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DRIVERS OF FINANCIAL PERFORMANCE IN HOTEL INDUSTRY IN KWALE COUNTY, KENYA

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Abstract

The main purpose of this study was to examine the drivers of financial performance in the hotel industry in Kwale County, Kenya. The study used descriptive research design and the target population consisted of 67 Star Hotels in Kwale County. Primary data was obtained through structured open ended and closed questionnaires, while secondary sources used were magazines, journals, hotels websites and annual financial reports available from the hotels. The data was analyzed with the aid of SPSS. Multiple regression analysis was also used to test the drivers of financial performance of hotels results from this study. Results were analysed in terms of tables and presented in the form of bar graphs and charts to aid efficient interpretation. It further revealed that hotel ownership, organizational structure, capital structure and working capital had positive effects on hotels financial performance. It is thus, recommended that the hotels should employ drivers of financial performance in their operations as this will improve their level of financial performance and business stability and a balance between equity and debt management should be observed. The study concludes that the profitability of hotels depends on the level of leveraging. The study findings may help to improve on the existing theory as well as knowledge about the financial performance of the Star Hotels in Kwale County and Kenya in general.

Keywords: Capital structure, Drivers, Hotel Industry, Financial Performance, Organization structure

INTRODUCTION

In the recent years, financial performance of many organizations has received increasing attention because it affects the overall organizational performance (Kin, Lim & Brymer, 2015). As noted by Awan and Saeed (2014), a performance is the ability of a firm to be able to gain and manage its resources in ways that can gain competitive advantage. Performance is evaluated based on company's productivity or processing inputs into outputs; company's profitability its earrings are more than its cost and lastly market premium or where a company's market premium of where a company's market exceeds the book value (Walker & Wan, 2012). Therefore, performance becomes difficult to define and measure. Researchers in the strategic management field offer a wide range of modeling used for analyzing financial performance (Wang & Dou, 2016). Yet there has never been conclusive debate on drivers of financial performance.

Post and Bryon (2015) describes financial performance as the act of performing financial activities. Broadly, finance performance is the degree with which financial objectives are achieved. To some, it is a process of measuring results of a company's policies and operation based on monetary terms (Walker & Wan, 2012). In many instance, it has been used to measure company's overall financial ability /capacity in a given period of time and can be reflected across many sectors for comparative purposes, enhanced performer. Some of the notable measures of financial performance include gross profit margin, net profit margin, which reveals how a firm has earned, or earnings in relation to their sales. Another variable is return on assets, which determines its ability to make use of the assets and finally return on equity, which reveals what investors can take from their investments (Chen, 2010). In undertaking financial measurement, the company is able to calculate and define its finances easily. According to Kasie and Belay (2013) a company's success is assessed and defined by use of financial measurements.

Studies have revealed that designing and influencing financial management in the right way contributes positively to the creation of its value to be able to achieve a desired trade off in the liquidity, solvency and profitability (Padachi, 2006; Lau & Roopuarian, 2015; Lazaridis 2016). It is important to note that liquidity can measure the firm's ability to meet financial obligations. Solvency can measure amount of the borrowed capital, which is used by companies relative to the amount of owner's equity invested in the company. This offers a sign of company's ability to withstand the risks by reporting on operations of the company following major financial adversity (Mwangi & Murigu, 2015). On its part, profitability measures the extent with which a firm can generate profits from labour, management and the capital.

While financial measurement has been widely studied from various fields; Banking sector (Adeusi & Akeke, 2016; Ngari & Muiruri, 2014); real state (Loyford & Moronge, 2014), little has been done in the hospitality sector. This study therefore examined drivers of financial performance in the hotels sector in Kwale County. Hotels are business aimed at establishing themselves and their success in measure with regard to financial performance (Waweru, 2014). In order to measure extent of this success, a company measures its profitability through traditional performance measures. In most cases, stakeholders are key in influencing how a firm is measured. Lusthans (2015) argues a company should prescribe effectiveness, the efficiency and financial viability as the important elements of performance evaluation. Other researchers have also added dimensions used in evaluating a firm's performance and this include efficiency, effectiveness and adaptability (Moseng & Bedrup, 2013). In addition, sink and Engelen, Gupta, Strenger, and Brettel (2015) provided seven criteria for assessing performance of firm efficiency, effectiveness, product quality, productivity and quality of work life profitability of the firm and innovation. Initially, Mjos (2002) had listed increase in revenue; improved customer service reduced organization cost, entry of new products and improved work productivity as some of measurers to evaluate performance.

Statement of the Problem

Hospitability sector especially the tourism is one of the biggest and diverse sector it offers a wide range of niches such as meetings, conferences, incentive as well as events and safari ecotourism (Wadongo et al, 2010). A report by World Travel and Tourism Council (WTTC) conducted in Kenya in 2015 revealed that tourism sector contributed to GDP a total of Kshs 561.8 billion in 2014 (WTTC n.d). In the recent years, however, challenges have merged in the sector that have affected the tourism sector negatively and therefore low performance of hotel industry. As attention is focused on short-term forecast, considering the important role played by the tourism sector in revenue earning, foreign exchange and employment, medium-term and long-term forecast is encouraged. Moreover, those identified challenges have scared investors to explore new market segments including domestic tourism and business tourism (WTTC Report, 2015).

Scholars over the past few years have examined drivers of organizational performance. For example, Okayo (2011) investigated what drives performance of five star hotels and found that a positive relationship between ownership structure, capital structure and performances. In other studies, Ozel (2012) examined use of value-based tools in hotels in Kenya and revealed that the impact of the use of value–based tools was minimal. He recommended more studies on strategic drivers in the hotels be carried out. From functional perspective, Odhuno, Kambona and Othuon (2010) investigated relationship between managerial roles and its choice of performance drivers. They recommended that further research could be conducted on non-financial strategic drivers such as innovation, HRM, and customer focus. In extension Oketch, Wadawi Brester and Needetea (2010) examined influence of employer's expectation on employee competence in the hotels in Nairobi while Kuria, Wanderi and Ondigi (2012) investigated what affects labour turnover in Nairobi hotels. They proposed hotels could adopt strategic drivers of performance to prevent high turnover. Kambona, Ottuo and Wadogngo (2010) argue that financial performance measures were the sole drivers of performance in the hotel sector.

Despite many conducted in the hotel sector, few studies have been carried on drivers of financial performance of Star Hotels in Kwale County. The researcher picked Kwale County for ease collection of data since the emerging issues in hotel industry within Kwale County. The researcher also wanted to find out why some Star Hotels in Kwale County were struggling financially while others performed well. Available studies have concentrated on hotels in Nairobi and nearby counties, ignoring Star Hotels in Kwale County which is a tourist destination in Kenyan coast. This study sought to fill this gap. Therefore, the examined driver of financial performance of hotel industry in Kwale County is filling the gap left by previous studies.

Research Objective

The main objective of this study was to establish the drivers of financial performance of hotel industry in Kwale County, Kenya.

Specific Objectives

The following specific objectives guided the study:

i. To determine effects of capital structure of financial performance of Star Hotels in Kwale County.

ii. To establish the effects of working capital on financial performance of Star Hotels in Kwale County.

iii. To examine how hotel ownership affects financial performance of Star Hotels in Kwale County.

iv. To evaluate effects of organization structure on financial performance of Star Hotels in Kwale County

THEORETICAL REVIEW

In the examination of what drives financial performance in hotel industry in Kwale County, this study used irrelevant theory, stakeholder theory and price discrimination theory.

Irrelevant theory

Modigliani and Miller postulated this theory in 1958. He suggested that the valuation of a firm is irrelevant to its capital structure. He further said that the capital structure of a firm is the way a company assets are financed. This was based on the assumptions that there was no taxes, no cost of buying and selling securities, no bankruptcy cost, no borrowing cost, there is free access to information and finally there is no corporate dividend tax. The theory indicates that the value of a leveraged firm with a mix of debt and equity is equal to the value of unleveraged firm financed by equity if their current and future prospective profits are the same.MM further alluded that if a is firm financed by cheaper sources of debt then the risk of the firm is increased and therefore stock holders may subsequently ask for higher dividend as a compensation of high risk in their investments. MM argued that capital structure of the firm does not affect the value of the firm but rather the earnings ability of underlying assets. With a combination of various sources of capital like ordinary shares and borrowings several factors need to be considered as far as optimum capital structure is concerned. Combination of different sources of capital to finance a firm brings froth opportunities and challenges which may make it difficult for the firm. Therefore, it is progressively relied that a firm need organize its capital structure for an optimum use of funds and to be in a position that enhance dealing with upcoming situation (Pandy, 2009).

