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FINANCING STRUCTURE ON FINANCIAL PERFORMANCE IN SELECTED BEACH HOTELS IN MOMBASA COUNTY, KENYA

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ABSTRACT

The purpose of the study was to investigate the financing structure and financial performance of selected beach hotels. The adopted proxies of financial structure are internal equity financing, debt financing, retained earnings and trade credit financing. The theories guiding the study are market timing theory, trade-off theory and pecking order theory. This study employed descriptive survey research design. The target population for this study was management staff of six beach hotels which were 4-star rated in Mombasa. Purposive sampling technique was used to select a sample size of 74 participants by help of Yamane statistical formula. Primary data was collected using structured questionnaire based on the objectives of the study. The collected data was edited, coded for processing using the Statistical Package for Social Sciences (SPSS v.26) and results were presented in frequency tables. Descriptive and inferential statistics were used to analyze information generated from the respondents. The study findings found that the hotels owner's earnings are reinvested back to the hotel operations. It was also concluded that internal equity financing is the most preferred financing choice to maintain optimal liquidity. The study concluded that internal equity financing has a positive effect on hotel performance. Also the hotel uses internal equity financing due to its cost effectiveness and the hotel prefers internal equity financing so as to maintain hotel control. The study also concluded that the hotels finance deficits through debts so as to maintain ownership. Also the study concluded that hotel opts for debt financing because its tax deductible hence savings in tax and the hotel uses bank overdrafts as debt financing tool. The study concluded that the capability of the debt financing to improve the credit score is why its preferred by the hotels and it is only when the hotel is in need of renovation and expansion that is opts for debt financing. The study recommended that the hotels' financial flexibility should be improved through trade credit. The hotel management should complement other financing sources with trade credit and address liquidity issues in the hotel by taking trade credit. The choice of trade credit by hotels is due to the fact that it is less expensive and the hotels should overcome asymmetry information on service quality and that trade credit is opted by hotel due to its less expensive feature. The study recommended that hotels overcome information asymmetry on product quality between suppliers and buyers.

***Key Words**: Internal Equity, Debt Financing, Retained Earnings, Trade Credit*

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INTRODUCTION

World over, the most critical issue for every company is the choice of an optimal capital structure. The criticality of this issue vests on the fact that capital structure influences financial performance and firm's value every industry (Tongkong, 2017). Financing firm's assets is a very crucial problem in every business and as a general rule there should be a proper mix of debt and equity capital in financing them (Bodhoo, 2016). Inept decisions to finance a firm's operations may be avenues for a business to face liquidation, fall into financial distress or even activate bankruptcy. Organizations having high leverage have the advantage to decide on an optimal capital structure to avoid unnecessary costs (Ting & Lean, 2016). In the same vein, it is important to note that overreliance on equity financing may lead to liquidity issues within the company and possibility of failure to take advantage of possible growth opportunities that may be there (Amara & Aziz, 2017).

Financial structure is the mix of long term and short term funds employed by the company to procure the assets which are required for day to day business activities. In general, a firm can choose among many alternative capital structures (Karuma, 2018). It can issue a large amount of debt or very little debt. It can arrange lease financing, use warrants, issue convertible bonds, sign forward contracts or trade bond swaps. It can issue dozens of distinct securities in countless combinations; however, it attempts to find the particular combination that maximizes its overall market value. The financial structure of a firm is determined by various internal (micro) and external (macro) factors. The macro variables of the economy of a country like tax policy of government, inflation rate and capital market condition are the major external factors that affect the capital structure of a firm. The micro variables, the characteristics of an individual firm, also affect the capital structure of enterprises (Baral, 2016).

Hotel industry it is considered a high-risk business by lenders and mortgage investors (Elgonemy, 2016). It is understandable that high quality hotel investments require a significant amount of capital to develop compared with other commercial real estate. This is mainly due to the high standard of the purpose of the ongoing operational business within the premises. The major concern of hotel capital structure is the debt to equity ratio, since it has been noted that excessive debt increases the costs of finance that reverse the positive effects of leverage (Newell, 2016). Hotel financing from internal sources can be a capital from operational funds, shareholder capital, permanent financing, reserves, and long-term reservation of funds. On the other hand, financing from other sources might come from loans, term investments, bonds, etc. (Elgonemy, 2016). When choosing an appropriate financing plan in hotels, a company must consider the ratio of personal and borrowed capital, type and volume of the projected activities, characteristics of the investment, the risk assessment, and its creditworthiness (Baral, 2016).

