performance. Despite its utility, the emphasis on agribusiness SMEs constrains its direct relevance to the hospitality industry where the flexibility of service delivery and operation affect expansion. A study of small-scale entrepreneurs in Kisumu by Sarah and Mule (2023) revealed that monitoring expenditure and financial readiness facilitated the growth of the business by enhancing savings behavior. The study, however, was on informal businesses and not on formal organizations like hotels where budgeting systems are institutionalized.

Abiola (2023) examined the budgeting practices in the Nigerian Breweries PLC and validated the positive association between the budgeting and the variable of retained earnings and the workforce expansion. Likewise, Gbenga and Alao (2021) discovered that budget planning, budget control, and budget evaluation were highly correlated with financial performance in Nigerian SMEs. Bringing it closer to the hospitality industry, Cherutich (2021) evaluated the budgeting operations of three-star rated hotels located in Nairobi and discovered that ineffective budgeting systems led to inefficiencies in operations and limited growth. Nevertheless, the research looked at budgeting alone. The current research thus incorporates various financial management practices in evaluating the hotel growth.

### **Cash Flow Management and Growth**

Cash flow management is the process that helps organizations to stay afloat with liquidity to run their day-to-day operations and long-term investments. Chepkonga and Kimutai (2023) discovered that in the hospitality industry, the management of cash flows highly enhanced financial performance of five-star hotels in Nairobi. But the study did not include three-star hotels, which have different financial parameters, including smaller profit margins and more dependence on local customers.

Other sectors also provide insight into evidence. Ankomah et al. (2023) studied the cash-flow elements of Ghana manufacturing companies and discovered that the operating cash flows had a negative impact on

performance because operating costs were high. On the other hand, Mwasingo and Ibrahim (2022) and Mburu (2022) found that operating and investing cash flows had a positive impact on financial performance of Kenyan manufacturing companies. In the hospitality industry in Kenya, Cheronno (2021) affirmed that liquidity control and forecasting played a key role in star-rated hotels in terms of profitability. Rahman and Sharma (2020) also provided similar results as they discovered that operating cash flows had a positive impact on financial performance in Saudi Arabian companies.

### **Financing Decisions and Growth**

How organizations are financed to raise capital, strike a balance between debt and equity as well as reinvest earnings is determined by financing decisions. Gisele, Githui, and Muhavani (2021) investigated financing options among the textile manufacturing companies in Nairobi and discovered that equity financing, retained earnings, and crowdfunding had a positive impact on financial performance. Bello and Sensini (2020) have discovered that SME development depended on domestic funding, especially on long-term reinvestment of profits.

On the same note, Ondicho et al. (2019) indicated that financing decisions had a great impact on SME performance in Nyamira County. Ringera and Muturi (2019) also discovered that financing choices had a positive impact on the performance of the microfinance institutions. These results indicate that sound financing policies promote business development. Nevertheless, the seasonal incomes, the high cost of operations, and the high level of competition affect the financing decision in the hotel industry and make it hard to compare it directly to the SMEs or financial institutions.

### **Cost Control and Growth**

Cost control makes sure that organizations minimize unwarranted costs and yet remain operational and efficient in their services. According to Bhuwan (2024), cost control measures like budgeting and delegated authority enhanced financial performance measures in the Agriculture Development Bank of Nepal. According to Mukayivara and Rusibana (2024), cost standards and cost analysis enhanced financial

sustainability in firms in the manufacturing industry in Rwanda.

Obafemi and Taiwo (2023) discovered that the control of wages, finance costs and cost of goods sold played a huge role in determining growth and survival of Nigerian manufacturing firms. In Kenya, Kipkenei et al. (2022) found that cost control systems were a significant factor that explained the differences in performance between medium-sized enterprises in Kericho County. Even though these studies focus on the significance of cost control within any sector, little research has been conducted on its significance within the hotel industry in Nairobi. Hotels have special cost structures based on the labor-intensive operations, variability in occupancy, and high utility and maintenance costs.