Cash Conversion Cycle Theory

The cash conversion cycle, is a representation of components of working capital and the cash flow within a company, it determines the liquidity of a firm and ability to meet its day to day operational obligation. Home & Wachowicz (2001) defines cash conversion cycle as the length of time from the actual outlay of cash for purchases until the collection of receivables resulting from the sale of goods and services. Gitman (1974) developed cash conversion cycle by including inventory period to accounts receivables period less accounts payables from the components. The length of time between the sourcing of raw materials and other direct inputs and the cash inflows from the sale of final products.

The concept of working capital management addresses companies' managing of their short-term capital and the goal of the management of working capital is to promote a satisfying liquidity, profitability and shareholders' value. Working capital management is the ability to control effectively and efficiently the current assets and current liabilities in a manner that provides the firm with maximum return on its assets and minimizes payments for its liabilities (Makori, Jagoyo, 2013)

The cash conversion cycle theory is a common measure of liquidity management, since it combines both balance sheet and income statement data to create a measure with a time 14 dimension (Jose and Lancaster, 1996). It is difficult to compare individual firms in different industries as a benchmark using the theory due to different operations from industry to industry. As such, the correct way is to compare a specific firm to the industry in which it operates (Hutchinson, 2007).

Management of a firm‘s short term assets and liabilities plays a key role in the success or failure of the company. Firms with growing long term prospects and healthy bottom lines do not remain solvent without good liquidity management (Jose and Lancaster, 1996). This theory is relevant to the study because it directly affects the liquidity and financial performance of the hotel industry with regard to profitability. It deals with current assets and current liabilities.

Stakeholder theory

Stakeholders are a group of people affected by the activities of an organisation namely shareholders, directors, employees, suppliers and customers. The theory was advanced by Freeman in 1982 and according to Kaplan and Norton, (1992) firm’s performance can be derived from value in which a firm creates through its own activities. The theory proposes that all of the firm’s legitimate stakeholders have the power to convince customers to buy or not to buy from the company. Based on this theory, it is seen that is stakeholders is important when viewed from managerial approach in that managers focus on things that can enhance performance (Sachs &Riih 2011) instead of focusing mainly on what measure of performance that interest’s stakeholders, managers are challenged to broadly assess firm’s value created from stakeholder’s perspectives.

Blair (1995), expresses that directors should settle on decisions that assess the interests of the majority of partners in the firm. The theory takes in a more extensive group as opposed to concentrating on shareholders. Stakeholders’ theory does not give single corporate target but rather as a guide to managers to serve masters (Chew and Gillian, 2006)

Underpinning this theory is that from performance is a critical factor to many stakeholders. Consistent with Freeman’s theory is that a firm should serve multiple stakeholders and a performance of a firm can be defined as the total value that is created by the firm through its own activities. This reflects the total sum of the activity for each stakeholder.

While it has economic benefits, which in very important to a firm's core stakeholders most of these stakeholders are interested in other three with the organization (Bose, Philips & Harrison, 2012). Moreover, a company that emphasizes on these factors may gain in-depth understanding on the reasons why firms succeed over a period of time, why stakeholders are drawn to some firms and the firms that perform better. These essential streams in stakeholder's literature illustrate the need for more in-depth assessment of the concept of the value. A stakeholder based approach of the value becomes very important from the managerial context mainly because managers focus on things which lead to high performance (Kaplan & Norton, 2012; Sadis & Riihli, 2011).

Instead of focusing mainly on economic measures of the organizational performance, the stakeholder based performance measure tend to challenge manners to broadly examine value the firms create from the stakeholders retroactive invade in ups creation. Therefore, it provides managers with the information needed to engage stakeholders in places they are and enhance manager's ability to utilize such insights in creating more in the firm. From scholarly perspective, many empirical studies related to the stakeholder theory used measures of stakeholder performance as an independent variable and economic performance as the dependent variable (Berman, 2013; Choi & Wang, 2014; Hillman & Keim, 2011).

The theory was chosen for this study because it helps us understand how a firms are influenced by owners and other stakeholders who contribution affect the financial performance of the firm.

Agency Theory

Agency theory was advanced by Stephen Ross and Barry Mitnick in 1970 and suggests that a firm can be seen as an interconnection of contracts amongst resource holders (Cuevas-Rodríguez, Gomez Mejia, & Wiseman, 2012). It is important to point out that an agency relationship arises mostly when one or more individuals, referred as principals, hire one or more other individuals, called agents, to undertake some service and further delegate decision-making powers to the agents (Ibid). The primary agency relationships in any business exist between shareholders and managers as well as between debt-holders and stockholders. When agency occurs it also tends to give rise to agency costs, which are expenses incurred in order to sustain an effective agency relationship (such as offering management performance bonuses to encourage managers to act in the shareholders' interests). Consequently, agency theory has emerged as a dominant model in the financial economics literature, and is widely discussed in business ethics texts.

According to Foss, and Stea (2014) agency theory raises a fundamental problem in organizations - self-interested behavior. As such a firm's managers may have personal goals that can compete with the business owner's goal of maximization of shareholder wealth. Since the shareholders authorize managers to administer the firm's assets, a potential conflict of interest exists between the two groups.

Agency theory was selected for this study because it explains that agency costs arise from the conflict of interest between a principal and an agent. This conflict results, for example, when managers, who are responsible for important decisions of the firm, are not the primary claimants of the firm's net assets, and thus do not bear a major share of the wealth effects of their decisions. Pavlik et al. (1993) suggests that compensation should be contingent on more than one performance measure and further predicts that the relative importance of alternative performance measures should be a function of their precision and sensitivity to the manager's performance.

Stewardship Theory

The theory is about the employment relationship between two parties, the principal (owner) and the steward (manager; Davis et al., 1997; Donaldson and Davis, 1991). It also examines this relationship from parties behavioral and a firm structural perspective. Theory alluded that stewards will always behave in a pro-social manner, behavior whose target the interest of the principal and thus the organization (Zahra et al., 2009)

According to (Gay, 2002) stewardship theory is also derived from the economic model of human behavior, classified by McGregor as Theory Y, which assumes that people are motivated to work and perform in their jobs. Meaning, firm structure may determine how people are motivated to work effectively and therefore impact financial performance of the firm. In this regard, stewardship theory suggests that there is no conflict between owners and managers, but the organizational structure allows coordination of operations of the firm for better achievements of the owners' interest.

Conceptual Framework

This study examined drivers of financial performance in hotel industry in Kwale County. The dependent variable of this study was financial performance while independent variables are: capital structure, working capital, hotel ownership and Organization structure as show in the diagram below.