In Kenya, hotel sector is one of the biggest and diverse sector offering a wide range of niches such as meetings, conferences, incentive as well as events and safari ecotourism (Wadongo, 2017). 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, 2015). 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.

Kenya hotel industry has been blindsided by the COVID-19 pandemic. Instantly, hotel owners have found themselves with empty hotels and depleted cash reserves, wondering how they will be able to make their monthly mortgage payments and payroll—things hardly ever considered to be a problem in the expansionary period leading up to COVID-19.

Statement of the Problem

Ideally, financial structure decisions have an effect on the firm's value. Hotels are sensitive to systematic risks, their financial and business risks are at high levels. As a result, determining financial structure composition in hotels is an important issue. Beach hotels are capital-intensive and their financing decisions are of great importance. The hotels have done huge investments which have increased their operating costs. This makes the hotels highly vulnerable to systematic risks which have made it difficult to optimize the financing structure as lenders are reluctant to commit their funds on these hotels fearing potential exposure to economic cycles. The advent of the Covid-19 pandemic in 2020 has slowed the hotels occupancy and reduced cash flow thus affecting the hotels' ability to service debt and reduction in earnings. The hotels are undergoing the process of internationalization which demands a new approach to the hotels' financial strategies away from the traditional financing structures

Various studies have been conducted on capital structure and firm performance. For instance, Ogbulu and Kehinde (2017) evaluate the influence of various determinants on forming capital structure of 110 firms listed on the Nigerian stock exchange during the period 2000–05 and show that size has a positive and significant impact on capital structure. Masoud (2018) examines the determinants which cause firms to choose equity over debt of eight Libyan firms listed in the stock exchange over the period 2008 to 2013. He observes that high price-earnings ratios and high interest rates reduce the cost of equity finance which causes firms to choose equity over debt. Okayo (2017) investigated what drives performance of five star hotels and found that a positive relationship between ownership structure, capital structure and performances.

By reviewing the literature on capital structure decisions, it is clear that most of studies have focused on manufacturing sectors while hospitality-related organizations have not attracted adequate attention. Despite hotel financing's unique and complex nature, studies on hotel financing structure are limited. Reviewed studies have given a wider berth on financial structure in hotel perspective and virtually very little has been done on beach hotels' financial structures yet they are highly exposed to systematic risks due to the magnitude of investments. In view of the identified empirical gaps there is a need to carry out a study on financing structure in the context of beach hotels thus the current study sought to investigate the effect of financing structure on financial performance of selected beach hotels in Mombasa.

Research Objectives

The general objective of this study was to investigate the effect of financing structure on financial performance of selected beach hotels in Mombasa County. The study was guided by the following specific Objectives;

- To establish the effect of internal equity financing on financial performance of selected beach hotels in Mombasa County
- To determine the effect of debt financing on financial performance of selected beach hotels in Mombasa County
- To explore the effect of retained earnings on financial performance of selected beach hotels in Mombasa County
- To find out the effect of trade credit financing on financial performance of selected beach hotels in Mombasa County

The research tested the following hypotheses;

- **H_{01}:** There is no significant effect of internal equity financing on financial performance of selected beach hotels in Mombasa County
- **H_{02}:** There is no significant effect of debt financing on financial performance of selected beach hotels in Mombasa County
- **H_{03}:** There is no significant effect of retained earnings on financial performance of selected beach hotels in Mombasa County
- **H_{04}:** There is no significant effect of trade credit financing on financial performance of selected beach hotels in Mombasa County

LITERATURE REVIEW

Theoretical Framework

Market Timing Theory

Market timing theory was propounded by Baker and Wurgler in 2002. The theory claims that market timing is the first order determinant of a corporation's capital structure use of debt and equity. In other words, firms do not generally care whether they finance with debt or equity, they just choose the form of financing which, at that point in time, seems to be more valued by financial markets. According to Baker and Wurgler (2016) firms time the market by issuing equity when share values are high and by issuing debt when share prices are low. As a consequence, a firm's capital structure simply reflects the cumulative effects of its managers' past market-timing activities.