### **Research Gap**

Despite the fact that a lot of research has been done on the impact of financial management practices on the performance of organizations, a good part of the available empirical literature has centered on manufacturing firms, SMEs and financial institutions. There is paucity of research on the joint impact of various financial management practices on growth in hospitality industry especially in mid-scale hotels in the emerging tourism economies. In Kenya, the past researches have tended to look at individual financial practices individually whereas comparatively few studies have investigated the joint effect of the budgeting practices, cash flow management, financing decision and cost control practices on hotel development. Furthermore, the majority of research in the hospitality sector has focused either on large or luxury hotels, with three-star rated hotels remaining a relatively under-researched area in spite of their contribution to domestic tourism and business travel. This paper thus discusses the combined effect of these financial management practices to the growth of three-star rated hotels in Nairobi County, Kenya.

### **Research Methodology**

In this section, the research methodology used to investigate the impact of the financial management practices on the growth of three-star rated hotels within Nairobi County, Kenya is explained. The section describes the research design and

methodological procedures that were used in the study. These methodological parts were chosen in order to make sure that the connections between budgeting practices, cash flow management, financing decisions, cost control practices, and hotel growth were analyzed in an ordered and objective manner.

The approach taken by this research was informed by the aim of establishing the connection between financial management practices and hotel growth without controlling the conditions in the organizations. Correlational research design was thus deemed suitable to study these relationships. The section also elaborates the steps involved in identifying the study sample, primary data to be gathered by interviewing the hotel finance managers and analysis of the data by applying the statistical methods to obtain reliable and valid results.

#### **Research design**

The research design used in this study was a correlational research design as the relationship to be investigated was that between the financial management practices and the growth of the three-star rated hotels within the Nairobi County in Kenya. Correlational research design is suitable in cases where the aim of a research is to establish the strength and nature of relationships among variables without controlling them. The design will allow the researchers to study associations between variables in their natural organizational context.

Application of correlational research design was suitable since the aim of the study was to establish whether or not financial management practices have any impact on the growth of the three-star hotels. The four major financial management practices that were studied included: budgeting practices, cash flow management, financing decisions and cost control practices. These are natural practices that take place in hotel operations, which cannot be artificially manipulated without disrupting the usual business operations.

A correlational design thus allowed the researcher to study the relationships between the financial management practices and the hotel growth in the natural operating environment of the hotels. The quantitative data collected by the study through interviewing the finance managers and analyzing it

with statistical methods allowed the study to establish the magnitude and significance of the relationships between the variables.

#### **Research Philosophy**

The positivist research philosophy was used to direct the study, where the phenomena in the society can be objectively measured by observing and analysing empirically. Positivism focuses on quantitative research methodology to test the relationship between variables and come up with conclusions that can be generalized in the entire population. Positivist philosophy was suitable in this study since the study sought to quantify the relationship between financial management practices and hotel development using measurable variables. Structured questionnaires and statistical analysis allowed the researcher to come up with objective and reliable results. The research method employed by the study was also quantitative. The quantitative research is suitable where the intention is to examine associations among variables with the use of numerical data. The quantitative approach enabled the research to statistically test the impact of financial management practices on the growth of hotels.

#### **Target population**

This study was targeted at all the registered three-star hotels that were operating in the Nairobi County, Kenya. Based on data received at the Tourism Regulatory Authority, 134 three-star hotels were in operation in Nairobi County during the study.

The study used the hotel establishment as its unit of analysis and the head of the finance department in each hotel as the unit of observation. Finance managers were chosen as respondents as they are in charge of financial planning, budgeting, liquidity management, financing decision and cost control in the hotel operations.

Three-star hotels are a big part of the hospitality industry as they offer mid-range accommodation services that attract local and foreign travellers. These hotels normally offer accommodation facilities, restaurant, conference and internet services. Consequently, financial management activities in these establishments become a major concern in ensuring sustainability and competitiveness in operations.