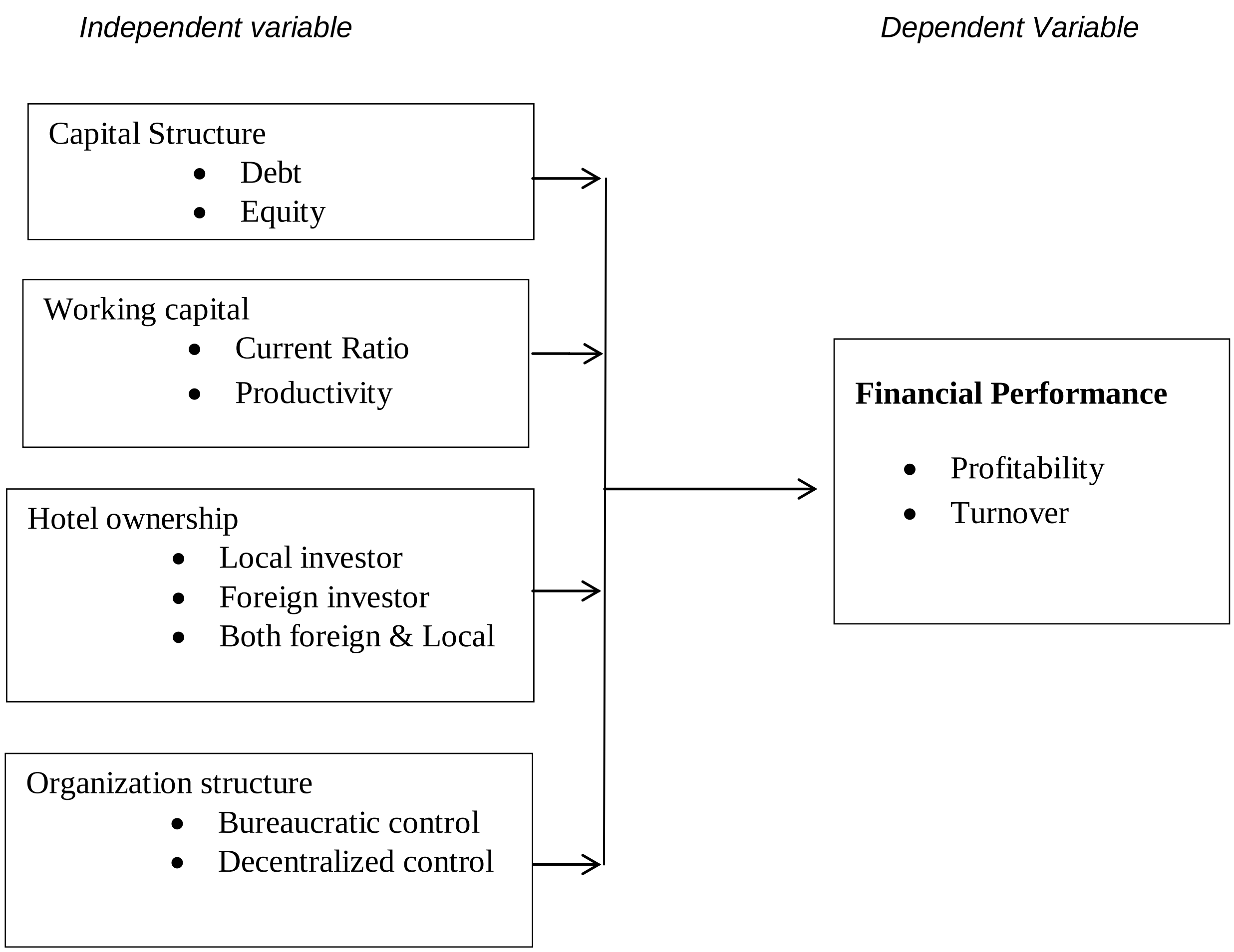


Figure 1 Conceptual Framework

RESEARCH METHODOLOGY

Research Design

As indicated by Mugenda (2003), research design is the arrangement of situations aimed at gathering and analyzing information in a way that intends to consolidate significance to the examination reason. This study adopted a descriptive research design. This research design involves gathering data that describe events and then organizes, tabulates, depicts, and describes the data collection (Glass & Hopkins, 2011). It often uses visual aids such as graphs and charts to aid the reader in understanding the data distribution. Its leverage is that, it permitted the gathering of a lot of information from a sizeable populace in a very viable, effortlessly and in a prudent way, frequently utilizing polls. The design was used because of its descriptive nature in order to assist the researcher in collecting data from members of the sample for the purpose of making generalization.

Operationalization and measurement of variables

The operationalization and measurement of variables under study are summarized in bellow table 1 below.

Table 1 Operationalization and measurement of variables

Variable Type	Variable Name	Indicator	Operationalization
Independent	Capital Structure	Debt Equity	Proportion of Debt to Equity %
Independent	Working Capital	Current Ratio Productivity	Current assets/Current liabilities
Independent	Hotel Ownership	Local investor Foreign investor Both foreign &local	Proportion of hotel ownership type by %
Independent	Organization Structure	Bureaucratic control Decentralized control	Proportion of each indicator by %
Dependent	Financial Performance	Profitability Turnover	Financial indicators such as profit or loss and sales turnover

Target Population

A population is the ‘‘aggregate of all cases that conform to some designated set of specifications” (Paton, 2002). Mugenda and Mugenda (2003) described population as, the entire group of individuals or Items under consideration in any field of inquiry and have a common attribute. The target population for this study was 67 Star Hotels in Kwale County.

Table 2 Target population

Category	Target population
Star Hotels	67
Total	**67**

Sample and Sampling Procedure

Purposive sampling was used to select Star Hotels in Kwale County. Trochim (2005) define sampling as a process used to select study units (including people, companies) from the population of interest, therefore, by examining the sample, researchers may moderately generalize our results back to the population from which they were chosen. Mugenda and Mugenda (2003) recommended that 10%-30% of the target population is representative enough. The researcher used a sample of 30% of the target population. This in turn generated a sample size of 20 Star Hotels within Kwale County.

Table 3 Sample size

Category	Target population	Sample size
Star Hotels	67	20
Total	**67**	**20**

Data Collection Instrument

In this study, semi-structured questionnaires were chosen as data collection instrument. As noted by Saunders et al (2007) questionnaires are suitable to a situation where most of the questions are consistent and the researcher was confident that all respondents interpreted the questions in the same way. Further they state, the questionnaires are the greatest tool to be adopted in descriptive studies where a researcher has undertaken some literature review and has understood the subject of research prior to data collection and extending further to draw conclusions from the data collected. On that note, within this present study the review of literature provided an understanding of the subject of the research problem. Given the context where a questionnaire was used, the research questions answered and the nature of data needed, the present research use

Validity

The respondents were asked to respond to each statement in terms of their own degree of agreement or disagreement• or extent of the occurrences. The individual responses to the items were combined in order entities with the most favorable attitudes will have the highest scores while individuals with the unfavorable positions had the lowest scores. Pilot testing highlighted weaknesses in the questionnaire and those of the study techniques, which lead to improvement of the questionnaire by removing ambiguous questions.

Reliability

As such, reliability was used to create reliable and credible measurement scales, to improve existing scales, and to evaluate the reliability of scales already in use. In particular, the reliability supported the designing and assessment of total scales, scales that are made up of several individual measurements.

The assessment of measures of reliability was based on the relationship between individual items or dimensions that made up the scale, relative to the variances of the items. Additionally, the precision of the research instrument objects so as to enhance the instrument's validity and reliability. Therefore, in this study the researcher measured reliability of the questionnaire in order determine its consistency in testing what they intend to measure which was falling between 0.7 to 1.0 as per the Cronbach Alpha which was used to measure internal reliability.

Data Analysis Approach and Interpretation

The data collected for this study was coded and analyzed with the use of both qualitative and quantitative methods. Miller (1991) advises that in order to analyze quantitative data, a researcher needs to have descriptive and inferential information on statistical tools. In this study, the descriptive measurements was used to present data collected. The research tools helped the study to generalize the study results from the sample to the target population. Data collected were mainly quantitative based in nature and were analyzed using descriptive analysis procedures using statistical tools –Statistical Package for Social Sciences (SPSS). Multiple regression analysis was used to test the drivers of financial performance of hotel industry in Kwale County, Kenya.

$Y = a + b1x1 + b2x2 + b3x3 + b4x4 + \varepsilon$

Where Y = Financial Performance

a, b= Regression constant

X1 = Capital structure

X2 = Working capital

X3 = Hotel ownership

X4= Organization structure

ε= Error term

FINDINGS AND DISCUSSION

Response Rate

The response rate for this study was 100% suggesting all the target respondents were available to provide the required information. According to Hardigan, Succar, and Fleisher, (2012) surveys distributed internally (to employees) generally have a much higher response rate than those distributed to external audiences (customers). One of the factors that contributed to this high response is the sample size, which was manageable to the researcher.

Table 4 Response rate

Category	Sample size	Response rate
Star Hotels	20	100%
Total	**20**	**100%**

Demographic information

Demographic information provides data regarding respondents and is necessary for the determination of whether the individuals in a particular study are a representative sample of the target population for generalization purposes (Salkind, 2010). Therefore, education level, gender, department and age help in understanding the characteristics of study participants.

Gender

Figure 2 represents distribution of study participants by gender. Out of the total 60 respondents interviewed by the study, majority 68% of the respondents were male compared to female who comprised 32% and who constitute the least participants. This showed that male dominates or holds more positions in most hotels in the rated star hotels than females. The general explanation is that both gender were represented in the study.

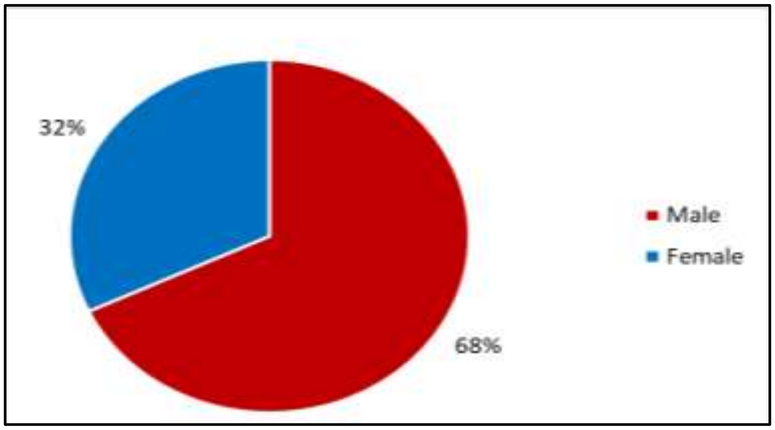


Figure 2 Gender

Age Bracket

As shown in figure 3, respondents were asked to indicate their age bracket and majority 65% were aged between 31-40 years old followed in distant by 22% who were aged 21-30 years.