This theory states that manager do a critically analysis and they will issue new shares if they believe those shares will be overvalued. On the other hand, they will buy them back when they are undervalued (Baker & Wurgler, 2016). There is a different version from this theory that points towards capital structure dynamics that are alike. Baker and Wurgler find evidence that firms with high leverage are those that raised capital when their stock prices were low, whereas firms with low leverage are those that raised capital when their share prices were high.

Pecking Order Theory

The proponents of Pecking Order Theory are Myers and Majluf in 1984. The authors noted that, when supporting new investments firms favor internal funds as compared to external funds. If a case arises where the internal funds are not enough for a particular investment opportunity, a firm may seek other alternatives like the external fund. If it does, they will pick among the numerous outside funds in such a way as to ensure that they don't incur any additional costs regarding asymmetric information.

According to Pandey (2015), this theory is based on the assertion that managers have more information about their firms than investors. This disparity of information is referred to as asymmetric information. Other things being equal, because of the asymmetric information, managers will issue debt when they are positive about their firms' future prospects and will issue equity when they are unsure. Myers called it the "Pecking Order" theory since there is not a well-defined debt-equity target and there are two kinds of equity, internal and external, one at the top of the pecking order and one at the bottom. As a result, investors will place a lower value to the new equity issuance.

Trade-Off Theory

The proponent of the trade-off theory is Krauss and Litzenberger in 1973. The trade-off theory of capital structure is the idea that a company chooses how much debt finance and how much equity finance to use by balancing the costs and benefits. An important purpose of the theory is to explain the fact that corporations usually are financed partly with debt and partly with equity. The theory suggest that debt finance is mostly used when a firm has a great level of tangible assets while equity finance is mostly used when a firm has a great portion or level of intangible assets. Thus, a firm should maintain an optimal debt–equity ratio (Al-Tally, 2016).

The theory of trade-off states that an optimal debt amount is determined by a comparison of the costs related to debt financing against the benefits that will be obtained if debt financing is used by a firm. Therefore, a great leverage can be taken by a more profitable firm to finance its investments or operations. According to the theory of trade off, most firms try to balance between the tax advantage on the use of leverage against the costs associated with utilization of leverage as a financing means of investments in a firm (Aliu, 2016).