### **Sample size and sampling procedure**

The process of choosing a few elements out of a population to get information that reflects the properties of the whole population is known as sampling. In this case, the researcher chose a sample of 67 three-star hotels which could be considered as about 50 percent of the target population of 134 hotels. The large sample size was picked because the research wanted to enhance reliability and representativeness of the findings. The larger the sample, the greater is the statistical power of regression analysis and the more generalizable are the results. The sampling used in the study was simple random sampling in selection of the hotels taking part. This sampling method guarantees an equal chance of each hotel in the population to be randomly chosen. Simple random sampling minimizes selection bias and makes the sample as representative of the population as possible. The respondent was chosen as a head of the finance department of each of the chosen hotels. Finance managers were assumed to be the most suitable respondents as they are the ones with in-depth understanding of financial management practices that are applied in their hotels.

### **Data collection instrument**

The research used primary data where a structured questionnaire that had been developed by the researcher was used to collect data. The questionnaire was structured to capture data on financial management practices that were applied in the sampled hotels. The questionnaire was divided into various sections. The initial part gathered demographic data regarding the respondents and the hotels. The second part looked into budgeting practices. The third part was devoted to the management of the cash flow practices. The fourth section explored the financing choices, and the fifth one explored the cost control practices that were adopted in the hotels. The last section was a measurement of the dependent variable of the study which was the growth of three star hotels. The occupancy growth rate was used to measure hotel growth, and it is a percentage change in the number of rooms sold against the number of available rooms capacity of a hotel in a specific period. Questions in the questionnaire were on Likert scale to determine the level of implementation of financial management practices in the hotels. By using structured

questionnaires, the researcher was able to gather standardized data which could be analyzed quantitatively.

### **Data analysis**

Statistical Software: The data obtained were analyzed through Statistical Package of Social Sciences (SPSS) and STATA. The characteristics of the respondents and the financial management practices applied in the sampled hotels were summarized by the use of descriptive statistics like frequencies, percentages, means and standard deviations. Multiple regression analysis was used as an inferential statistical technique to identify the impact of financial management practices on the development of hotels. The regression analysis allowed the researcher to identify the strength and the significance of the relationships between the independent variables and the dependent variable.

### **Validity and reliability**

Validity is the degree to which a research instrument is able to measure what it is supposed to measure. Academic supervisors and specialists in financial management and hospitality management were consulted to make sure that the questionnaire has a content validity. Their response assisted in fine-tuning the questionnaire and making sure that the questions covered the financial management practices investigated in the research appropriately. Reliability is a concept that is used to describe the consistency of a research instrument in measuring the variables of interest. The standardized questionnaire items and Likert-scale response options were used to increase reliability. The pilot study also helped to enhance the validity of the research instrument.

### **Regression model**

The study employed a multiple linear regression model to examine the influence of financial management practices on hotel growth

$$G = a + b_1BP + b_2CF + b_3FD + b_4CC + e$$

Where:

G = Growth (Occupancy Rate)

a = Constant

BP = Budgeting Practices,

CF = Cash Flow Management,

FD = Financing Decision Practices

CC = Cost Control Practices

e = Error Term.

$b_1$ - $b_4$  = Coefficients representing the effect of each independent variable on growth.

The model was useful in estimating the contribution that each financial practice has to the growth of the hotel even as the others were held at constant. In addition, tests and graphical analysis of the assumptions of regression were checked on the basis of the normality, multicollinearity, linearity and homoscedasticity. These ensured robustness and reliability of results.

The study was conducted in a manner that ethics were taken seriously. The respondents were engaged in the study on a voluntary basis after informed consent, given that they had the right to drop out. Anonymity and confidentiality were ensured through not collecting any personal identifiers and coding of responses. Information was safely stored and utilized by academic purposes only with a promise of sharing of results with the involved hotels. The study met these standards by protecting the rights, privacy, and dignity of the study participants and credibility of findings.

### **Results**

This section presents the empirical findings of the study based on data collected from finance department heads of three-star rated hotels in Nairobi County. The analysis begins with descriptive statistics summarizing the characteristics of respondents and the extent to which financial management practices are implemented in the sampled hotels. This is followed by inferential statistical analysis using multiple regression to determine the influence of budgeting practices, cash flow management, financing decisions, and cost control practices on hotel growth.