Respondents aged 41-50 years were least in the sample. The data showed that 65% of the respondents had been in the hotel and gained necessary experience. In this case, the hotel sector has more youthful employees who are likely to be productive and contribute to productivity of the firms.

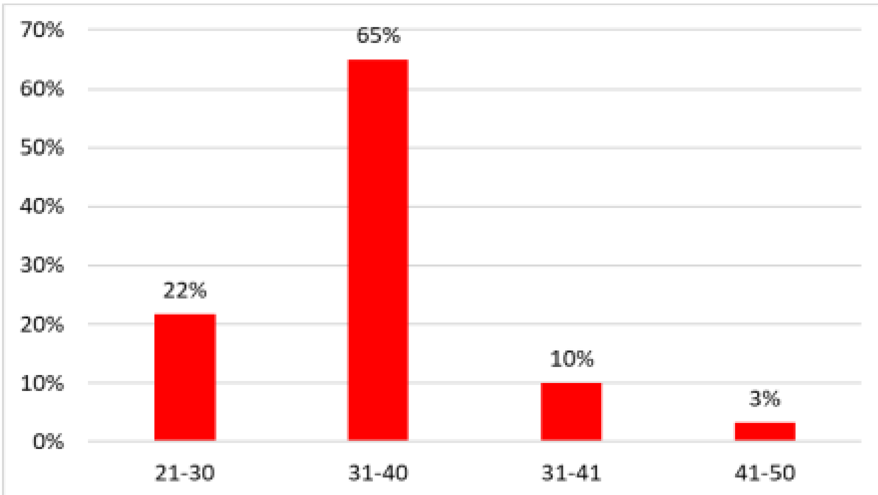


Figure 3 Age Bracket

Department

This section sought to establish the department with which respondents represented. Majority 63% of those interviewed represented finance department followed by 20% who came from executive with 12% representing credit department. This indicates that our major target population was from finance department and they are the ones who were able to answer most of financial based questions and thus more reliable data.

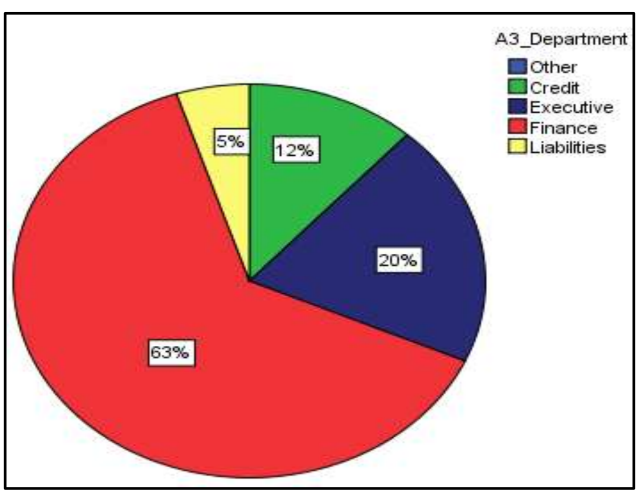


Figure 4 Department

Years worked in the Hotel sector

Respondents were asked to state their working experiences within the hotel sector especially with regard to Kwale County. Figure 5 show that a significant 76% of them had worked in the hotel sector for between 7-9 years. While 13% had worked between 4-6 years only 4% had worked for over 15 years. This implied that most of the top management, middle level management and supervisory employees in the Hotel industry in Kwale County have worked for between 7-9 years and would also mean that the employees have enough experience in Hotel industry.

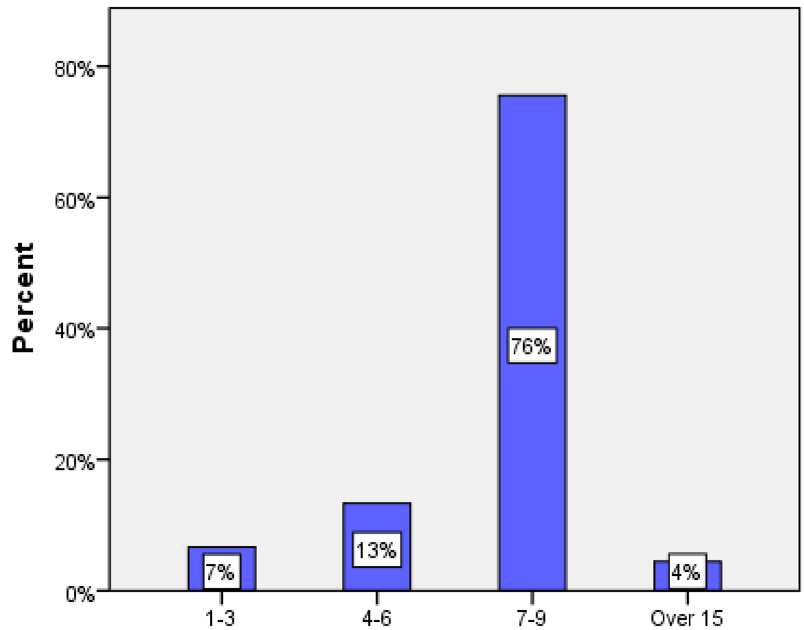


Figure 5 Distribution of respondents by years in hotel sector

Number of years worked in this department

Regarding employee’s experience within their respective departments, majority 37% had worked for between 4-6 years suggesting there had been a shift by employees from one department to another since they were employed in the hotel sector. In addition, 30% had had between 7-9 years in the department by the time this study was being conducted with 17% having over 15 years. This meant that majority of the respondents worked in departments they have skills and experience in.

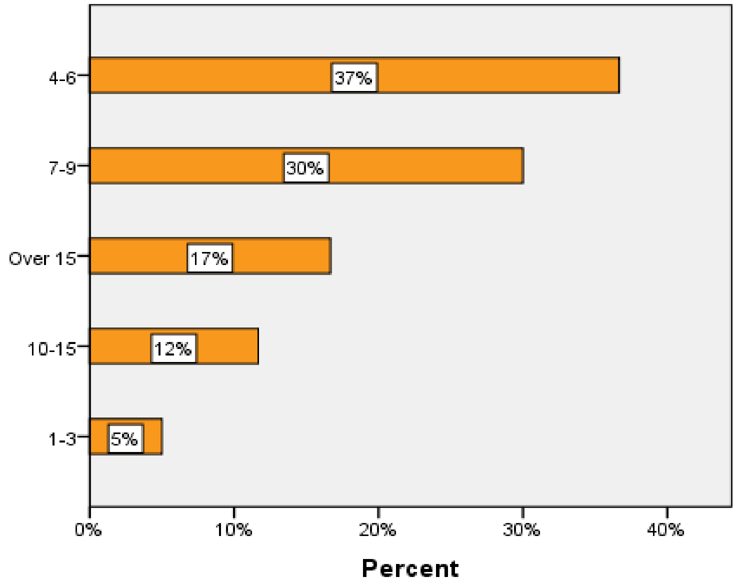
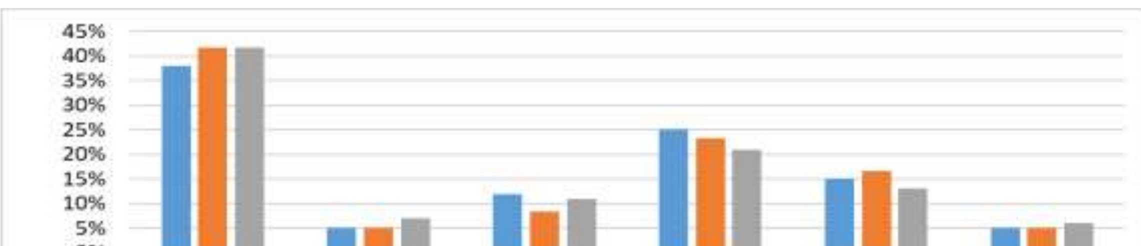


Figure 6 Number of years worked in the current department

Bed capacity for the hotel in the past three years (2013-2015)

In across the three years under study, bed capacity of 0-100 increased from 38% in 2013 to 42% in 2014 and remained constant in 2015. Bed capacity of 100 to 200 was lower across the three years further decrease was observed in hotel bed capacity of over 500 which dropped to 5% in 2013 and 2014 but slightly up in 2015. This illustrates the performance of the entire three years suggesting that hotel capacity and expansion was lower.