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Conceptual Framework

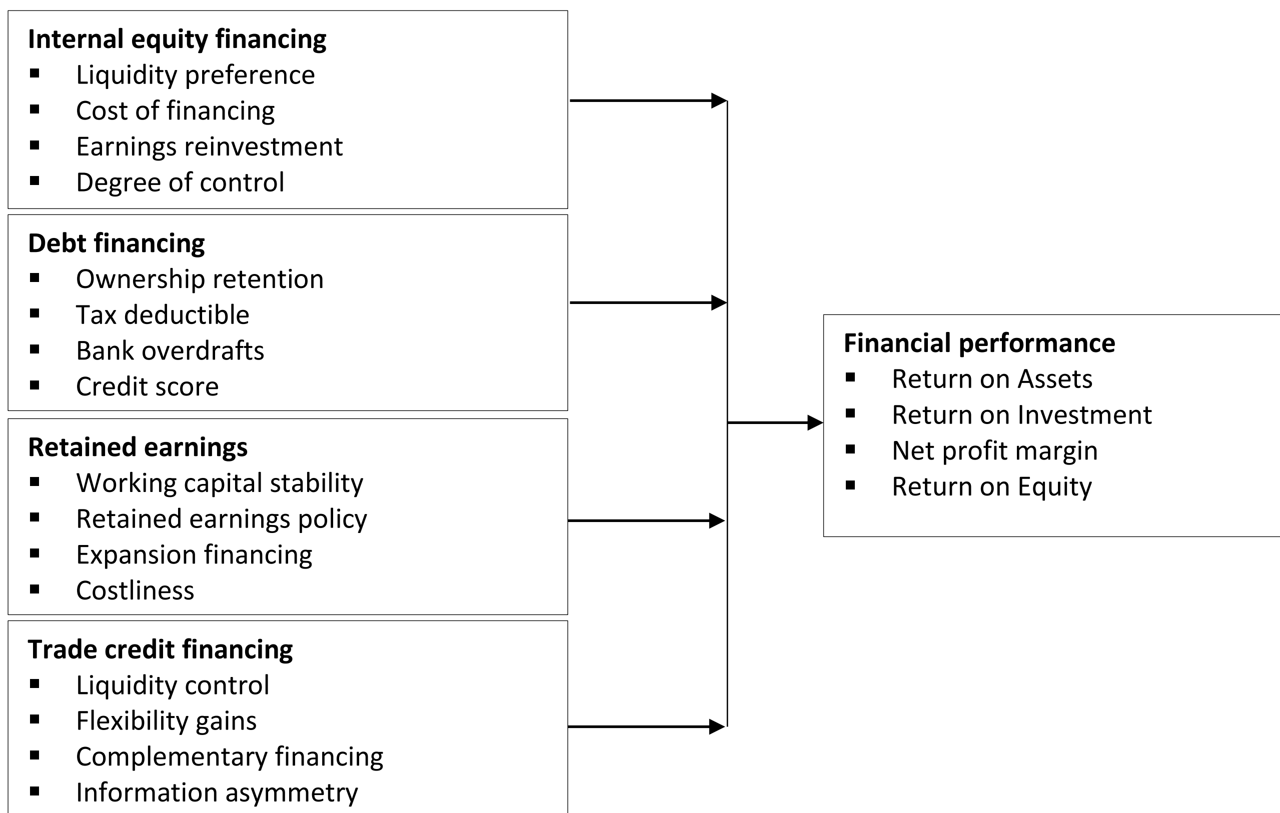

Figure 1: Conceptual framework

Review of Literature on Variables

Internal Equity Financing: Ross (2016) defined equity as the contribution of the shareholders that starts up a firm and enables it to be in operation. It is the component of capital derived by total capital minus debt. It is the ownership interest of shareholders that is the ordinary and preferred stockholders. The Accounting Dictionary (2017) also defines equity as the net amount of funds invested in a business by its owners, plus any retained earnings. It is also calculated as the difference between the total of all recorded assets and liabilities on an entity's balance sheet.

Debt Financing: Ross (2016) defines debt as the long term and short term borrowing that a firm has. Mostly, the long term borrowing is used to finance the capital structure of a firm and is at an interest which is pegged on to the agreement between the lenders and the firm; on the obligation of the firm to repay at a particular time. When it comes to increased levels of debt by a firm, managers should be very careful so as to mitigate the risk factor which may lead to bankruptcy. According to Leland and Pyle (2017) managers will take debt-equity ratio as a signal, by the fact that high leverage implies higher bankruptcy risk.

Retained Earnings: Also referred to as revenue retention, retained earnings can be defined as the portion of a company's profit that is kept for reinvestment into the business instead of being paid out as dividends (Chasan, 2015). Retained earnings which is also referred to as accumulated earnings, is an element of shareholders' equity which represents residual income left with the company after periodic distribution of dividends to the shareholders. Retained earnings belong to the stockholders and the discretion to pay them out as dividends squarely lies with the firm's board of directors (Bhat & Zaelit, 2015).

Trade Credit Financing: Trade credit is a short-term debt financing instrument that enterprises use in connection with the sale of products and the performance of services, making it a direct component of the sales contract entered into. Trade credit gives the buyer greater financing flexibility than short-term bank credit, which is often made available to enterprises as a current account credit that is tailored to their operational requirements. Trade credit offers enterprises an alternative source of finance to, and in some cases also complements, the short-term bank loan. Above all, then, the use of these sales-related credits primarily depends on the extent to which they meet enterprises' specific financing needs or on the economic advantages such credits offer supplier and buyer compared with other traditional short-term corporate financing instruments (Huyghebaert, 2017).