#### **Response rate and respondent characteristics**

The number of questionnaires given to the three-star hotels in Nairobi County was 67. Among these, 62 questionnaires were returned and were considered appropriate to analyze and thus these were the response rate of about 92 percent. This response rate was decided to be sufficient to analyze it statistically as it was more than the minimum number usually required in a survey study. High response rate enhances reliability of survey results because chances of non-response bias are minimized. The demography

of the respondents showed that the roles of financial management in the three-star rated hotels are highly undertaken by professionally trained individuals. A majority of the respondents claimed to have university-level qualifications in the field of finance, accounting or business administration. Besides, most of the respondents reported that they had years of experience in working in hotel finance departments. Such an experience level implies that the answers given were founded on a lot of practical know-how of financial management practices in the hotel operation.

#### **Descriptive analysis**

The levels of application of financial management practices in three star hotels in Nairobi County were analyzed using descriptive statistics. The analysis was based on four practices: budgeting practices, cash flow management, financing decisions and cost control practices. These descriptive results give an idea of the functioning of the financial management systems in the hotel establishments and then they proceed to test the statistical correlation between financial management system and the hotel growth.

#### **Budgeting practices**

According to the descriptive findings, majority of the three star rated hotels use systematic budgeting mechanisms to inform financial planning and allocation of resources. Budget preparation is usually done yearly and departmental managers are involved in the financial plan preparation. These budgets are financial parameters that assist managers to organize operational activities and also to ensure that there is no form of overspending. Respondents also reported that there is a periodic review of budgets in order to check financial performance. In variance analysis, the hotel managers compare the actual spending with the scheduled budgets with the aim of detecting financial variances. This process helps managers to identify operational inefficiencies and take corrective measures. A budgeting practice will, therefore, lead to better financial discipline and better utilization of resources in the operations of the hotel.

#### **Cash flow management**

One of the practices of cash flow management was common in the three-star hotels sampled. According to

the report of the respondents, the hotel managers closely track the cash inflows related to accommodation services, restaurant operations and conference facilities. Proper management of these sources of revenue will help the hotels to have adequate liquidity to fund the operations. Another method used by hotels to predict the future of liquidity needs is cash flow forecasting. This enables the management to budget on significant spending and make sure that financial obligations like payment of suppliers, and salaries of staff are met in good time. Having a good liquidity is especially relevant in the hospitality industry where demand trends vary with tourism seasons. As a result, sound cash flow management will improve financial security and sustainability of hotel operations.

### **Financing decisions**

The decisions related to financing were also discussed as the financial management practice that affects the development of hotels. Descriptive results showed that most three-star hotels use mainly internally raised funds needed to finance operational processes and small expansion projects. The retained earnings are thus a valuable financing source of the hotel operations. Nonetheless, other hotels also use external sources of finance like bank loans to finance infrastructure development and facility enhancement. According to respondents, high costs of borrowing and strict lending guidelines continue to be a major challenge to long-term financing by many mid-scale hotels. Regardless of these limits, financing decisions are significant towards funding strategic investments that increase service quality and competitiveness.

### **Cost control practices**

The use of cost control practices was very common in the sampled three-star hotels. According to the hotel managers, operational costs like food supplies, utilities, maintenance costs and staff costs are under strict management. Constant observation of such expenses can help managers detect those areas where much money is wasted and introduce cost saving measures. Hotels as well implement departmental cost monitoring systems which monitor the spending in different units of operation. This helps to boost financial responsibility since every department will be

working within allocated budgetary constraints. Good cost control measures thus enable the hotels to be financially disciplined without compromising on the quality of services provided.

### **Inferential statistics**

To establish the relationship between financial management practices and hotel growth, inferential statistical analysis was done using multiple regression analysis. The regression analysis investigated how the financial management practices can explain differences in growth of the three-star rated hotels in the Nairobi County. The model was used to determine the overall explanatory value of budgeting practices, cash flow management, financing decision and cost control practices individually and their overall contribution towards variations in hotel occupancy growth. Table 4.8 and Table 4.9 are regression results which give the model statistics and coefficient estimates on which the direction, strength and statistical significance of the relationships can be determined.

