

CASH MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF STAR RATED HOTELS IN NAIROBI CITY COUNTY, KENYA

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ABSTRACT

Cash management is a key determinant of the sustainability and financial performance of firms, especially in the hospitality sector that faces particular challenges. Star-rated hotels must implement customized cash management solutions due to sector-specific issues such as high operational costs, volatile revenue streams, and competitive pressures. Even though cash management is becoming more and more important in Kenya, star-rated hotels in Nairobi City County still exhibit uneven compliance and financial difficulties. Through empirical data, this current knowledge gap was addressed by probing into cash management practices impacts (cash budgeting, liquidity management and centralized banking) on financial performance of star-rated hotels in Nairobi City County, proxied by Return on Assets. The study employed descriptive survey research design and the population targeted was 38 star-rated hotels in Nairobi County, Kenya. The stratified random sampling approach was utilized, and the sample of 35 star-rated hotels was determined via the Yamane (1967) formula. Data was gathered via self-administered semi-structured questionnaires. Diagnostic tests of multicollinearity, normality and heteroscedasticity were undertaken. Cronbach Alpha statistical test was utilized to estimate the reliability of the study

instrument with a coefficient value of 0.82 which is above the cut-off of 0.70 and hence acceptable. Results were presented by tables. Ethical considerations were upheld throughout the examination. Utilizing Pearson correlation and multiple regression model, the study established that cash budgeting, liquidity management, and centralized banking jointly explained 69.5% of the variation in financial performance ($R^2 = 0.695$; $R = 0.834$; $p < 0.05$). Liquidity management uncovered the strongest correlation ($r = 0.706$), followed by centralized banking ($r = 0.689$) and cash budgeting ($r = 0.672$). The study concluded that effective cash management significantly enhances financial performance. It recommends strengthening liquidity control, improving budgeting practices, and adopting centralized banking systems for better financial outcomes. The research would be meaningful to managers and policy makers in the hotel sector to embrace the practices of cash management that drives the most optimal monetary performance.

Keywords: Cash Management Practices, Cash Budgeting, Liquidity Management, Centralized Banking, Financial Performance, Star-Rated Hotels.

INTRODUCTION

The hospitality industry, globally, is a key driver of economic growth and employment creation, accounting for a significant portion of global GDP and tourism consumption. The sector supports travel, business and leisure needs. According to the United Nations Agency (2023), there were 187,000 star-rated hotels worldwide with an estimated 17 million guest rooms. Star-rated hotels must ensure finest liquidity and financial stability to remain competitive and sustainable. Furthermore, there are concerns about supply costs, fluctuating revenues and operational inefficiencies which still drive global debates on cash management in the hospitality sector. Consequently, the significance of exercising sound cash management practices when dealing with hotel operations is stressed. Regionally, Africa has witnessed significant growth in the hotel and tourism sector. The introduction of star-rating in hotels occurred in the early 2000s in Africa with many countries adopting the internationally recognized rating systems based on type of facilities and customer experiences (Koutoulas & Vagena, 2023). However, star-rated hotels across Africa still face challenges of cash management, regulations that are always shifting and subject to operational pressures.

In Kenya, the growth of star-rated hotels has been influenced by historical events, economic policies, and the expanding tourism and business sectors. According to the 2022 annual report on the tourist sector's performance, tourism contributes 4.2% to Kenya's total gross fixed capital formation, accounts for 5.5% of the official employment, and makes up 10.4% of the nation's GDP (Kenya Tourist Satellite Account, 2019). The sector is mainly led by star-rated hotels in Nairobi City County. These players deliver accommodation, food and beverage services to domestic and international visitors, consequently supporting economic activity. However, issues like rising operating expenses, shifting regulations, volatility in revenues and pressure from competition, especially from international hotel brands setting up operations in Kenya, are still faced by these hotels. Cash management is key in determining a company's outcome because the current environment keeps on changing and becomes unpredictable. Effective practices such as cash budgeting, liquidity management and centralized banking tend to align with stronger financial outcomes and greater confidence from investors (Koech & Muturi, 2021; Rashid, Butali, & Odunga, 2024). However, implementation of these practices still proves to be a challenge. Therefore, given the key role star-rated hotels play in the Kenyan economy and the financial difficulties witnessed recently, it became essential to carry out a full analysis looking at how cash management practices affect their financial performance. This review endeavored to ascertain cash management practices impact on listed star-rated hotels' financial performance in Nairobi City County. It majorly purposed to provide insights that were fact-based to managers, investors, regulators and policymakers by examining cash management indicators and financial outcomes.