	0-100	100-200	101-200	201-300	301-400	Over 500
2013	38%	5%	12%	25%	15%	5%
2014	42%	5%	8%	23%	17%	5%
2015	42%	7%	11%	21%	13%	6%

Figure 7 Bed capacity for the hotel in the past three years (2013-2015)

Bed occupancy level (%) in the last three years

A worthy hotel management includes an effective planning of beds in a hospitality sector. The bed occupancy rate and length of one's stay are the measures that demonstrate the ability of the hotel. Results from this study show that average bed occupancy rate was 17%. It is clear from the results study findings that increased in 2013 throughout 2014 to reach over 71% in 2015. It means that hotel performance improved with better bed occupancy level rising in 2015.

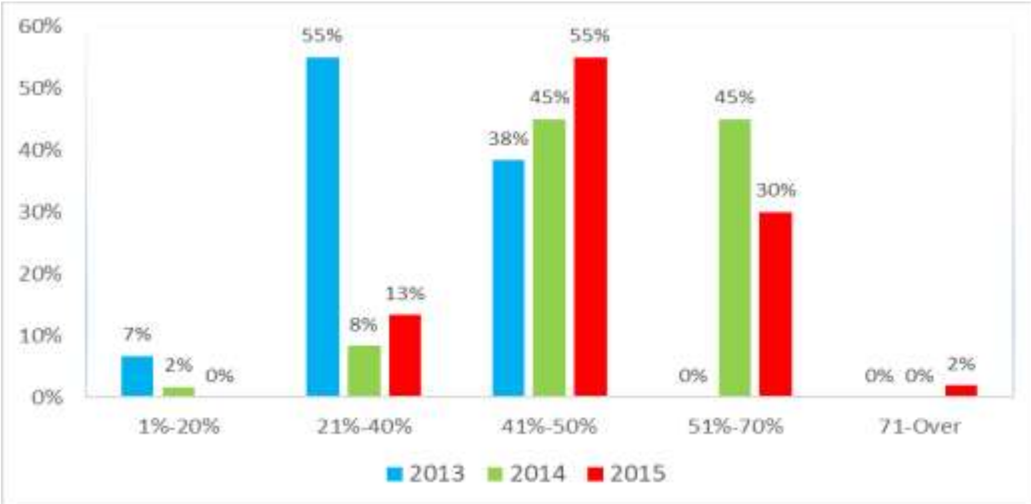


Figure 8 Bed occupation level (%) in the last three years

Capital Structure

The capital mix percentage of the hotel on Debt/Equity

The capital structure of a hotel is the composition of its debt and owners' equity. The results show that in Kwale County majority 38% of the hotels in 2015 had 30% debt financed and 70% equity financed while majority 30% in 2014 had 40% debt financed and 60% equity financed. The study further found that in 2013, majority of the hotels had 60% debt financed and 40% equity financed. While only 10% of the hotels in 2015 had 70% debt financed and 30% equity financed, none in previous years had such financing models. Generally, the performance of the hotel sector for three years were disproportionate as each performed differently.

This study results are in tandem with study by Joeveer (2013), whose results indicated that both debt and equity are found in the balance sheet and results from this study show that most hotels in 2013 and 2015 used debts to finance assets. Consequently, most of these hotels realized a high leverage ratio and an aggressive capital structure. Furthermore, the results show in 2013 and 2015 these Star Hotels in Kwale County had low leverage ratio and conservative capital structure. According to Joeveer (2013) this extreme leverage ratio as well as the assertive capital structure, which often leads to high growth rate in the hotel sector. A positive relationship was found between profitability and financial strength. Based on finance theory, the stronger financial position of the firm, the more it will add to the profitability of the company.

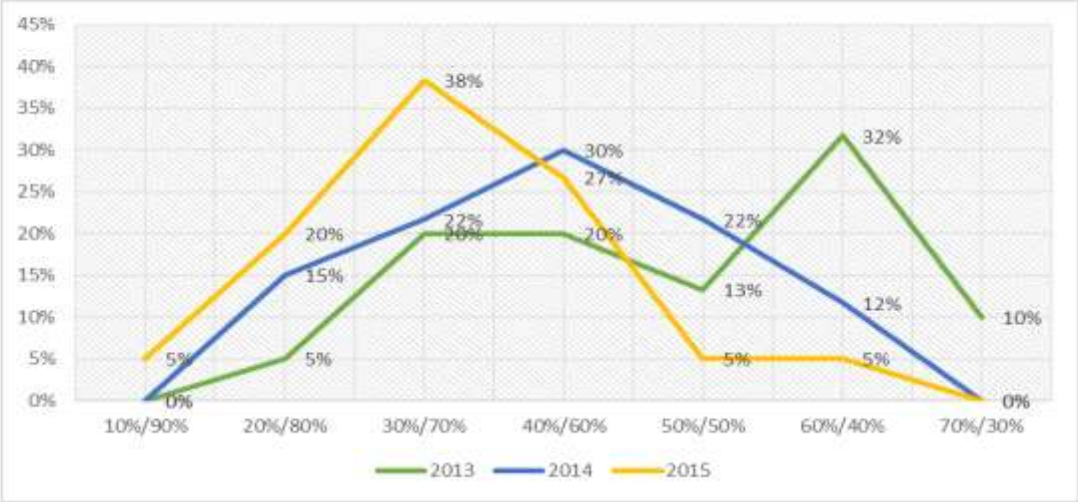


Figure 9 Capital mix percentage

Working Capital

Current Ratio

It can be noted that a low current ratio, for example, less than 1-1.5 may propose that the firm isn't well placed to pay its debts or the business has cash flow challenges. It can be requirement to increase extra finance or lengthen the time, which is taken to pay creditors. The results show that very small number of hotels has a current ratio of 2.0 and above with majority of the hotels having a ratio of less than one and this is a reason for concern because it persists for any length of time. As shown in figure 10, the hotels with current ratio of one kept dropping from 35% in 2013 to 10% in 2014 and then none in 2015 and this demonstrates the low performance of the hotel sector during the period.

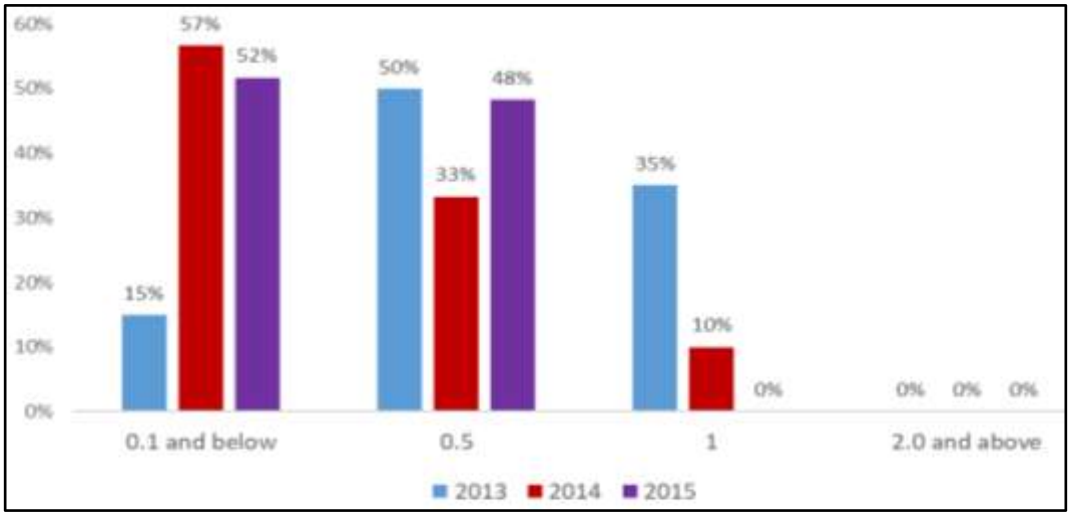


Figure 10 Current ratio

Working capital Productivity

Results show that 5% of hotels had an annual sales of over Ksh.200 million in 2013. There was growth in sales in 2014 to 15% and 20% in 2015 illustrating growth general performance in the industry in annual sales. Similarly, there insignificant number hotels with between Ksh.1-50 million annual sales in 2015 and this can be attributed to performance of the hotel sector and in the three years, most hotels had between Ksh.101-200 million annual sales. Looking at the results of regression analysis of this study, working capital of these Star Hotels in Kwale County affected the liquidity ratio because it deals with management of current assets.