Financial Performance: Erasmus (2015) posits that financial performance is considered as the best possible way of as to how a firm generates its' revenues through utilization of its assets. Metcalf and Titard in 1976 mentioned that performance in financial perspective involves the act of carrying out financial activity so as to realize the financial objectives within a given time period. It is not only used to determine a given period financial status but also the results of its operations and policies through monetary terms. These measures are important since they can be used for comparison between firms which are on the same or different industry.

Empirical Review

Nima, Mohammad, Saeed, and Zeinab (2016) did a study on the relationship between capital structure and firm performance of Tehran Stock Exchange Companies for the period between the years 2006 to 2011. Their study utilized three performance indicators which include Gross Profit Margin, Return on Assets as dependent variable and three capital structures including long term debt, short term debt and total debt ratios as independent variable. The study reported a significant relationship between dependent and independent variable, except long term debts with gross profit margin.

Nzau, Kungu, and Onyuma (2019) studied the effect of bond issuance on financial performance of firms listed in Nairobi Securities Exchange. The study adopted descriptive research design. The study collected dated from all the six firms that had issued bonds in tranches or additional bonds within the period 2008 to 2017. Data was analyzed via regression to assess whether bonds issuance has any effect on the financial performance of firms listed on NSE. Results indicate that about 75.4 percent of variance in financial performance could be explained by bond issuance as characterized by bond price, bonds coupon rate, bond proportion, and bond yield to maturity. Bond proportion and bond yield to maturity were found to have a statistically significant effect on financial performance. The study concluded that bond issues affected financial performance of listed firms in Kenya.

Karuma (2018) studied effect of debt financing on financial performance of manufacturing firms in Nairobi securities exchange. This research sought to investigate the effect of short term debt, long-term debt, interest rates and corporation tax rates on the financial performance of manufacturing firms listed in Nairobi Securities Exchange during a five year period of 2013- 2017. The study employed use of multiple linear regression models. Descriptive statistics, correlation and regression analysis were used to analyze the data. Statistical Package for the Social Sciences (SPSS) software was used to analyze the data. Accounts payable was found to be significant to ROA, bank overdraft was found not to be significant to ROA while debentures were found to be significant to ROA.

Nyanamba (2018) carried out a study on the influence of capital structure on financial performance of Craft Micro Enterprises in Kenya. The study adopted descriptive research design. The study was a survey of soapstone micro enterprises in Tabaka Town and the woodcarving micro enterprises in Wamunyu Location. The target

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population for the study constituted all the 2334 craft micro enterprises. Data were gathered data using a semi-structured questionnaire and then analyzed by use of descriptive and inferential type of statistics. The findings of the study revealed that, internal equity financing, debt financing and retained earnings have significant influence on the financial performance of craft microenterprises.

Tonui (2018) did a study on the effect of capital structure on value of firms listed on the NSE. The study focused on the 40 non-financial firms and utilized secondary quantitative data obtained by abstraction method from financial statements for the 40 listed firms. The study used descriptive and inferential statistics to analyze the data. The research findings showed that short term debt to equity played a big role in enhancing listed companies performance.

Oguna (2016) did a study on the effects of capital structure on financial performance of firms listed under manufacturing, construction and allied sector at NSE. The study adopted descriptive research design. The study targeted 14 firms listed at the NSE drawn from manufacturing, construction and allied sector. The study used secondary data and utilized panel data. The study used SPSS to analyzed collected secondary data. The study findings established that current debt and long term debt affect return on equity.

METHODOLOGY

The descriptive survey research design was adopted in carrying out this study. The descriptive survey is best suited for this study because extensive specimens are practical, making the outcomes measurably noteworthy notwithstanding while breaking down numerous factors (Creswell, 2016). The target population was the management staff of Tamarind Beach Hotel in Mombasa. The population of the study was management staff drawn from finance, credit control, and operations department. The sampling frame for this study was selected beach hotels which were rated 4-star from where management staff drawn from finance, credit control, and operations departments were selected. Primary data was collected using structured questionnaire. In addition, secondary data was collected from the performance financial reports of the hotel and published as well as unpublished relevant literatures (Kothari, 2014). The data collected was coded and analyzed using the Statistical Package for Social Sciences (SPSS version 26) as a data analysis tool. Both descriptive and inferential analyses were generated from the collected data. Descriptive statistics was used as a measure of central tendencies and measures of dispersion (mean and standard deviation). Regression analysis was conducted to test whether the strength of the relationship between the independent variables and the dependent variable are statistically significant. The regression analysis was guided by the following analytical model:

$$Y= \beta_{\theta} + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y= Financial performance