Financial Performance

Financial performance shows how financially healthy a company is by measuring how much profit it makes after managing its resources effectively. For star-rated hotels, strong financial performance according to Eton et al. (2019) suggests that operations are both efficient and adaptable to shifts in market conditions like revenue swings or new regulations. Common

financial metrics used to assess this are Return on Assets (ROA), Return on Equity (ROE) and Return on Investment (ROI). They each show how well resources of the firm generate earnings. The hotel projects of these firms are normally heavily funded and have extended development times. It is for this reason that hotel firms are often into re-investments, loan repayments and shareholder payouts. Therefore, for hotels to cover all these, they should be highly profitable. Moreover, earnings power shapes how well a hotel can keep running under strict rules and shifting revenue levels which, as Murimi, Wadongo and Olielo (2021) mention, are the typical conditions in Kenya's hospitality sector. Further, for public firms, consistent profits boost stock worth, attract confidence from investors and improve access to financing channels.

In Kenya, profits of star-rated hotels have followed different paths in the past decade. According to the Tourism Regulatory Authority (TRA, 2024), star-rated hotels in Nairobi County have in the recent past faced financial crisis leading to closure and exit of major hotel brands. For instance, in December 2022, Hilton Hotel, a five-star rated hotel, closed operations in Nairobi after 53 years of operations citing declining business. Prior to this, Hotel Intercontinental also ended its operations in Nairobi citing financial difficulties including debts owed to local banks in August 2020. Such gaps in business performance bring up key doubts about what really drives financial results, especially the part which cash management plays.

Table 1.1: Profitability Trend of Star-Rated Hotels (ROA %)

Year	Five-Star Hotels	Four-Star Hotels	Three-Star Hotels	Two-Star Hotels
2019	8.21	6.74	5.32	3.84
2020	-4.10	-3.22	-2.89	-1.96
2021	2.17	1.88	1.45	0.93
2022	5.63	4.51	3.87	2.74
2023	7.42	5.93	4.66	3.11

Source: Compiled by the researcher from annual financial reports and TRA publications (2019–2023)

Five-star hotels from Table 1.1 maintain comparatively solid financial performance levels over time. This signals steady work in service delivery, market presence that is strong and cost control that is effective. However, the year 2020 was devastating for all hotel categories due to the COVID-19 pandemic, which caused negative ROA across the board. The recovery witnessed from 2021 to 2023 shows the resilience of well-managed hotels in the sector. However, two-star hotels continue to record the lowest returns, indicating structural financial management challenges at the lower end of the rating spectrum.

The clear differences in profit levels displayed in the table across the hotel categories show how a hotel's cash management structure matters when understanding financial results. Therefore, this research used real data patterns to see how cash management practices make sense for Kenya's hospitality sector's financial performance. Recent studies have pointed to this connection. For instance, cash budgeting, liquidity management and centralized banking as per Rashid et al. (2024) affected financial performance in Kenya's three-star hotels. Furthermore,

when evaluating hotel performance, Koech and Muturi (2021) stressed how centralized cash management shaped financial results. These findings therefore imply that cash management is not left behind when company earnings are assessed. Therefore, given how ROA shows how well hotels turn assets into earnings, this review used ROA as the main indicator of financial performance. The study sought practical insights on how financial performance can be increased.

Cash Management Practices

These are the strategies, frameworks and techniques that shape how an institution manages its cash flows, optimizes liquidity and ensures favorable cash balance. They cover the systems hotels use to define financial goals, track cash results and still maintain accountability toward their stakeholders (Ahmad et al., 2020). Therefore, cash budgeting, liquidity management and centralized banking form the key components of cash management practices. Industries such as hospitality demand very heavy investment, face regulations that are strict and are very key to a country's economy in terms of employment and revenue generation. Consequently, this is where cash management stands out. Therefore, within these fields, effective cash management according to Gitman and Zutter (2018) becomes more about how operational continuity will be maintained through effective cash planning and liquidity control rather than just matching costs and revenues.

In Kenya, cash management follows guidelines provided by financial regulators and industry bodies. However, political interference and differing ownership goals, especially in publicly traded hotel companies, as Ochido and Njoroge (2023) note, affect the application of sound cash management practices and consequently undermine effective financial performance. Empirical research shows clear links between solid cash management and better financial results in hotel firms. For example, Kenyan star-rated hotels as per Makena, Willy and Agnes (2023) performed better when they used effective liquidity management practices and prudent cash controls. Furthermore, Murimi et al.'s (2021) work revealed that revenue management practices including cash management were tied closely to higher returns in the hospitality sector. Therefore, efficiency is boosted, investors' trust is increased and firm value enhanced when a company uses proven cash management methods. In conclusion, how a hotel manages its cash strategically and the manner in which its financial performance is influenced is clearly shaped by cash management practices. Moreover, clear budgeting, open practices and responsibility help build lasting success and competitiveness in Kenya's hospitality market. The study used Cash Budgeting, Liquidity Management and Centralized Banking as measures of Cash Management Practices.

