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Mercy Jepchumba Chepkong'a & Dr. Caroline Kimutai

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Cashflow Management Practices and the Financial Performance of Five-Star Hotels in Nairobi County, Kenya

*[1] Mercy Jepchumba Chepkong'a & [2]Dr. Caroline Kimutai

[1]Master's Student, Kenyatta University

[2]Department of Accounting and Finance

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Abstract

Financial performance of entities in the hospitality industry continue to elicit widespread scholarly interest in the modern competitive business landscape. Effective cashflow management practices remain the mainstay of financial performance in most organizations. However, scholarly research on cashflow management practices enable performance improvement in Kenya's hospitality industry particularly five-star hotels in Nairobi County is largely limited. The current study examined cashflow management practices' impact on the financial performance of five-star hotels in Nairobi County, Kenya. The theory that underpinned the study is the Liquidity Preference Theory. A descriptive research design was used and it involved using a survey distributed to all five-star hotels in Kenya. Financial and general managers and their assistants from each five-star hotel provided insights through a closed-ended questionnaire that enabled the researcher to collect and analyze numeric data. Data collected was coded and entered into the package referred to as the Statistical Package for Social Sciences (SPSS) used to analyze quantitative data. The analyzed data revealed that there is a significant relationship between cashflow management practices ($p=0.039$; $p<0.05$) and the financial performance of five-star hotels in Nairobi City County, Kenya. The study recommended that five-star hotels in Nairobi County should adopt effective strategies for cashflow management to actualize improved financial performance.

Keywords: *cashflow management practices, financial performance, Nairobi County, five-star hotels.*

1. Introduction

Financial performance is a pivotal factor in determining a company's success and overall health in any industry, including the hotel sector. Assessment of financial performance is based on a range of financial metrics that examine various facets of a company's operations and profitability (Ghosh & Mondal, 2021). One widely employed metric is Return on Equity (ROE), which gauges a company's profitability by comparing the returns generated for shareholders in relation to their investment (Abbasi et al., 2020). Revenue growth is another important measure in evaluating a hotel's financial performance. It reflects the hotel's ability to increase its top-line revenue over

time, indicating its market competitiveness and success in attracting customers and increasing sales (Hsu et al., 2016). Return on Investment is also significant in the hotel sector as it assesses the returns generated on total assets deployed, including tangible and intangible assets (Jia & Zhang, 2018). This measure helps evaluate the effectiveness of investments made in areas such as property development, renovation, marketing campaigns, and technology upgrades.

In the hotel industry, profitability measures including net profit, gross profit, and operating profit margins are frequently employed to evaluate financial stability and profitability. Gross profit margin reflects the hotel's ability to control direct expenses, operating profit margin measures profitability after accounting for operating expenses, and net profit margin assesses overall profitability considering all expenses (Kim & Kim, 2019). These financial performance measures, including net profit, gross profit, and operating profit margins, are commonly utilized to measure the monetary health and effectiveness of hotels in generating profits (Gibson & Dennett, 2018). The study conducted by Gibson and Dennett (2018) provides a systematic review of financial performance measures in the hospitality industry, shedding light on their significance and application in evaluating hotel success. Including ROI, revenue growth, and profitability ratios, are valuable tools for evaluating and monitoring the financial success of hotels. They enable industry-wide comparisons and assist management in making informed decisions to enhance profitability and financial performance.

Achieving the desired levels of financial performance requires organizations to adopt effective working cashflow management practices (Ergün, 2018). Making sure a business has enough cash on hand to cover its financial responsibilities and investing any extra money in ways that produce a return on investment are the main goals of cash management (Kieso et al., 2016). Gitman and Zutter (2019) discussed the importance of effective cash flow management and how it can help companies improve their working capital position, reduce their risk of financial distress, and seize profitable opportunities. Moreover, Ross et al. (2016) emphasized the importance of proper cash flow management for companies that seek to enhance their financial performance.

Acheampong and Amoah's (2020) study revealed that the global economic downturn had a notable effect on sub-Saharan Africa’s hotel performance. The paper also emphasized that hotels that effectively managed their cashflows were better prepared to overcome global financial crisis difficulties. Similarly, a study by McKinsey and Company (2017) found that "the Kenyan hotel industry is facing several challenges, including rising costs and competition from new entrants." The study also found that "hotels that can manage their working capital effectively are more likely to be successful in the face of these challenges." Thus, it is essential to investigate the relationship between cashflow management practices and the financial performance of five-star hotels in Nairobi City County, Kenya.