β_{θ} = constant term indication the level of performance in absence of any independent variables

Then:

β1, β2, β3 and **β4** are the coefficient function of the independent variables,

X_1= Internal equity financing

X_2= Debt financing

X_3= Retained earnings

X_4= Trade credit financing

ε is the error term

FINDINGS AND DISCUSSION

Descriptive Data Analysis

Descriptive analysis was conducted on the study variables to check the mean and standard deviation. The results are presented in the following sub-sections.

Internal Equity Financing

The first objective of the study was to establish the effect of internal equity financing on financial

performance of hotels. They were required to do this on a 5 point Likert scale where 1 represented "Strongly disagree" while 5 represented "Strongly agree". The results are presented in Table 1.

Table 1: Internal Equity Financing

	Mean	Std. deviation
The owner's earnings are reinvested back to the hotel operations	4.51	.370
The hotel prefers internal equity financing so as to maintain optimal liquidity	4.18	.551
The hotel uses internal equity financing due to its cost effectiveness	4.94	.716
The need to maintain hotel control makes it prefer internal equity financing	4.70	.699
Internal equity financing has a positive effect on hotel performance	3.19	.492

The results in Table 1 showed that respondents agreed to the statement that the owner's earnings are reinvested back to the hotel operations and that the hotel prefers internal equity financing so as to maintain optimal liquidity as indicated by a mean of 4.51 and mean of 4.18 respectively. Respondents also agreed that internal equity financing has a positive effect on hotel performance (mean=4.94) and that the hotel uses internal equity financing due to its cost effectiveness (mean=4.70). The respondents were indifferent to the statement that the need to maintain hotel control makes it prefer internal equity financing as indicated by a mean of 3.19.

Debt Financing

The second objective of the study sought to establish effect of debt financing on financial performance of hotels. The results are as presented in Table 2.

Table 2: Debt Financing

	Mean	Std. Deviation
The need to maintain ownership makes hotel finance its deficit through debts	4.92	.716
Hotel opts for debt financing because its tax deductible hence savings in tax	4.52	.666
The hotel uses bank overdrafts as debt financing tool	4.22	1.159
Debt financing is opted by the hotel since it improves hotel credit score	4.73	.250
The hotel takes commercial loans in need of renovation and expansion	4.58	.961

The results in Table 2 showed that respondents agreed to the statement that the need to maintain ownership makes hotel finance its deficit through debts and that the Hotel opts for debt financing because its tax deductible hence savings in tax as indicated by a mean of 4.92 and mean of 4.52 respectively. Respondents agreed to the statement that the hotel uses bank overdrafts as debt financing tool (mean=4.22). Respondents were indifferent to the statement that debt financing is opted by the hotel since it improves hotel credit score (mean=4.73). Finally, respondents agreed to the statement that the hotel takes commercial loans in need of renovation and expansion (mean of 4.58).

Retained Earnings

The third objective of the study sought to determine the effect of retained earnings on financial performance of hotels. The results are presented in Table 3.

Table 3: Retained Earnings

	Mean	Std. Deviation
Retained earnings are to finance day to day operations of the hotel	4.73	.274
The hotel has a retained earnings management policy	4.49	.731
Retained earnings are used by hotel to finance its expansion investments	3.88	.237
Hotel uses retained earnings due to its cost effectiveness	4.91	.881
Retained earnings positively affects financial performance of hotels	4.10	1.121

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The results in Table 3 showed that respondents agreed to the statement that retained earnings are to finance day to day operations of the hotel and that the hotel has a retained earnings management policy as indicated by a mean of 4.73 and mean of 4.49 respectively. Respondents were indifferent to the statement that the retained earnings are used by hotel to finance its expansion investments (mean=3.88). However, they agreed to the statement that the Hotel uses retained earnings due to its cost effectiveness (mean=4.91) and that retained earnings positively affects financial performance of hotels (mean=4.10).