Star-Rated Hotels in Nairobi City County

Nairobi City County hosts numerous star-rated hotels classified by the Tourism Regulatory Authority, each serving a unique function in Kenya's hospitality chain. Among them are five-star establishments such as Villa Rosa Kempinski, Dusit D2 and Fairmont The Norfolk, which offer ultra-luxury accommodation and services. Four-star hotels such as Crowne Plaza and Ole Sereni Hotel provide high-end services including multiple dining options, recreational facilities and business centers. Three-star establishments offer moderate luxury while two-star hotels

offer basic comfort and service. Their combined efforts of accommodating domestic and international visitors, hosting conferences and supporting tourism ensure that essential hospitality services throughout Nairobi are constantly accessed.

As per Kenya Tourism Regulatory Authority (TRA) there are over eighty licensed hotels in Nairobi County, but only thirty-eight meet the classification of star-rating from two stars and above in Kenya as of December 2023. These hotels vary in scale, ownership structure and operational complexity. Therefore, although some face stricter rules because they are branded international operations, others show local private setups adapting to identical regulations or market conditions. Consequently, such contrasting ownership and operational views enable deeper comparisons within the sector. Annual reports, regulatory disclosures and questionnaire responses formed the basis from which the study obtained the hotel-level data. The aspects of cash budgeting, liquidity management and centralized banking were obtained here. Financial outcome indicators like ROA were also analyzed.

Statement of the Problem

Star-rated hotels shape Kenya's economy by boosting tourism, creating jobs and improving public infrastructure. However, even so, uneven financial results in recent years have been recorded by star-rated hotels operating in Nairobi City County. Some maintained steady performance and others experienced financial difficulties. According to TRA (2024) and Murimi et al. (2021), major hotel brands like Hilton and Hotel Intercontinental have exited the Nairobi market citing financial difficulties and declining business performance. This gap in business performance brings up key doubts about what really drives financial results, especially the part which cash management practices play.

In industries requiring heavy capital investment and facing greater scrutiny, several studies like that of Rashid et al. (2024) and Koech and Muturi (2021) show that cash management practices can really shape organizational financial success. However, even though global findings generally back this link, there is little data from Kenya's specific hospitality sector. This is because local analyses tend to look at single hotel categories or brief periods. Furthermore, hotels apply cash management practices differently from each other. This is seen clearly when we compare five-star establishments with two-star hotels. Consequently, such differences explain why a one-size-fits-all method might miss how cash management truly affects financial performance. Therefore, given the key role the hospitality sector plays in the Kenyan economy, complexity in operations and diversity in hotel categories, it became essential to carry out a full analysis looking at how cash management practices affect Nairobi's listed star-rated hotels' financial performance. This review remedied this void by examining hotel-level cash management indicators and financial performance outcomes, thereby contributing to a more informed comprehension of cash management effectiveness in Kenya's hospitality sector.

Objectives of the Study

There are both general objective and specific objectives of the study. The general objective of the study was to establish how cash management practices influence the financial performance of star-rated hotels in Nairobi City County, Kenya. While the specific objectives were:

- i. To assess the impact of cash budgeting on financial performance of the star-rated hotels in Nairobi City County, Kenya.
- ii. To explore the impact of liquidity management on financial performance of star-rated hotels within Nairobi City County, Kenya.
- iii. To establish how centralized banking influences financial performance of star-rated hotels located in Nairobi City County, Kenya.

Research Hypotheses

H₀₁: Cash budgeting has no statistical influence on the financial performance of the star-rated hotels in Nairobi City County, Kenya.

H₀₂: There is no significant statistical difference in the financial performance of star-rated hotels in Nairobi City County, Kenya, based on liquidity management.

H₀₃: Centralized banking is not statistically significant on the financial performance of star-rated hotels in Nairobi City County, Kenya.

Scope of the Study

This review majorly purposed to probe into cash management practices impacts (cash budgeting, liquidity management and centralized banking) on financial performance of star-rated hotels in Nairobi City County, proxied by Return on Assets. The scope is defined across three dimensions: subject scope, geographical scope, and time scope.

The geographical focus was confined to star-rated hotels in Nairobi City County as classified by the Tourism Regulatory Authority. These include hotels rated from two stars to five stars. The analysis encompassed hotels operating within Nairobi County as at December 2023, forming the study's population scope. This period enabled evaluation of financial management practices within a dynamic economic environment characterized by post-COVID-19 recovery and competitive market pressures.

LITERATURE REVIEW

Theoretical Review

This segment introduces the theories underpinning variables which include: Liquidity Preference Theory, Agency Theory and the Miller-Orr Model.