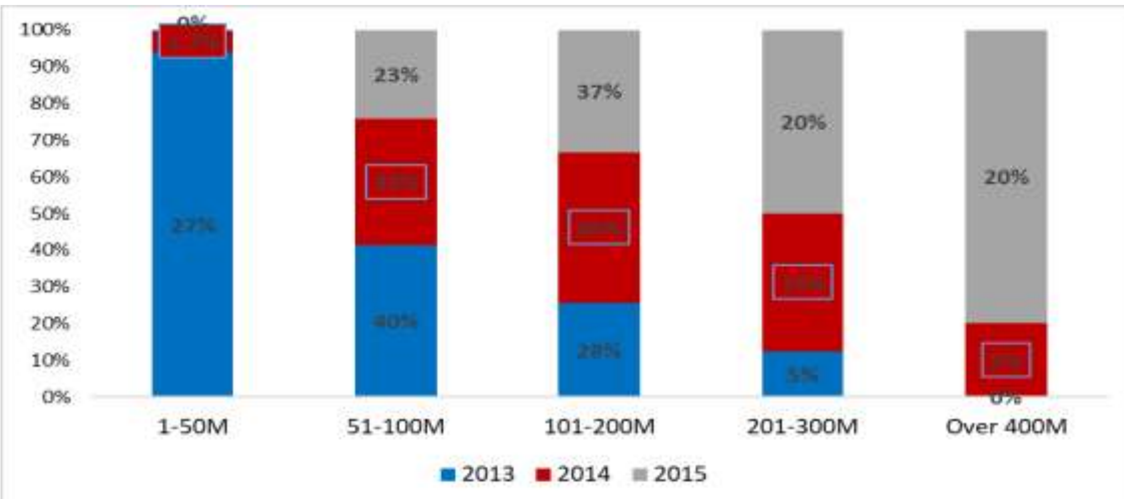


Figure 11 Working capital Productivity

Hotel ownership

Results show that there are three types of hotel ownership and management in Kwale County: local, foreign and both owned by foreigners and local. As shown in figure 13, majority, 45% of the hotels in the county are owned by local investors followed slightly by those owned by foreign investors (40%) and both foreign and local investors own the least. This study demonstrates that the owners of hotel should have meaningful influence on operational performance of the hotel properties by perhaps implementing approaches regarding its business' locations, market segments, product affiliations and operators. During the three years under study, no hotels in the region had annual sales of over 200 million in both 2013 and 2014. The results of the study support findings of several previous studies and according to a study by Azan and Siddiqui (2012) foreign hotels are more profitable than local hotels while Okunda and Rungsomboon (2004) found that these foreign hotels increase profits because of their efficiency in provision of services and financial leverage.

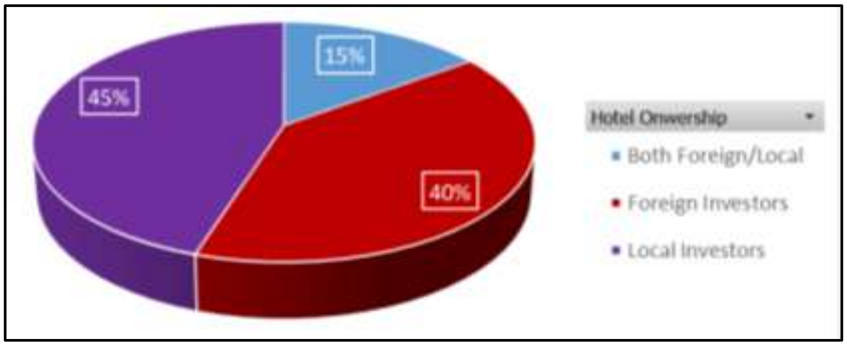


Figure 12 Hotel ownership

Organization structure applied in the hotel

A functional hotel structure provides a hierarchy with one or two executives overseeing the entire operation and hence this study sought to understand the nature of management of Star Hotels in Kwale County. A significant majority 83% of the Star Hotels in Kwale County applies bureaucratic control style of management and results showed that extremely centralized power, validated procedures and practices tend to illustrate hotel and specialized functions. Only 17% of the hotels applied decentralized style of management and this were hotels mainly owned by foreign investors. The study further found out that employees work on specific instructions and processes which are strictly adhered to for consistency in hotel operations that meet and exceed customers' expectations.

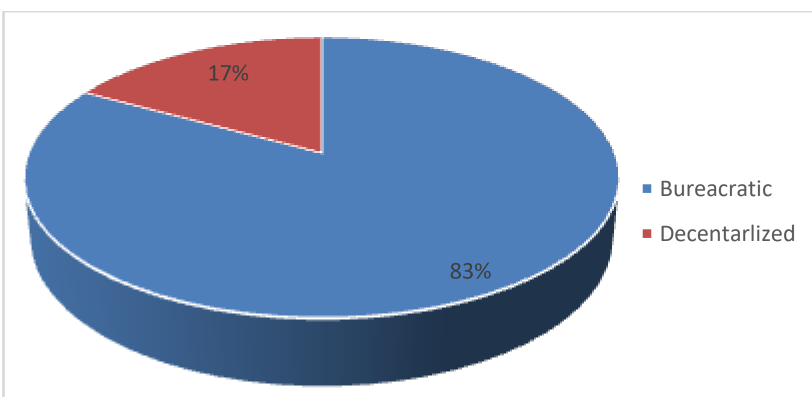


Figure 13 Organization structure/control applied in the hotel

The business profit/Loss (millions)

Except 2015, majority of the hotels made a loss of Ksh.1million in both 2013 and 2014 before increasing from 1 million to Ksh.10 million in the three years. Most of the hotels in 2015 had a profit of Ksh.21-30 million and then again Ksh.31-40 million. Performance of hotels in 2013 and

2014 was constant with regard to profitability as only 5% equally in the years made a profit of Ksh.31-40 million.

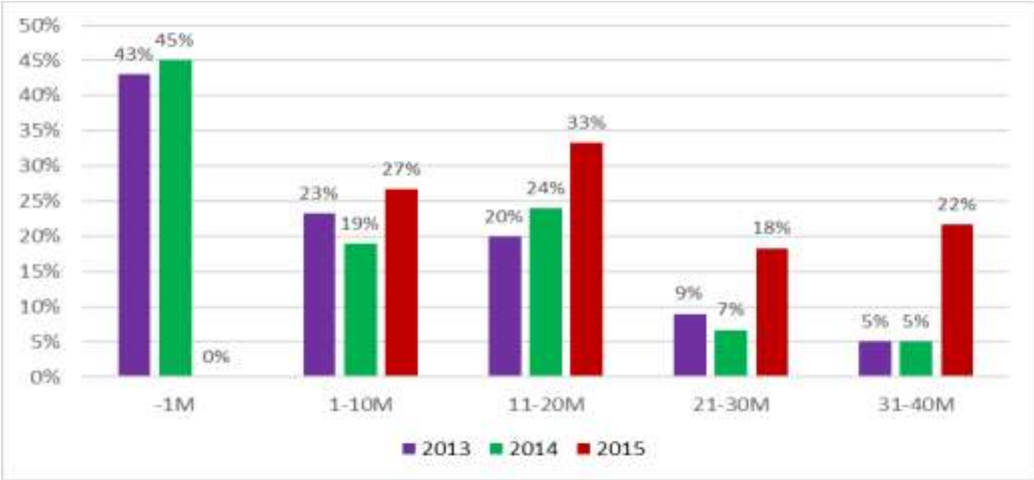


Figure 14 Business profit/Loss (millions)

Reliability Tests

Table 5 Reliability statistics

Cronbach's alpha	No. of Objects
0.779	4

Reliability of a questionnaire is the ability of the questionnaire to collect data that produce consistent results Cooper and Schindler (2006). In this study, Cronbach's α test was used in evaluating the internal consistency of variables. While alpha can be 0, the true score cannot be measured and hence there is only an error factor. On the other hand, when alpha is 1, all other items can measure only the true scores and there is no error factor. By agreement, a lenient cut-off of 0.60 is common in explanatory studies.