Trade Credit Financing

The fourth objective sought to investigate extent of trade credit financing on financial performance. The results are as presented in Table 4.

Table 4: Trade Credit Financing

	Mean	Std. Deviation
The hotels financial flexibility has been enhanced by trade credit	4.69	.672
The hotel complements other financing sources with trade credit	4.90	.953
The liquidity issues in the hotel is addressed by taking trade credit	4.98	.445
Trade credit is opted by hotel due to its less expensive feature	4.09	.610
Trade credit helps hotels overcome information asymmetry on product quality that exists between supplier and buyer	2.87	.872

The results in Table 4 revealed that respondents agreed to the statement that the hotels financial flexibility has been enhanced by trade credit and that the hotel complements other financing sources with trade credit as indicated by a mean of 4.69 and mean of 4.90 respectively. Respondents also agreed to the statement that the liquidity issues in the hotel is addressed by taking trade credit (mean=4.98) and that trade credit is opted by hotel due to its less expensive feature (mean=4.09). However, the respondents disagreed to the statement that trade credit helps hotels overcome information asymmetry on product quality that exists between supplier and buyer (2.87).

Multiple Regression Analysis

Multiple regression model was adopted in the study to establish the statistical relationship between the independent and the dependent variables.

Table 5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.796[a]	.634	.603	.39510	2.1050

a. Predictors: (Constant), Internal equity, Debt financing, Retained earnings, Trade credit financing

b. Dependent Variable: Financial performance

The model summary results in Table 5 showed a strong regression between financing structure and financial performance of selected beach hotels in Mombasa. In the model summary, the R^2 is 0.634 which indicates that independent variables (internal equity financing, debt financing, retained earnings and trade credit financing) explain 63.4 per cent variation in financial performance, while the remaining 36.6% are un-modelled determinants.

Table 6: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	29.455	4	7.364	28.215	.000[b]
	Residual	16.943	65	0.261		
	Total	46.398	69			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Internal equity financing, Debt financing, Retained earnings, Trade credit financing

According to analysis of variance results in Table 6, the predicted relationship under the model is statistically significant at p–value of 0.000 is less than the significance level of 0.05. This shows that the model between financing structure and financial performance of hotels is statistically significant. The F-vale is 28.215 implying that there is higher variation between sample means relative to the variation within samples. The model coefficient is shown in Table 7.

Table 7: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.417	.227		1.834	.008
	Internal equity financing	.273	.146	.301	1.870	.013
	Debt financing	.549	.177	.984	3.101	.000
	Retained earnings	.321	.136	.366	2.369	.026
	Trade credit financing	.578	.317	.409	1.823	.000

a. Dependent Variable: Financial performance

The derived regression coefficients of the model are:

$$Y = .417 + .273X_1 + .549X_2 + .321X_3 + .578X_4$$

The regression results showed that independent variables had significant value below 0.05 meaning that they were all significant. From the results, it showed that holding all factors constant at zero, the change in financial performance would be .417. Further, the regression results showed that a unit change in internal equity financing would lead to 0.273 unit change in financial performance. A unit change in debt financing would lead to 0.549 unit change in financial performance. Further, a unit change in retained earnings would lead to 0.321 unit change in financial performance and finally, a unit change in trade credit financing would lead to 0.578 unit change in financial performance.

Discussion of Key Findings and Hypothesis Testing

Regression analysis formed a basis for achieving research objectives adopted in this study. This was done by considering the p values corresponding to each variable of interest. The first objective of the study sought to investigate the effect of internal equity financing on financial performance. Regression analysis conducted proved that there was a positively significant effect of internal equity financing on financial performance as indicated by the values $\beta_1 = 0.273$, $p<0.05$. The study concludes that a unit increase in internal equity financing would lead to 0.273 unit change in financial performance. Further, since the $p<0.05$, the null hypothesis that internal equity financing has no significant effect on financial performance is rejected.