Liquidity Preference Theory

The liquidity preference theory was originally formulated by Keynes in the early 1930s after the notorious Great Depression. Keynes tried to distinguish between three prominent reasons for holding cash by people and companies. Besides, there was the transaction motive that implied that firms must have a relationship between the income that is to be made and the future expenditures. Second, the precautionary motive that is the element of possessing an integrated cash that would be used to cover surprise operation expenses. Thirdly, there is speculative motivation that aims at justifying why businesses must possess wealth in a liquid form. So, as per the liquidity preference theory, the third motivation is an essential factor that determines the operation of businesses. In his book, *The General Theory of Employment, Interest and*

Money, Keynes (1936) hints at the reality that the majority of firms operate with money with the primary intention of speculations and not merely a medium of exchange, and want to maintain their riches as liquid assets for safeguarding against the depreciation of long-term investments (Ogiriki & Andabai, 2014).

Those who criticize the theory observe that the above measures and assumptions of the liquidity theory are not complex and do not consider the complexity of a business operating environment. One of their arguments is that the theory is concentrated on proportions which are presupposed to be fluid and constant in their nature and does not pay attention to the fact that liquidity preference is the result of numerous factors and not only the intentions to avoid high interest rates and the lack of capital losses. Regardless of the criticism, the liquidity preference theory is an effective theory in understanding the roles and expectations of the financial managers in ensuring that effective cash management practices are implemented so that, in the long run, they can result in optimal financial performance. It can thus be applied in the study because the theory describes the pivotal position of cash and cash management behaviours in star-rated hotels.

Agency Theory

The Agency theory is an economic theory projected by Ross and Mitnick (1972) that seeks to explain the relationship created when a person authorizes another to perform actions on their behalf. The theory notes that issues can arise from this relationship based on the fact that an agent may focus on their interests and not the principal's priorities (Zogning, 2017). The theory works on the suggestion that the players in a business seek to get their best interest and not always the best interest of the firm. The decisions which financial managers take may often be skewed to their interests and thus a conflict exists between the individual manager's interests and that of the shareholders (Eisenhardt, 1989).

This means that the postulates of the agency theory note that managers who are responsible for daily operations of the business must handle transactions and implement cash management practices that favour their interests. Overall, agency theory gives a context for knowledge and addressing the challenges caused by the principal delegating decision-making power to the agent. Despite the criticism, Agency theory provides an important framework for understanding the challenges associated with cash management in star-rated hotels. By recognizing potential conflicts between hotel owners and managers in the management of cash, hotels can enhance their financial efficiency and minimize agency-related risks (Zogning, 2017).

The Miller-Orr Model

Created by Miller and Orr in 1966, this model targets to facilitate the comprehension of cash inflows and outflows within a business enterprise. This is because cash does not flow in a constant manner. The key postulate of the model is that a business firm will at some given time have surpluses, while in other instances, a deficit may ensue. The model notes that there are two control limits for a cash balance: the upper and the lower limits. The upper limit is the point where the firm has excess or surplus cash that can be used to purchase market securities

and other forms of investment. Similarly, when a firm's cash balance hits the lower limit, it needs to liquidate sufficient surplus marketable securities to adjust the cash balance to an ideal level commonly referred to as R. The model notes that so long as the cash balance remains between the lower and upper limits, no transaction is conducted between cash and marketable securities (Premachandra, 2004).

This model is appropriate for understanding the cash management practices since firms in the hotel sector will maintain cash balances depending on the expense associated with converting cash into marketable securities and the costs involved in managing cash and the fluctuations inherent in cash flows. Therefore, star-rated hotels must seek to maintain an efficient system of ensuring optimal cash balances for daily operations and future growth.

Empirical Review

This analysis critiques previous evidence-based research on cash management practices impacts on financial performance. It mainly aimed at determining the recurring results, research methods, environmental variations and research voids in the literature that support and contribute to this study focusing on star-rated hotels in Nairobi City County.

Cash Budgeting and Financial Performance

DeFranco and Schmidgall (2020) conducted research on the use of cash budgets in ensuring optimal financial performance of hotels and clubs in the United States. The scholars intended to research on the use of cash budgets using a survey methodology involving financial executives in both hotels and clubs. The research revealed that cash budgeting is one of the cash management activities that hotels use to keep liquidity. The authors advise hotels to adopt strict cash management policies such as regular preparation of cash budgets to ensure a good performance in terms of financial performance. This survey, though, was constrained because it focused on self-reports of financial executives, and it might not respond to the views of other stakeholders who include the hotel managers involved in cash management.

Twesige (2023) researched on the effect of budgeting strategies on financial performance in hospitality businesses in Rwanda. The researcher used descriptive research design conducted using survey research design. The paper determined that participatory and activity-based budgeting are good budgeting practices that positively affect the monetary performance of hotels. It was also found that the intensive budgeting activities were to be incorporated into the hotels, as they tried to enhance their financial performance.

Twaha and Ibrahim (2022) researched on working capital management and the financial outcomes of four-star hotels located in Mombasa, Kenya. The scholars utilised a cross-sectional descriptive survey technique. The outcomes of the research revealed that well-performing cash budgeting absolutely impacts the monetary performance of the hotels. However, the research was only directed towards four-star beach hotels in a specific region and this can restrict the generalization of the results to other categories or locations of the hotels.