The Cronbach α of this study's items varied, depending on which sets of objects were used and the number of objects used. Once administered as pre-test sets of four elements, all yielded a value of 0.78. Meanwhile this number was way above what stands generally considered acceptable, there was no review on variables. The alpha coefficient for the four items is 0.88, signifying that the elements had somewhat high internal consistencies. Kottner, et al (2011) observes that a reliability coefficient, which is 0.80 or greater, could be considered as acceptable in the social science research setting.

Correlation Analysis

Correlation analyses were conducted on the data collected to illustrate the extent or strength and the direction of the link between study variables. It should be noted that association does not show causation between independent and dependent variables. It only informs on the magnitude with which a dependent variable changes which occurs as result of the unit change in the independent variable.

The researcher analyzed the variables using Pearson correlation, which was used to examine the trend, strength and importance of the bivariate connection among all the variables that have been measured at interval or ratio level (Sekaran and Bougie, 2012). As shown in table 6, all predictor variables showed a somewhat strong and positive relationship between the variables. As such, the positive relationship demonstrates that variables tend to vary together in a similar direction; and that when any of the variables increases, the other increases also and whenever there is a decrease, the other also decreases and the relationship for this study was all significant at 0.01 in two tailed.

Capital Structure (CS), Working Capital (WC), Hotel Ownership (HO), Organization Structure (OS) and Financial Performance (FP) correlation analysis are presented in the table below. Variables with high correlation means that the variables have high correlation with each and variables with low correlation means that there is weak or low relationship with each other.

Table 6 Correlation of study variables

		CS	WC	HOI	MS	FP
CS	Correlations Coefficient	1.00				
	Sign (2tailed)					
	N	60				
WC	Correlations Coefficient	.815	1.000			
	Sign (2tailed)	.002				
	N	60	60			
HO	Correlations Coefficient	.424	.468	1.000		
	Sign (2tailed)	.000	.003			
	N	60		60		
OS	Correlations Coefficient	.512	.623	.453	1.000	
	Sign (2tailed)	.002	.028	.000		
	N	60	60	60	60	
FP	Correlations Coefficient	.640	.670	.375	.241	1.000
	Sign (2tailed)	.021	.011	.000	.034	
	N	60	60	60	60	60

Regression Analysis

Model Summary

Table 7 Model summary

Model	R	R Sq.	Adjusted R Sq.	Std. Error of the Estimate
1	.070[a]	.621	.521	2.300

a. Predictors: (Constant): Capital Structure, Working Capital, Hotel Ownership and Organization structure

b. Dependent Variable: Financial performance

Table 7 presents the R, R^2, adjusted R^2 and also the standard error of the estimates, which were used to establish how well a regression model was deemed fit for the data. The R column denotes the value of R and that is the multiple correlation coefficients and this R could be considered to be one important measure of quality in the prediction of dependent variable; financial performance. On its part, the R Square column denotes the R^2 value (in other words coefficient of determination) that is the proportion of variance that exists in the dependent variable and can be explained by the independent variables. It is seen from the value of 0.62 that the independent variables explains 62.1% of the inconsistency of the dependent variable, financial performance. Adjusted R Square of .521 compares the explanatory power of regression models that contain different predictors. In short, these justify the reasons for this, as well as the output, in the improved multiple regression analysis.

ANOVA

As shown below, the F ratio in the ANOVA assess whether the general regression model can be a good fit for the collected data. The results show that independent variables significantly predicts the dependent variable - F (4) = 4339, p<0.000. which is a likely indication that the estimated model fits the research data well and that the capital structure, working capital, Ownership identity and Organization structures jointly explain hotel financial performance. In conclusion, the regression model is a good fit for this kind of data.

Table 8 ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.0	4	.273	4.3393	.002[a]
	Residual	66.4	83	.250		
	Total	67.4	87			

a. Predictors: (Constant): Capital Structure, Working Capital, Hotel Ownership Identity and Organization structure b. Dependent Variable: Financial performance

Regression Model

As shown in table 9, the unstandardized coefficient illustrates how considerably the dependent variable can vary with an independent variable once all other independent variables were held constant. Consider the drivers of financial performance in this example. The unstandardized coefficient, B1, for growth is equal to 0.167. That means for each one-year increase in capital structure, there is an increase in financial performance of 0.167 and for working capital (WC) 0.283, hotel ownership (HO) 0.433 and Organization structure (MS) 0.238.

Table 9 Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
1	(Constant)	1.089	.054		20.131	.000
	Capital Structure	.167	.024	.017	.437	.002
	Working Capital	.283	.011	.036	1.080	.000
	Hotel Ownership	.433	.023	.054	1.357	.001
	Organization structure	.238	.024	-.015	-.412	.000

a. Dependent Variable: Financial performance

$Y = b_0 + b_1X_1 + b_2X_2 + b_3X_3 + b_4X_4 + \varepsilon$

$Y = 1.089 + 0.167X_1 + 0.283X_2 + 0.433\ X_3 + 0.238X_4$

From the above regression model, holding capital structure, working capital, hotel ownership and organization structure to a constant zero, financial performance of hotels would be 1.089, its established that a unit increase in capital structure would cause an increase in financial performance of hotel industries by a factor of 0.167, a unit increase in working capital would cause an increase financial performance of the hotel Industries by a factor of 0.283, a unit increase in hotel ownership would lead to an increase financial performance of the hotel industries by a factor of 0.433 and a unit increase in Organization structure would lead to an increase financial performance of the hotel industries by a factor of 0.238 . This clearly shows that there is a positive relationship between financial performance of hotel industries capital structure, working capital, hotel ownership identity and Organization structures. The study further revealed that the P-value were less than 0.05 in all the variables, which shows that all the independent variable were statistically significant and thus in position to make conclusion for the study.

Testing Research Hypotheses

The first objective of the study was to determine effects of capital structure on financial performance of Star Hotels on Kwale County. To determine effects of capital structure on financial performance of Star hotels on Kwale County, the first hypothesis is that there is no significant relationship between capital structure and financial performance of Star Hotels in Kwale County. The findings show that capital structure has a t=0.43 and a P-value of 0.000(<0.005) and thus the null hypothesis was rejected and the explanation that capital structure affects financial performance of Star Hotels in Kwale County. The research is in agreement with a research done by Adekunle (2009) on Capital Structure and Financial Performance of Small and Medium Kenyan Pharmaceutical industries to find out how the capital structure influenced their performance and compared debt against equity as an alternative to capital.

The second objective was to examine effects of working capital on financial performance of Star hotels on Kwale County. The hypothesis was that there is no significant relationship between working capital and financial performance of Star Hotels in Kwale County. Based on the results, it showed that capital structure has a t=1.08 and a P-value of 0.000(<0.005) and thus the null hypothesis was rejected and the explanation that working capital has a positive affect financial performance of Star Hotels in Kwale County. The study findings are in tandem with (Jose and Lancaster, 1996) regarding firms' short term assets and liabilities and relationship with liquidity management and its effect on performance of a firm.

The third objective of the study examines effects of hotel ownership on financial performance of Star hotels on Kwale County. The hypothesis was that there is no significant relationship between hotel ownership and financial performance of Star Hotels in Kwale County. The findings showed that hotel ownership has a t=1.357 and a P-value of 0.000(<0.005) and thus the researcher rejected the null hypothesis with an explanation that hotel ownership has an effect on financial performance of Star Hotels in Kwale County. Stakeholders and majorly the owners of firms need results and thus they influence the managers to high performance (Kaplan & Norton, 2012; Sadis & Riihli, 2011). Furthermore, the study findings agree with the Stakeholder Theory which postulates that there is need to take into consideration the interests of other constituents in decision making where the owners have an influence (Freeman, 1984).

Finally, the fourth objective of the study examines effects of organization structure and financial performance of Star hotels on Kwale County. The hypothesis was that there is no significant relationship between organization structure and financial performance of Star Hotels in Kwale County. The study result findings showed that hotel ownership has a t=-0.412 and a P-value of 0.000(<0.005) and thus the researcher accepted the null hypothesis with an explanation that organization structure has an effect on financial performance of Star Hotels in Kwale County. The finding may be related to (Ogolla, 2012; Hall, 2013) which suggested that bureaucratic control exhibit strict form of communication patterns and formalized processes and decision making which makes decision making difficult for large centralized organizations.

SUMMARY OF FINDINGS

This study examined the drivers of financial performance of hotel industry in Kwale County, Kenya and was guided by four objectives: To determine effects of capital structure on financial performance of Star Hotels in Kwale County, establish the effects of working capital on the financial performance of hotels, examine how hotel ownership affects the financial performance of hotels and lastly evaluate effects of Organization structures on the financial performance of Star Hotels in Kwale County.