The regression model had an explanatory power of 16.2% in explaining the growth of the three-star rated hotels ( $R^2 = 0.162$ ) with the adjusted  $R^2$  value of 0.104 showing that the explanatory power did not decrease once the number of predictors in the model was considered. Whereas the percentage of explained variance can seem low, these values are typical of the hospitality and organizational research in which the growth of firms is affected by a variety of contextual and environmental factors. Therefore, the findings suggest that financial management practices are a significant but incomplete predictor of the hotel growth and the additional variance could be attributed to other variables like service quality, market competition, customer satisfaction, marketing practices and the overall economic environment. The general regression was significant ( $F = 2.764$ ,  $p = 0.036$ ), which shows that the joint financial management practices are the best predictors of the changes in the growth of three-star rated hotels at the 5% level of significance.

The research also evaluated the independence of residues by the Durbin-Watson statistic which tested

the first-order autocorrelation of regression residuals. Closer to 2 means the absence of autocorrelation whereas lower values very below 2 and high values very above 2 would be positive and negative autocorrelation respectively. A useful practical range of values of 1.5 to 2.5 is generally accepted in applied research to denote lack of severe autocorrelation. The value of Durbin Watson is 1.856 which is within this acceptable range and is very near to 2 which indicates that there is no evidence of autocorrelation among the residuals hence confirming the reliability and validity of the regression estimates.

The regression model with 62 observations and four predictors was estimated with the 57 degrees of freedom, and at the 5 percent level of significance (two-tailed) the critical t-value is about  $\pm 2.002$ . Analysis of the individual regression coefficients reveals that all four predictors had positive beta coefficients and significant relationships with hotel growth. The best predictor was cash flow management (0.293,  $t = 2.30$ ,  $p = 0.024$ ) which insinuates that increment in liquidity management is strongly related to growth in occupancy in three-star hotels. Financing decisions were also found to have a positive and statistically significant correlation with growth ( $= 0.261$ ,  $t = 2.16$ ,  $p = 0.034$ ) indicating that sound design

of capital structure leads to enhanced capacity of expansion of operations. The use of budgeting also exhibited a strong positive correlation with growth ( $= 0.173$ ,  $t = 2.13$ ,  $p = 0.037$ ), suggesting that effective budgeting and financial discipline are linked to the better allocation of resources and financial planning. Although the coefficient of cost control practices ( $= 0.147$ ,  $t = 2.14$ ,  $p = 0.036$ ) is the smallest, it showed a statistically significant correlation with growth. These findings suggest that the increase in expenditure monitoring and operational efficiency is linked to incremental performance.

Taken together, the findings indicate that financial management practices work in a complementary and mutually supporting way in determining the development of three-star hotels. Although cash flow management showed the best statistical impact, the fact that budgeting practices, financing decisions and cost control practices have significance implies that the growth of a hotel is better when these financial practices are adopted as a unit than as stand-alone practices. This observation underscores the need to have integrative financial management systems that can support operational stability and sustainable growth within competitive hospitality settings.

**Table 4.8: Regression Model Summary**

| Model Summary Statistic                                 | Value   |
|---|---------|
| R   | 0.403   |
| R Square (R <sup>2</sup> )                              | 0.162   |
| Adjusted R Square                                       | 0.104   |
| Standard Error of the Estimate                          | 0.46107 |
| F Statistic   | 2.764   |
| Degrees of Freedom (df <sub>1</sub> , df <sub>2</sub> ) | (4, 57) |
| p-value   | 0.036   |
| Durbin–Watson Statistic                                 | 1.856   |

**Table 4.9: Regression Coefficients**

| Model                  | Beta (β) | Std. Error | t-value | P-value |
|------------------------|----------|------------|---------|---------|
| (Constant)             | 4.574    | 0.728      | 6.28    | 0.000   |
| Budgeting Practices    | 0.173    | 0.081      | 2.13    | 0.037   |
| Cash Flow Management   | 0.293    | 0.127      | 2.3     | 0.024   |
| Financing Decisions    | 0.261    | 0.121      | 2.16    | 0.034   |
| Cost Control Practices | 0.147    | 0.069      | 2.14    | 0.036   |

Based on the regression coefficients, the estimated regression model is expressed as:

$$\text{Growth} = 4.574 + 0.173\text{BP} + 0.293\text{CFM} + 0.261\text{FD} + 0.147\text{CCP} + \varepsilon$$

where BP represents budgeting practices, CFM represents cash flow management, FD represents financing decisions, and CCP represents cost control practices.