Rashid, Butali and Odunga (2024) conducted a local survey on star-rated hotels in Garissa County using a descriptive approach. The study's main conclusions were that effective working capital management techniques, such as cash budgeting, had a favourable impact on hotels' bottom lines. Effective cash planning has been used to fulfil liquidity, ensuring that hotels can meet their immediate responsibilities and even turn a profit from the lucrative chances available to them. The study, however, can be restricted to other regions such as Nairobi County due to the geographic constraint of the study to Garissa Town only.

Liquidity Management and Financial Performance

Sawayanagi (2024) conducted a study on the linkage between revenue handling practices and monetary execution of star-rated hotels in Japan. It was found that the liquidity trap in the hotel services demand was not instigated by the decrease in the hotel rates and this made the hoteliers look into other avenues of generating revenue as they endeavoured to survive in the financial environment. The study is cross-sectional and therefore does not create an option of drawing conclusions on causality.

Rashid et al. (2024) examined how cash management affected the monetary execution of three-star hotels in Garissa County. The results uncovered that liquidity significantly and favourably improves the monetary execution of three-star hotels in the area. The increased liquidity eased monetary performance, which indicated that the effective working capital policies like liquidity management were in the favour of the increased operations and maximization of shareholder wealth.

Adesina et al. (2020) utilized secondary data to analyse specific Nigerian manufacturing firms to explore the liquidity management impacts on monetary performance. The outcomes of the research indicated that the current ratio adversely affects profitability, as indicated by ROA. As noted by Adesina et al. (2020), the liquidity measures of quick and cash ratios showed a minor yet positive influence.

Makena, Willy and Agnes (2023) carried out research on star-rated hotels in Kenya. The researchers assessed the liquidity management influence on monetary outcomes of star-rated hotels in Nairobi County. The outcomes revealed that the liquidity management practice, especially the aspect of establishing stability between the current assets and liabilities, helped in improving the operational capacity of the star-rated hotels and maximized shareholder value. These findings can be watered down by the fact that they used secondary panel data which may not capture the finer details outstanding to the self-motivated nature of the hotel sector.

Centralized Banking and Financial Performance

Doe and Smith (2023) did a study on centralized cash management in US Hotels with an aim of elucidating on the effect of using centralization of cash on the monetary success of fifty hotels in the United States using secondary data for the period 2020 to 2022. Findings from the study showed that implementing centralized cash management systems led to a 15% reduction in operating costs and improved cash flow forecasting enhanced liquidity and financial stability while the standardization of cash handling procedures reduced errors and theft. The survey

was, however, limited by its focus solely on U.S. hotels, limiting generalizability to other regions.

Belo and Nkrumah (2020) studied the financial implications of centralized cash management in African Hotels in Ghana using a mixed methods method merging monetary data analysis with surveys of hotel managers. Findings showed that centralized cash management improved financial reporting accuracy and timeliness with hotels experiencing a 20% reduction in cash handling costs. The study was, however, limited in that it focused on a limited sample of hotels in Ghana, so the observations might not be entirely applicable to other areas of Africa or the global hotel industry.

Koech and Muturi (2021) evaluated the cash management impact on the achievement of non-monetary companies recorded on Kenya's NSE. The outcomes showed that these businesses' monetary execution is positively impacted by the utilization of centralised cash management procedures. The authors remarked that the cost of centralization of cash opportunity is compensated by the cash security and profits benefit. The study was, however, restricted to a limited number of non-financial businesses that might be limiting to compare it with the rest of the business world in Kenya.

Conceptual Framework

The conceptual model comprised of cash management practice dimensions as independent variables which include cash budgeting, liquidity management and centralized banking; and financial performance is a dependent variable as a financial performance measure. Figure 1 shows the conceptual framework.