The study found that capital structure in Hotel industry affects the financial performance of the hotels. Furthermore, Hotels that were highly financed by debts performed less than those financed by equity and therefore affecting financial performance. However, there was improvement as their debt levels was reduced in the three years of study. There was a positive relationship between profitability and financial strength.

Results on working capital indicated that working capital affected liquidity ratios of the Star Hotels in Kwale County. Regarding current ratios majority of the Hotels were having cash flow challenges which may have resulted to inability to pay creditors on time. Furthermore, the results show that majority of the hotels had a current ratio of less than one. There was growth in sales indicting general performance in the industry which also positively affected liquidity ratios in the hotel industry by the year 2015.

On Hotel ownership, the results show that majority of the hotels are owned by the locals and that owners of hotels have an influence on the performance of the hotels in terms of financial performance. Foreign owned hotels are more profitable than the locals due to their capital structures and working capital management.

Finally, the study found that significant number of hotels apply bureaucratic control style of management with strict rules on operations. This is because of the nature and sensitivity of the hotel industry customers and food handling.

CONCLUSIONS

The conclusions drawn by the study are based on the findings from the research objectives. Firstly, the results of this study conclude that capital structure as an effect on financial performance of Star Hotel industry in Kwale County. Hence, hotels need to have a balance on their capital structures between Equity and debt. It can be concluded that more profitable hotels tend to have fewer debts, since they use the retained earnings and owner's capital rather than debts. This clearly demonstrated by foreign owned hotels which demonstrated better financial performance.

Working capital, Organization structure and hotel ownership were confirmed to have material effect in financial performance among Star Hotels in Kwale County. There was a strong indication to support explanation the pecking order theory by hotels centered on the relevant determinant of profitability in the firm. Furthermore, it is very clear that hotels are run by strict management style as it requires order and smooth flow of hotel activities.

The study also concluded that hotel ownership has an influence on financial performance of the Hotel industry in Kwale County. From the findings foreign owned hotels performed better that other forms of ownership due to their capital structures and working capital management.

Lastly, the study concludes that majority of hotels are run by strict management style as the industry requires adherences to order and smooth flow of Star hotels activities which also affect decision making in the organization.

RECOMMENDATIONS

Based on the study findings, there are various recommendations made for the industry practice and adoption. There is need for the Star Hotels in Kwale County to employ strategic drivers in their operations as this improves their level of financial performance and business stability.

The study recommends that the management and stakeholders of Hotel industries should strictly monitor their financing strategies whereby too much debt financing affects the overall financial performance of the Hotels unlike striking a balance between equity and debt options.

Secondly, the study recommends that the management should be able to manage their cash flows to avert the challenges faced in meeting their day to day obligations. Hotel industry should review their credit policies in management of accounts payables, accounts receivable and other financial obligations as it falls sue.

Lastly on hotel ownership, study showed that foreign owned hotels performed better that other forms of ownership. This was because of adherence to strict financial policies and capital structure, foreign owned hotels observed good practices in working capital and owners' equity to run their hotels. This was followed by hotels owned by both foreigners and the locals. Bureaucratic form of management is recommended in the hotel management whereby clear policies, rules and operational structure are followed by the management and staff for uniformity and consistency.

Finally, the study recommends further research in the area of study using other counties other than Kwale County. Also another study should be done to specifically determine the effects of organization structure on financial performance of other Star Hotel industries in other regions.

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APPENDICES

Appendix I: QUESTIONNAIRE

Instructions: Put a tick in the appropriate choice

Section A: General Information

Particulars of the Hotel

Name of the HOTEL (Optional) ________________________

Gender

Male Female

1. Age Bracket

i) 10-20 Yrs

ii) 21-30 Yrs

iii) 31-40 Yrs

iv) 41-50 Yrs

v) Over 50 Yrs

2. What is your department?

i. Executive

ii. Finance

iii. ICT

iv. Audit

v. Credit

vi. Liabilities

vii. Human Resource

viii. Other – Specify here……………………………………

3. How long have you worked in the Hotel Sector (tick as appropriate)

1-3 yrs [ ]

4-6 yrs [ ]

7-9 yrs [ ]

10-15 yrs [ ]

Over 15 yrs [ ]

4. How long have you been working in this department?

1-3 yrs [ ]

4-6 yrs [ ]

7-9 yrs [ ]

10-15 yrs [ ]

Over 15 yrs [ ]

5. What is the bed capacity of the hotel?

Between	2015	2014	2013
0-100			
101-200			
201-300			
301-400			
Over 500			

6. What was your bed occupancy level %?

Between	2015	2014	2013
1-20%			
21-40%			
41-50%			
51-70%			
71-Over			

Section B: Specific Information; 2013/2014/2015

1. Capital Structure

(a) What is capital mix percentage of the hotel on Debt/Equity?

Between	2015	2014	2013
10%/90%			
20%/80%			
30%/70%			
40%/60%			
50%/50%			
60%40%			
70%/30%			

2. Working Capital

(a). What is your current ratio (current assets/current liabilities?

	2015	2014	2013
0.1 and below			
0.5			
1.0			
2.0 and above			

(b) What was your Working Capital Productivity -Annual Revenues/Working capital

Measure-The higher the better 2015 2014 2013

(c) What was the business Sales turnover (Millions)?

Between	2015	2014	2013
1-50M			
51-100M			
101-200M			
201-300M			
0ver 400M			

7. What was the business profits/Loss (Millions)?

Between	2015	2014	2013
-1M			
1-10M			
11M-20M			
21-30M			
31-40M			

3. Hotel ownership identity

(a) Who are the owners of the Hotel?

Local Investors [ ]

Foreign Investors [ ]

Both Foreign/Local [ ]

4. Organization Structure/Control

(a) Which Organization structure is applied in the hotel?

Bureaucratic control [ ]

Decentralized control [ ]

Appendix II: List of Star Hotels in Kwale County, Kenya

1. Baobab Beach Resort
2. Swahili Beach Hotel
3. Leopard Beach Resort
4. Neptune Village Beach Resort and Spa
5. Leisure Lodge Beach & Golf Resort
6.Almanara Luxury Boutique Hotel
7. Southern Palm Beach Resort
8. Diani Sea Resort
9. Diani Reef Beach Resort
10. The Maji Beach Hotel
11. Jacaranda Indian Ocean Beach Resort
12. The Sands Nomads Diani Beach Hotel
13. Kaskazi Beach Hotel
14. Coral Beach Cottages
15. Mangro Hotel
16. Amani Tiwi Beach Resort
17. HillPark Amare Resort
18. Swahili House Tiwi
19. PrideInn Hotel Diani
20. Morning Star Diani
21. Lantana Galu Beach Hotel
22. Amani Tiwi Luxury Hotel
23. LaSpaDiani
24. The Bright Star Resort Diani
25. Bahari Dhow Beach
26. Papilion Lagoon Reef Hotel
27. Carol Beach Resort
28. Diani Marine Hotel
29. Bidi Badu Beach Resort
30. The Coconut Beach Boutique Lodge and Spa
31. TiwiTatu Hotel
32. Neptune Palm Beach Resort and Spa
33. Galu Inn
34. The Sands at Chale Island
35. Villa MadagaskarDiani Hotel
36. Diani Sea Lodge
37. The Magic Beach Hotel Diani
38. Blue Swallow Hotel
39. Villa Kalista
40. Monkey Beach Galu
41. Amber Villas Diani
42. Diani Green Land Beach
43. Simba Villages Diani
44. Villa MandhariDiani
45. Lantana Galu Beach Diani
46. Rock Galana Holiday
47. Diani Bay Resort
48. Quivers Diani Beach
49. Spice of The Coast,Msambweni
50. Africa Pearl Spa Diani
51. Asins Holiday Inn Resort
52. Villa Dora and Villa Holly Diani
53. Diani Banda Cottages Hotel
54. Amani Luxury Diani
55. Coral Beach Diani
56. KinondoKwetuDiani
57. Pinewood Beach Resort and Spa Diani
58. Hotel SonrisaDiani
59. Ocean Village Club
60. SeaclusionDiani Hotel
61. Golden Sand Resort Diani Beach
62. Kivulini Beach Villa
63. Zebra Cottages –Greenlands
64. Warm Sea Sand
65. Taquila Sunrise
66. Lofta Resort Diani
67. Villa RayondDiani

Source: Kenya Association of Hotel Keepers (2019)