The second objective was to establish the effect of debt financing on financial performance of hotels. Regression analysis result showed a positively significant effect of debt financing on financial performance as indicated by the values $\beta_2 = 0.549$, $p<0.05$. The study concludes that a unit increase in debt financing would lead to a positive increase in financial performance by 0.549. On hypothesis testing, since $p<0.05$ null hypothesis that debt financing has no significant effect on financial performance is rejected

Thirdly, the study sought to establish the effect of retained earnings on financial performance of hotels. Regression analysis conducted showed that there was positive significant effect of retained earnings on financial performance as indicated by the values $\beta_3 = 0.321$, $p<0.05$. The study concludes that a unit increase in retained earnings would lead to a positive increase in financial performance by 0.321. On hypothesis testing, since $p<0.05$, the null

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hypothesis that retained earnings has no significant effect on financial performance is rejected.

The study sought to investigate the effect of trade credit financing on financial performance of hotels. Regression analysis conducted showed that there was positive significant effect of trade credit financing on financial performance as indicated by the values $\beta_4 = 0.578$, $p<0.05$. The study concludes that a unit increase in trade credit financing would lead to an increase in financial performance by 0.578. On hypothesis testing, since $p<0.05$, the null hypothesis that trade credit financing has no significant effect on financial performance is rejected.

CONCLUSSIONS AND RECOMMENDATIONS

The study concluded that the hotels owner's earnings are reinvested back to the hotel operations. It is also concluded that internal equity financing is the most preferred financing choice to maintain optimal liquidity. The study concludes that internal equity financing has a positive effect on hotel performance. Also the hotel uses internal equity financing due to its cost effectiveness and the hotel prefers internal equity financing so as to maintain hotel control.

The study also concluded that the hotels finance deficits through debts so as to maintain ownership. Also the study concludes that hotel opts for debt financing because its tax deductible hence savings in tax and the hotel uses bank overdrafts as debt financing tool. The study concludes that the capability of the debt financing to improve the credit score is why its preferred by the hotels and it is only when the hotel is in need of renovation and expansion that is opts for debt financing.

The study concluded that the hotels finance their day to day operations by retained earnings and the hotels has developed retained earnings management policy. The hotels utilize retained earnings to finance hotel expansion investments. The reason for using retained earnings is because of its cost effectiveness. The study concludes that financial performance of hotels is positively affected by retained earnings.

The study also concluded that the hotels financial flexibility has been enhanced by trade credit. It is concluded that the hotel complements other financing sources with trade credit. Also the liquidity issues in the hotel is addressed by taking trade credit and that trade credit is opted by hotel due to its less expensive feature. The study concludes that hotels overcome information asymmetry on product quality that exists between supplier and buyer.

The study recommended that the owner's earnings should be reinvested back to the hotel operations. This is because it is cheaper to use the earnings compared to using other financing structures. The hotel should utilize internal equity for its expansions and operations since it was revealed that internal equity financing is the most preferred financing choice to maintain optimal liquidity. The study recommends that the hotel management should employ internal equity financing due to its cost effectiveness and its ability to preserve control of the hotel.

The study recommended that the hotels should finance deficits through debts so as to maintain ownership. The hotels should opt for debt financing because its tax deductible hence savings in tax. Also it is recommended that the hotel use bank overdrafts as debt financing tool and hotel management should give preference to debt financing due to its potential to improve the credit score of the hotels.

The study recommended that the hotels should endeavor to finance day to day operations through retained earnings. This is because retained earnings comes with low cost unlike debt and equity financing. Also the study recommends that the hotels should develop retained earnings management policy. During hotel expansion, the management should consider using utilize retained earnings due to its low cost and its potential to affect positively the financial performance of hotels.

The study recommended that the hotels' financial flexibility should be improved through trade credit. The hotel management should complement other financing sources with trade credit and address liquidity issues in the hotel by taking trade credit. The choice of trade credit by hotels is due to the fact that it is less expensive and the hotels should overcome asymmetry information on service quality and that trade credit is opted by hotel due to its less expensive feature. The study recommends that hotels overcome information asymmetry on product quality between suppliers and buyers.

Suggestions for Further Research

This study focused on investigating the effect of financing structure on financial performance in hotels in Mombasa County. However, the financing structure aspects employed in the research explained only 63.4 per cent change in financial performance. It is on this basis that the researcher recommends a study be carried out to study the other financing structure with a view to establishing their effect on growth of not only hotels but other sectors in Kenya.

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