Problem Statement

Five-star hotels in Nairobi City County expect to generate adequate revenues that enable them to run operations sustainably. it is important to note that hotels contribute towards employment opportunities and Kenya’s GDP through the thriving tourism industry (Government of Kenya, 2020). However, economic downturns and several other factors in the micro and macro environment tend to interfere with the hotels’ financial performance. It is crucial to note that

inefficient management of cashflow in hotels can have detrimental effects and even lead to their failure (Sarwar & Razzaq, 2021). Past studies have singled out ineffective cashflow management as one of the primary contributors to failed financial performance of firms in the hospitality industry (Quayyum, 2012; Gursoy & Nunkoo, 2021; Otieno & Opondo, 2022). Nevertheless, most of these studies are concentrated in various firms that may not be necessarily five-star hotels in Nairobi County. Moreover, evidence shows that research on cashflow management practices is primarily concentrated on the service and trade sectors, with limited emphasis on the specific context of the hotel sector, especially in Nairobi city's five-star hotels. Consequently, there is a crucial need to bridge this knowledge gap and acquire empirical insights into working capital management approaches and their effect on monetary outcomes of hotels.

Aim

To analyze the relationship between cashflow management practices and the financial performance of five-star hotels in Nairobi County, Kenya.

Significance

Hotel managers and investors can learn how to manage working capital more effectively, which can lead to higher profits and a more stable financial position. Government officials can use the findings to develop policies that will help the hospitality industry grow, which will create jobs and boost the economy. Other researchers can use the study's findings to conduct further research on the financial performance of hotels, which will help to improve our understanding of this important industry. The research outcomes assist stakeholders in assessing client financial positions, enhancing business relationships, and promoting sector stability. The recommendations from the study can be applied to other sectors, promoting sustainable practices, and improving financial performance for overall economic growth and development.

2. Literature Review

Theoretical Review

The theory that underpinned the current study is the Liquidity Preference Theory. The desire for money and the motivations behind why people maintain liquid assets are the main focal points of the liquidity preference theory. John Keynes, an economist, developed the theory and outlined it in the 1936 book "The General Theory of Employment, Interest, and Money" (Keynes, 1936). While it provides insights into individuals' preferences for liquidity, it is not specifically designed to address all WCM variables. WCM entails current assets and liabilities management to ensure the smooth operation of day-to-day business activities. However, the theory can still provide some support for studying variables related to working capital.

The theory suggests that individuals hold cash for transactional purposes, that is, to meet their daily expenditure requirements. This aligns with the working capital variable of maintaining an adequate cash balance to facilitate routine business transactions. The theory's precautionary motive indicates that individuals may prefer to hold liquid assets to safeguard against unexpected contingencies. This notion resonates with the need for businesses to maintain a sufficient level of accounts receivable to handle unforeseen expenses or cash flow gaps. The liquidity preference

theory supports the study of working capital variables by acknowledging the importance of balancing cash flows, maintaining adequate liquidity for transactions, and addressing precautionary needs.

Empirical Review

In a Journal of Financial Management study, Aman and Nguyen (2021) examined how cash management practices (CMP) affect the Pakistani listed firms' financial performance. They analyzed 236 Pakistani firms' financial statements. All companies were Pakistan Stock Exchange-listed between 2013 and 2018. The researchers found that effective cash management practices, such as shorter cash conversion cycles and higher cash ratios, affected positively the businesses' financial performance. However, a higher current ratio had a negative connection to firm performance. The study also discovered that the CMP's financial performance effect varied across industries and was influenced by firm size and leverage. This research has significant implications for firms, investors, and policymakers in Pakistan, as well as in other developing economies that face similar economic challenges.

Ali and Ahmed (2017) investigated working CMP's effect on company profitability in the Pakistani hospitality industry. From 2009 to 2014, they examined 36 hospitality sample businesses in the Pakistan Stock Exchange list. Results revealed that a shorter CCC and higher liquidity positively-impacted profitability, while inventory turnover had a negative impact. The study highlighted the significance of effective working CMP for improving profitability in the hospitality industry in Pakistan. However, the study's limitations, such as its narrow sector focus and small sample limit its generalizability. Future research should consider larger sample sizes, include other industries and countries, and incorporate external factors, non-financial measures, and additional working capital management variables to provide a better topic understanding. Nonetheless, this study has significant implications for the hospitality industry in Pakistan and other developing countries facing similar economic challenges.