The study tested four null hypotheses regarding the influence of financial management practices on the growth of three-star rated hotels in Nairobi County. The regression results provided sufficient statistical evidence to reject all four null hypotheses, confirming that budgeting practices, cash flow management, financing decisions and cost control practices are significantly associated with variations in hotel growth.

Empirical evidence further supports these findings. The significant relationship between budgeting practices and hotel growth aligns with studies by Tonui and Njoka (2024) and Nyambutora and Omwenga (2023), which found that structured budgeting significantly predicts organizational performance. The result also supports Incremental Budgeting Theory, which emphasizes structured financial planning as a mechanism for improving organizational control and continuity.

### **Discussion of Findings**

This section reports the findings of the study based on the study objectives, theoretical perspectives and available empirical literature. This discussion centers on how the budgeting practices, cash flow, financing decisions and cost control practices affect the growth of three star rated hotels in the Nairobi County. The outcomes of the regression analysis are discussed to describe the role of financial management practices in hotel growth in terms of occupancy growth rate. Tying the empirical findings with the Resource-Based View (RBV) theory and underpinning financial management theories, the discussion delivers the insights into the contribution of financial management practices to the growth and sustainability of three-star hotels.

The RBV theory assumes that competitive advantage of an organization is created when the organization makes effective use of its internal resources and capabilities. Financial management practices are paramount managerial skills in the hospitality operations wherein financial resources are distributed, tracked, and leveraged. Strategic organizational capabilities therefore comprise effective budgeting, liquidity management, financing decisions, and cost control practices that help the hotels to react to market changes, operational risks, and sustain long term expansion. As the results of the current research indicate, these financial management practices play a major role in the hotel performance supporting the thesis that managerial financial competencies are the core of the organizational development of service-based organizations, like hospitality.

### **Budgeting practices**

Results of the budgeting practices showed that, hotels that had well-organized systems of budget preparation, monitoring, and review were more likely to experience a steady growth. According to respondents, periodic review of budget, financial monitoring and managerial assistance on financial planning were highly practiced in the sampled hotels. There were however, certain areas of the budgeting practice including the variance analysis and the departments being responsible in budget deviations that were not fully adopted.

Hotels that implemented the systematic budgeting frameworks were in a better position to match finances with financial priorities and react to the market dynamics. Budgeting is a key tool in hospitality operations since demand is dynamic based on seasonal changes, economic factors, and travel preferences, thus budgeting processes can help to predict financial requirements and resource allocation.

These results are aligned to the Incremental Budgeting Theory that focuses on the financial allocation adjustment strategy by relying on the past budgets to ensure the stability of the organization but enable gradual adaptation to the changes in the environment (Wildavsky, 1964). Incremental budgeting gives organizations a viable tool of financial resource management and the least uncertainty in financial planning.

This research aligns with the findings of Cherutich (2021), who observed a better financial performance and stability of hotels with a well-developed system of budgeting.

The managerial point of view is that with structured budgeting systems, hotel managers are able to identify operational inefficiencies promptly, areas of financial over-spending, and take prompt corrective actions. Hotels which periodically assess the performance on the budget are able to modify operational planning, redistribute resources, and react to market changes in a better way. Systematic budgeting practices are thus associated with a better financial discipline and better organizational growth through the efficient utilization of financial resources and their alignment to strategic goals.