CASH MANAGEMENT PRACTICES

FINANCIAL PERFORMANCE

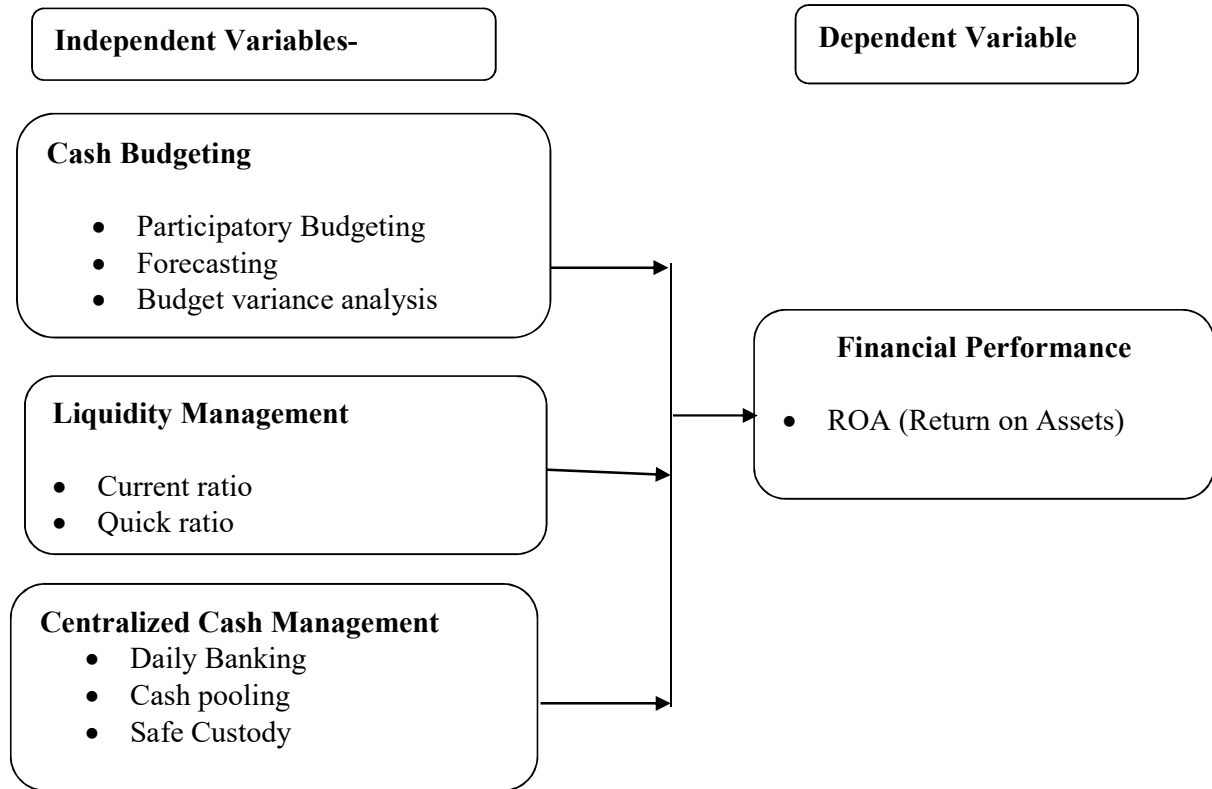


Figure 1 Conceptual Framework
 Source: Researcher, 2025

RESEARCH METHODOLOGY

Research Design

This denotes the element that directs and guides the study process. Using a descriptive survey research design, the study looked into cash management practices' connection with star-rated hotels' financial performance in Nairobi City County, Kenya. The descriptive study design helps the investigator to systematically explain current and present cash management structures and financial performance levels across hotels and look into association between cash management variables and hotel financial performance.

Model Specification

The study focused on examining how specific cash management practices; cash budgeting, liquidity management and centralized banking impact star-rated hotels' financial performance in Nairobi City County. Previous studies highlight cash management attributes' association with firm performance, with cash management mechanisms serving as critical predictors of profitability (Keynes, 1936; Miller & Orr, 1966). To achieve the objectives, the multiple linear regression model was utilized to quantify cash management practices' link with financial performance (Rashid et al., 2024). The dependent variable is financial performance, measured

by Return on Assets (ROA), while the independent variables include cash budgeting, liquidity management and centralized banking.

$$Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \varepsilon \dots\dots\dots 3.1$$

Where: Y = Financial Performance (ROA), X₁ = Cash Budgeting, X₂ = Liquidity Management, X₃ = Centralized Banking, β₀-β₃ = Coefficients and ε = Error term

Operationalization and Measurement of Variables

Table 2 indicates the operationalization and measurement of variables; it also indicates scale of measurement and hypothesized direction.

Table 2: Operationalization and Measurement of Variables

Variable	Type	Operationalization	Measurement	Scale of Measurement	Hypothesized Direction
Cash Budgeting	Independent	Forecasting, participatory budgeting, variance analysis	5-point Likert scale	Ordinal	Positive
Liquidity Management	Independent	Current ratio, quick ratio, cash ratio	5-point Likert scale	Ordinal	Positive
Centralized Banking	Independent	Daily banking, cash pooling, safe custody	5-point Likert scale	Ordinal	Positive
Financial Performance	Dependent	Ratio of net profits to total assets	Return on Assets	Ratio	N/A

Source: Researcher (2025)

Target Population

This denotes a precise collection of entities or people where research aims to examine, describe or draw conclusions about. In this study, the target group comprised of 38 star-rated hotels in Nairobi City County as classified by the Tourism Regulatory Authority as at December 2023. The study was restricted to star-rated hotels because reliable data was more accessible from classified hotels, making them a more practical choice.