Mohamed (2013) examined the relationship between the CCC and Nairobi Securities Exchange (NSE) companies' profitability. The research analyzed data through dynamic panel-data from a sample of companies between 2008 and 2012. The findings revealed a substantial negative link between the return-on-assets (ROA) and CCC, indicating that organizations with shorter CCCs were more likely than firms with longer CCCs to be profitable. Several studies have also shown that a shorter CCC leads to higher profitability. For example, Olaniran and Okwu (2013) found a positive impact of a shorter CCC on profitability in Nigerian manufacturing companies. Ganesan and Gopalasamy (2014) also discovered a correlation between a shorter CCC and higher profitability in the Indian cement industry. However, the study by Mohamed (2013) has a potential limitation as it excluded other WCM variables besides the CCC. This limits the scope of the findings to a specific industry and region. To enhance the understanding of the topic, future studies should consider larger and more diverse samples from various industries and regions. Additionally, comprehensive analyses should be conducted that incorporate other relevant factors.

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Journal of Finance and Accounting
Volume 7||Issue 9||Page 118-129 ||November||2023|
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Conceptual Framework

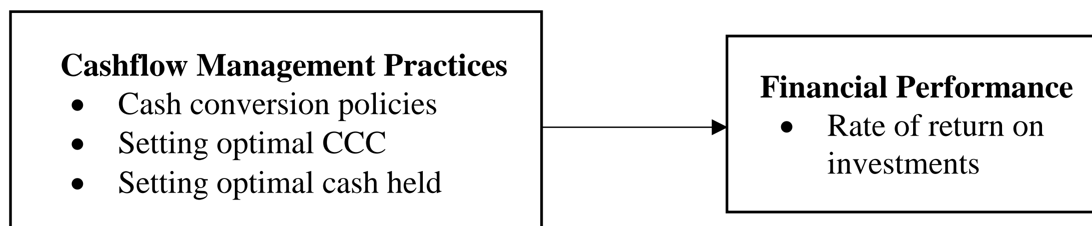

Figure 1: The conceptual framework

3. Methodology

Research Design

The researcher used the exploratory research design to explore the link between WCMP and financial performance through descriptive research as a design. According to the chosen descriptive research design, the researchers will be able to describe the link between WCMP and financial performance. However, it is important to note that this design does not facilitate determining the causality of the observed relationship (Smith, 2020). The researcher had no control over the WCMP or hotels' financial performance. The descriptive research methodology is considered the most suitable design for analyzing the WCM and Nairobi county's five-star hotel's financial performance. This research design allows for a thorough examination of the relationship between these variables without establishing causal links.

Study Location

The study location was Nairobi City County, Kenya. The study focused on five-star hotels operating with the city. A total of sixteen hotels were included in the study. It is worth noting that Nairobi, the capital city of Kenya, holds a pivotal position as the economic hub of the region (Nzioka et al., 2021). The city hosts headquarters for both local and international organizations.

Population and Sampling

The study's target population was the managers and assistant managers together with their supervisors working for five-star hotels in Nairobi City County. According to the Tourism Regulatory Authority (2020), there are a total of 16 five-star hotels in Nairobi. Therefore, these 16 hotels form the target population for the study. Five-star hotels are chosen because they are easily accessible and are popular destinations for many foreign visitors.

Finance managers and assistant managers, hotel supervisors, and their assistant supervisors were study respondents. Importantly, there exist 16 Nairobi County five-star hotels, totalling 64 respondents. Purposive sampling will be used to sample 64 respondents. For the study, the complete census of all 64 respondents was taken.

Table 1: The number of participants

Role	@	No. of hotels	Number of participants
Finance managers	1	16	16
Assistant finance managers	1	16	16
Finance supervisor	1	16	16
Assistants	1	16	16
Total	4	64	64

The inclusion of assistant supervisors and assistant managers is to ensure reliable information is obtained in the event the managers and supervisors are unwilling to fully cooperate (Nzioka et al., 2021).