#### **Cash flow management practices**

The most important variable in the regression analysis was cash flow management, which was found to determine hotel growth. The results found that hotels that had a better liquidity management practice recorded better growth results as opposed to hotels that had a poorer cash flow management system. The respondents have said that they are highly compliant with practices like implementing credit policies, having well-organized receivables collection processes, predicting cash inflows and outflows, and having stable supplier relationships. The practices will help hotels remain financially steady and sustain continuous service provision in a hospitality industry that is very dynamic.

Adequate liquidity in the hotel industry is especially crucial since operations in this business entail constant expenses on employee wages, utility bill payments, food supply, maintenance and other operational supplies. Hotels are thus required to ensure that they have adequate cash stock to cater to these recurring needs even when occupancy or the seasonal demand are low. Good cash flow management will help the hotels to be in a position to cover their short term financial obligations and still be in operation.

The results conform to the Cash Conversion Cycle (CCC) Theory that focuses on shortening the time lag between the payment of suppliers and the receipt of payments by customers (Richards and Laughlin,

1980). The reduction of cash conversion cycle can enhance liquidity status of hotels and the supply of working capital necessary to fulfill operational processes and enhance the quality of services. Effective receivables, payables, and inventory cycles management thus has a significant impact on financial stability and growth.

The results are reminiscent of Chepkonga and Kimutai (2023), who discovered that liquidity management had a major impact on the sustainability of five-star hotels in Nairobi. The current research builds up on this fact by showing that cash flow management is also a critical issue to mid-scale hospitality facilities like three-star hotels. Even though three star hotels have comparatively less financial buffer than the luxury hotels, proper liquidity management allows the hotels to keep the standards of service provision and prevent the inconvenience of operations.

In addition, proper liquidity management grants hotels the financial leeway to re-invest in service delivery, facility upgrades and marketing campaigns that will bring in more visitors. Hotels are also able to absorb temporary market shocks or economic downturns by ensuring that they do not affect service delivery by having sufficient working capital to absorb temporary shocks. In this aspect, liquidity management is not only a survival strategy in the short run but also a strategic contributor to long-term organizational development.

#### **Financing decision practices**

The decisions on financing were also found to have a positive and significant effect on the growth of the hotels. The results indicate that hotels that strategically consider financing plans and have balanced capital structures are more likely to have optimal growth results. The respondents reported that financial managers have been proactive in evaluating financing options, tracking debt requirements, and taking into account the cost of interest when making investment or expansion decisions. These practices assist in ensuring that financing decisions are made with the aim of ensuring sustainability of the business in the long-term without putting the organization at too much financial risk.

Money decisions are also strategic in establishing the availability of funds needed to make capital investments, upgrade of facilities, marketing and improvement of services in the hospitality facilities. Hotels that strategically make financing choices can increase their operations, renovate their facilities and provide better customer experience, which will lead to higher occupancy rates and business development.

These results align with the Pecking Order Theory that suggests that firms tend to use internal sources of financing as the first priority, then debt financing, and finally equity financing because of the cost and risk factors (Myers and Majluf, 1984). Focusing on the internally generated funds will enable organizations to lower reliance on external funds and avoid financial risks connected to debt repayment. Nevertheless, strategic investments that can be made to spur business growth can be funded by well-designed borrowing when the company lacks internal funds.

The findings of the current research that managers of three-star rated hotels that follow cautious and well-organized financing strategies contribute to the long-term business growth and sustainability of the business at the same time are supported by empirical evidence by Ondicho, Muturi, and Omido (2019) that small and medium enterprises in Kenya that keep their capital structure balanced have a higher sustainable growth result and remain financially stable. By keeping the debt-equity ratio at an acceptable level and the interest coverage at a reasonable level, hotel managers will be able to make sure that the financing costs are not too high and will not interfere with the cash flows of operations and the possibility to reinvest the funds.

Strategic financing decisions in this case help the hotels to engage in growth-oriented investments without affecting financial sustainability. Such hotels with disciplined financing habits can thus be in a better position to expand their operations, enhance their service provisions and enhance their competitive status in the vibrant hospitality market in Nairobi.