Table 3: Population Targeted

Hotel Category	Total Respondents	Percentage
Five-star rating	9	24%
Four-star rating	11	29%
Three-star rating	10	26%
Two-star rating	8	21%
Total	38	100

Source: TRA (2023)

Sampling Design

It denotes the process of choosing a representative segment from a broader population to enable focused investigation or analytical insight. As a result of the population size, the research used stratified random sampling. The sample size was determined using the Yamane (1967) formula:

$$n = N / (1 + N(e)^2)$$

Where: n = Sample size, N = Population, e = Precision level (0.05)

$$\text{Therefore: } n = 38 / (1 + 38(0.05)^2) = 38/1.095 = 35$$

As a result, 35 star-rated hotels in Nairobi County, Kenya, made up the study's sample size. The research utilized purposive sampling to recognize the study participants. Four senior managers were purposively selected from each hotel; Finance Manager, Credit Manager, Internal Audit Manager and Accounts Manager making the study respondents 140 managers who formed the unit of analysis.

Table 4: Sample Size Distribution

Hotel Category	Total Population	Sample Size	Study Respondents
Five-star rating	9	8	32
Four-star rating	11	10	40
Three-star rating	10	9	36
Two-star rating	8	7	28
Total	38	35	140

Source: Researcher (2025)

Data Collection Procedure

The study utilized semi-structured questionnaires as the primary data collection instrument. The questionnaire was separated into five sections. Section A was related to the demographic features of the participants. Section B involved questions regarding the cash budgeting effect on financial performance. Section C involved questions regarding liquidity management and financial performance. Section D contained inquiries regarding the effect of centralized cash management on financial performance, while Section E contained inquiries about the impact of financial performance itself. The variables were evaluated via a 5-point Likert scale. Cronbach's Alpha was applied in examining the survey internal consistency with a coefficient value of 0.82, which is above the cut-off of 0.70 and hence acceptable. Ethical authority was obtained from NACOSTI. The researcher also obtained permission and approval to access hotel staff by the hotel management of the sampled hotels.

RESULTS AND DISCUSSIONS

Response Rate

The research disseminated 140 questionnaires to staff members who worked in finance, credit, audit, and accounts departments of star-rated hotels located in Nairobi City County. Out of the total completed questionnaires, 133 respondents returned their questionnaires to the researcher, which resulted in a 95.0% response rate. The detailed distribution is captured in Table 5.

Table 5: Response Rate

Category	Frequency	Percentage (%)
Returned Questionnaires	133	95.0
Not Returned Questionnaires	7	5.0
Total	140	100.0

Source: Field Data (2026)

The research attained an exceptional 95.0% response rate which surpasses the current standards established by research methodology. The research conducted by Murimi et al. (2021) shows that researchers can make valid statistical conclusions when they obtain response rates that exceed 70%, which demonstrates that 95% response rates represent exceptional results.

Descriptive Statistics Results

Data was assessed using measures of central tendencies such as mean and standard deviation. The results are presented in the tables below.

Table 6: Results on Cash Budgeting

Indicators	n	Mean	Std. Dev
A regular cash budgeting process is undertaken by the hotel	133	4.11	0.887
The Budgets are prepared with participation of all departments	133	3.94	0.852
Comparisons between budgeted and actual cash is done regularly	133	4.06	0.871
The hotel spends the cash based on the budgets made	133	4.19	0.901
Sufficient cash plans are kept by the hotel so as to meet long-term financial obligations	133	3.88	0.843
Average scores		4.04	0.871

Source: Field Data (2026)

The general mean score for the cash budgeting construct was 4.04 with a standard deviation of 0.871, reflecting a generally high agreement level that cash budgeting practices are meaningfully associated with financial performance outcomes in star-rated hotels. The statement indicating that hotels spend cash based on prepared budgets attracted the highest agreement (mean = 4.19; SD = 0.901). This finding infers that budgetary discipline is strongly embedded in the financial management culture of most star-rated hotels in Nairobi. DeFranco and Schmidgall (2020) affirmed that the extent to which hotel management adheres to pre-determined budget allocations is a critical driver of fiscal control and overall monetary performance in the hospitality sector.

The maintenance of adequate cash plans for long-term financial obligations received the lowest level of agreement from participants whose judgment remained positive about the practice (mean = 3.88; SD = 0.843). The score indicates that hotels establish two separate cash management systems because their financial operations need to handle immediate cash needs

and their extended cash planning requirements. Ahmad et al. (2020) demonstrated that Western European hospitality firms exhibited inadequate long-term cash planning abilities, which showed that this problem exists in all regions.