Instruments

The data collection instrument was a questionnaire. Both online and printed questionnaires were used to optimize response. The questionnaire consisted of structured questions designed to provide flexibility in responses. The structured questions included Likert scales, attitude statements, and ranking-type questions. To establish validity, the authors evaluated the questionnaire and consulted experts in the field to ensure that the questionnaire accurately measured the intended variables. The study applied Cronbach's alpha coefficient (α) to evaluate reliability, in which the acceptable variable item ought to have a threshold of 0.7 coefficients or higher.

Data Collection and Analysis

The researcher physically visited each five-star hotel in Nairobi City County and requested to conduct the study. Once the permission was granted, the researcher sought the attention of the finance office and requested the finance manager, finance supervisors, and their assistants to respond to the questionnaire. The participants were provided with the options of filling in a printed or a web-based questionnaire. The researcher provided access to the questionnaire for each participant's preference.

The data collected was coded and entered into the Statistical Software for Social Sciences (SPSS). The software enabled the researcher to generate descriptive and inferential statistics. The statistics generated included frequencies, mean, standard deviation, correlations, and regressions. The coefficient of the cashflow management practices was used to generate a regression model that can predict changes in Y when X changes. The model is in the form:

$$Y = \beta 0 + \beta_1 X + \varepsilon$$

Where: Y is Financial Performance or Dependent Variable; β0 is Constant or Intercept; β1 is the coefficient of cashflow management, X is the cash flow management, and ε is the error term.

Research Ethics

The study complied with the ethical considerations of informed consent, confidentiality, and data safety.

4. Findings

Response rate and Reliability

The study targeted a total of 64 participants. However, the number of questionnaires returned was 61, which translated to a 95.3% response rate as shown below in Table 2.

Table 2: Response Rate

	Count	%
Targeted number of participants	64	100.0
Number of responses received	61	95.3

The response rate that the study achieved was 95.3%. The rare exceeds the recommended sample size of at least 70% that Mugenda and Mugenda (2003). Given the response rate met the minimum threshold, the researcher proceeded to analyzing the data collected.

The researcher sought to confirm whether the properties of measurement scales and the items that make up the scales were reliable. Thus, reliability analysis was conducted. The study relied on Cronbach's alpha values to test for reliability. The table below displays reliability values for each item.

Table 3: Reliability Analysis

Variable	Cronbach's Alpha	Comment on reliability
Cashflow management practices	0.73	Reliable

The results Table 4.2 confirms that all items were reliable. The Cronbach's alpha values for all the items was greater than 0.7 (α>0.7). Thus, the study's measurement scales exhibited the desired level of consistency to conduct the study.

Demographic Characteristics

The proportion of males was larger than that of females by 8.2%. The percentage of males was 54.1% (n=33) while that of females was 45.9% (n=28). Most of the participants held academic degrees (34.4%) followed by those with diplomas (32.8%) and professionals' certifications (CPA) (29.5%) and the least had vocational training certificates (3.3%). It is worth noting that the study's target population was financial managers and supervisors. Five-star tend to hire highly qualified candidates in terms of experience and academics. In terms of experience, majority of the participants had worked with the respective five-star hotels within a period of 5 to 10 years (70.50%). These were followed by above 10 years (19.7%) and fewer than five years (9.8%). The period is long enough to enable a participant understand the dynamics that characterize working capital management in the hotel and the extent to which financial management practices contributed to the financial performance of the respective hotels that they worked for during the time of this study.

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Descriptive Analysis for Cashflow Management Practices

The descriptive statistics for the variable, 'cash flow management practices' were computed. The table below displays results of the analysis.

Table 4: Cash flow management practices

	N	Mean	Std. Deviation
The hotel keeps money on hand for speculative purposes.	61	3.911	.9581
The hotel keeps cash on hand for transaction purposes	61	3.877	.3059
The hotel keeps cash on hand as a safety measure.	61	3.672	.3750
Petty cash is used for all transactions.	61	4.508	.0743
The hotel's policy is to deposit all money before spending it.	61	3.981	.9874
After each shift, we reconcile the cash sales proceeds.	61	4.377	.3924
Aggregate mean		4.0543	0.5155