#### **Cost control practices**

Although cost control practices were found to be the weakest of the four financial management practices, they were found to statistically significantly contribute to growth of hotels. The results show that hotels which periodically scrutinize the departmental expenditure,

instill spending discipline in managers and involve monitoring of operational cost processes have better efficiency in utilizing the resources. Cost control mechanisms are thus relevant in ensuring financial discipline in the operations of the hospitality operations.

The hospitality establishments have a high operational cost characterized by the costs in labour, food and beverages, utility bills, maintenance costs, and the cost in marketing. Unless there is a good cost management system, these operating costs may soon drain profitability and restrict financial resources to reinvestment and expansion. As a result, cost control practices are critical in ensuring hotels have sustainable operating margins and are able to offer quality services.

These results show the validity of the Activity-Based Costing (ABC) Theory that contends that costs must be assigned to particular operational activities to enhance cost accuracy and efficiency (Cooper and Kaplan, 1991). Differentiating between the real cost drivers of different operations in the hotel, managers are able to allocate their resources more efficiently and avoid unnecessary costs. ABC systems also allow managers to determine the profitability of various services and operational departments thus supporting better decision-making on finance.

The results are consistent with those of Mukayivara and Rusibana (2024) who reported that uniform cost management systems enhanced financial sustainability in Rwanda-based firms. In the hotel sector, cost management helps to promote organizational efficiency and financial stability through wastage of resources, as well as increased adherence to budgets.

Cost control was discovered to be a weaker predictor of growth than cash flow management and financing decisions, but it does work in a complementary way to make the overall financial performance stronger. Cost control practices help in increasing the effectiveness of other financial management practices like budgeting and liquidity management by increasing financial discipline and enhancing operational efficiency. Cost management therefore indirectly helps the hotel to grow by ensuring that the available financial resources are used effectively to facilitate service delivery,

operational enhancements and sustainability of the business in the long run.

### **Conclusions**

This paper has addressed how financial management practices (budgeting practices, cash flow management, financing decisions and cost control practices) affect the growth of three-star rated hotels in Nairobi County, Kenya. The results prove that financial management practices are important in enhancing organizational development within hospitality industry. Of the practices under analysis, cash flow management turned out to be the best predictor of hotel growth, then financing decisions, budgeting practices and cost control practices.

Combined, these findings emphasize the notion that financial management practices are systems that rely on each other and together enhance the capability of a hotel to pursue consistent growth. This finding is consistent with the Resource-Based View that highlights internal capabilities as a source of long-lasting competitive advantage. In the case of three-star hotels in Nairobi, institutionalization of healthy financial practices ensures survival in a volatile market and gives the future sustainability. Overall, the development of the hospitality sector heavily depends on the way the financial strategies are developed, implemented, and followed. By integrating budgeting, cash flow management, financing, and cost control into the culture of their operations, hotels are more likely to stay afloat and reinvest in profits and achieve sustainable growth.

The results of the study also indicate that managers, owners, investors, policymakers, and employees have a common role to play in enhancing financial systems. Institutionalizing variance analysis, accountability, and frequent review of budgets are all measures that encourage managers to view budgets as strategic tools. They must also focus on managing cash flows through implementing automated financial systems, predicting cash requirements, and implementing receivables collection, at the same time formulating sound financing policies and establishing effective cost controls within the various departments. On their part, hotel owners ought to invest in enhancing financial infrastructure, in modern accounting systems and take long-term view by re-investing profits instead of over-

relying on debt. Their control position is crucial in requiring accountability by transparent financial reporting and the control measures on costs balance efficiency with service quality.

The investors play a critical role in investing by focusing on hotels that have good financial management systems, encouraging balanced capital structures, and providing something other than capital in terms of advice, networks, and sustainable growth strategies. The policymakers and regulators can help the sector by facilitating financial management education, formulation of specific guidelines in the sector, and availability of affordable credit facilities. Best practices should also be shared on industry associations. Lastly, employees need to be keen to promote financial practices by following reporting processes, minimizing wastage, and attending training programs to improve their financial literacy. They are devoted to quality service and accountability, which are a direct aid to the overall financial strategies of the business and its growth.

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