The results indicate that the aggregate mean of the responses was 4.0543 (~4), indicating that almost all the participants agreed with the statements depicting hotels' towards managing cashflows. The standard deviation (0.5155) shows a low variability in the responses that the participants selected from the scale. The study shows that the most common cashflow management practice is reconciling the cash sale proceeds after each shift (mean=4.377). They reconcile the cash sales proceeds, followed by using petty cash for all transactions (mean=4.508). The results supported past researches, such as Aman and Nguyen (2021), who had examined the effect of firms' practices of managing cash on 236 Pakistani listed firms' financial performance, confirming that effective strategies for cashflow management are significantly and positively related to the financial performance of organizations. Additionally, Ali and Ahmed (2017) concurred with Mohammed (2013) that a significant positive relationship exists between managing cashflows effectively and firms' financial performance.

Inferential Analysis

Inferential analysis enabled the researcher to compute correlations and regressions.

Correlation Analysis

The correlation results indicated a significant positive association between cashflow management practices and the financial performance of five-star hotels in Nairobi City County, Kenya, as shown in Table 5.

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Table 5: Correlation analysis

	Financial Performance		
	Pearson Correlation	N	Sig. (2-tailed)
Cashflow management practices	0.756	61	0.000**

The results indicate that a unit change in cashflow management practices could cause 0.756 change in financial performance.

Regression Analysis

Inferential analysis generated coefficients and significant values to test the statistical significance of the relationships. Table 5 presents the inferential analyses.

Table 5: Inferential analysis

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.267	.142		1.886	.064
	Cashflow management practices	.442	.114	.368	2.116	.039

a. Dependent Variable: Organizational Performance

The regression results were used to develop a regression model below (i).

$Y = 0.267 + 0.875X_1 + 0.1128$

Where, Y stands for financial Performance, X_1 is inventory practices management.

The study attained a coefficient 0.442 for cashflow management practices. the coefficient was accompanied by a p-value of 0.039. The indication of the findings is that when the five-star hotels operating in Nairobi County changes by a unit, financial performance of the hotels changes by 0.442 in the same direction, which is a positive, but a weak change. Given that the significance value associated with the change is less than 0.05, it implies that the change is significant in the context of this study. There is a link between the current study's findings with past research; for example, Aman and Nguyen (2021), Ali and Ahmed (2017), and Mohammed (2013) found a significant positive effect of cash flow management practices on the firms' financial performance. While these studies were not specifically conducted in the context of Kenya's hospitality industry, they provide a foundation for exploring and supporting the significant positive correlation between cashflow management practices and the financial performance of five-star hotels operating in Kenya.

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Volume 7||Issue 9||Page 118-129 ||November||2023|
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5. Conclusions

Most of the participants agreed that the hotels they work for implement effective cashflow management practices. The aggregate mean for the variable was 4.0543 (~4), which indicates that the participants agreed with the Likert scale statements about inventory management practices. Consistently, correlation analysis showed that there is a strong positive association between cashflow management practices and the financial performance of five-star hotels in Nairobi County, Kenya ($r=0.756$; $p=0.000$). The regression analysis results ($\beta_2=0.442$, $p=0.039$; $p<0.05$) confirmed that there is a significant positive relationship cashflow management practices and the financial performance of five-star hotels in Nairobi County. The results are consistent with past literature by scholars such as Aman and Nguyen (2021), Ali and Ahmed (2017), and Mohammed (2013) that found a significant positive relationship between inventory management practices and financial performance.

6. Recommendations

Five-star hotels in Nairobi County should hire highly qualified finance managers and supervisors to ensure effective implementation of cashflow management practices to sustain the financial performance of the hotels. There is an urgent need for hotels paying more attention to the management practices for cashflows because they largely determine the extent of banks' financial performance. The management teams should work in collaboration with the finance team to ensure cashflows are managed effectively, which is instrumental in uplifting the working capital available for operations.

7. Suggestions for Future Research

Future research may consider replicating the current study to four-star and three-star hotels within and outside Nairobi County to find out the extent to which the working capital management practices affect the hotels' financial performance. Studies can also conduct comparative studies across counties to evaluate and rank the extent of effect on financial performance as a result of implementing working capital management practices. Such studies will include large sample sizes that will generate more generalizable findings. Moreover, future studies may adopt mixed research methods to generate more robust findings than studies that adopt mono-methods such as only quantitative or qualitative.

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Volume 7||Issue 9||Page 118-129 ||November||2023|
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