Table 7: Results on Liquidity Management

Indicators	n	Mean	Std. Dev
The Hotel has clearly defined liquidity management policies and procedures	133	4.17	0.913
An efficient operating cash flow management procedure has been devised by the hotel	133	4.03	0.879
The hotel calculates the liquidity position using current ratio	133	3.92	0.857
The hotel calculates the liquidity position using cash ratio	133	3.86	0.841
The hotel calculates the liquidity position using quick ratio	133	3.97	0.864
The hotel has a well-maintained credit management system	133	4.08	0.889
Average scores		4.01	0.874

Source: Field Data (2026)

The overall mean for the liquidity management construct was 4.01 with a standard deviation of 0.874, signifying a considerable degree of agreement that liquidity management is a substantive component of monetary performance in star-rated hotels. The element with the highest mean score related to the existence of clearly defined liquidity management policies and procedures (mean = 4.17; SD = 0.913). Sawyanagi (2024) explained that hotels which created specific liquidity rules experienced better financial outcomes during revenue disruptions because the established liquidity systems enabled them to manage their economic losses.

The cash ratio usage at hotels shows the lowest average value (mean = 3.86; SD = 0.841) because some hotels use both current and quick ratios which measure a wider range of liquid assets. Organizations which conduct regular liquidity ratio assessments can identify cash flow issues at their onset according to Yua (2020).

Table 8: Results on Centralized Banking

Indicators	n	Mean	Std. Dev
The hotel policy is to deposit any money received before making any purchases	133	4.23	0.931
The hotel funds from multiple entities or subsidiaries are consolidated into a single pool	133	3.97	0.869
The hotel cash is banked in multiple accounts for different activities	133	3.84	0.836
The hotel has deployed automated cash management system	133	4.09	0.895
Average scores		4.03	0.883

Source: Field Data (2026)

The centralized banking construct recorded a mean score of 4.03 with a standard deviation of 0.883. The hotel policy which requires all funds to be deposited before any purchasing activities start received the highest level of agreement (mean = 4.23; SD = 0.931). DeFranco and Schmidgall (2020) specifically emphasized that the discipline of depositing cash receipts promptly is among the most effective internal controls for protecting hotel revenue integrity. The statement concerning the banking of cash in multiple accounts for different operational activities recorded the lowest, though still positive, mean (mean = 3.84; SD = 0.836).

Table 9: Results on Financial Performance

Indicators	n	Mean	Std. Dev
The application of cash management practices improves Return on Assets	133	4.21	0.924
The hotel has enhanced its performance with a rise in earnings concerning its overall assets	133	4.14	0.903
Effective cash management has positively impacted hotel's return on assets	133	4.09	0.891
Average scores		4.15	0.906

Source: Field Data (2026)

The financial performance metric attained an average score of 4.15 with a standard deviation of 0.906, signifying a solid agreement that cash management strategies significantly enhance hotel financial performance. The assertion that cash management practices improve return on assets received the highest average rating (mean = 4.21; SD = 0.924). Murimi et al. (2021) established in their study of Kenyan star-rated hotels that revenue management strategies, including cash-related practices, are significantly positively correlated with return on assets.

Inferential Statistics

Correlation Analysis

The research explored how the study variables were interrelated using Pearson Correlation Analysis. The outcomes are presented in Table 10.

Table 10: Pearson Correlation Matrix

Variable	Financial Performance	Cash Budgeting	Liquidity Management	Centralized Banking
Financial Performance	1.000			
Cash Budgeting	0.672**	1.000		
Liquidity Management	0.706**	0.341**	1.000	
Centralized Banking	0.689**	0.318**	0.327**	1.000

Source: Research Data (2026)

The analysis was undertaken at 5% significance level, with results showing that some variables were positively correlated. Liquidity management recorded the highest correlation with financial performance ($r = 0.706$, $p < 0.01$), followed by centralized banking ($r = 0.689$, $p < 0.01$) and cash budgeting ($r = 0.672$, $p < 0.01$). In addition, the Pearson Correlation coefficients did not exceed 0.8, which, based on conventional thresholds, suggests that variables are not strongly correlated among themselves and could be used to conduct the analysis to examine cash management practices' impacts on star-rated hotels' financial performance. Yua (2020) similarly found that liquidity management exhibited the strongest correlation with financial performance among a set of cash-related variables in Nigerian banks, suggesting that the relative importance of liquidity governance transcends sectors and geographies. The inter-correlations among the autonomous constructs, while positive and statistically significant, were moderate in magnitude (ranging from $r = 0.318$ to $r = 0.341$), further confirming the absence of multicollinearity concerns as was also validated by the VIF diagnostics. These correlation values suggest that while the predictors are conceptually related, they each capture sufficiently distinct dimensions of cash management practice to independently give to the prediction of financial performance.

Model Summary

The overall explanatory capacity of the regression model is summarized through the multiple correlation coefficient (R), the coefficient of determination (R^2), the adjusted R^2 , and the standard error of the estimate and Table 11 exhibits the outcomes.

Table 11 Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.834	0.695	0.671	0.503

Source: Research Data (2026)

The model summary in Table 11 uncovered that the three predictors cash budgeting and liquidity management and centralized banking operations achieved a financial performance multiple correlation coefficient of $R = 0.834$ which demonstrates a strong connection between the three predictors and the financial performance outcome. The R^2 value of 0.695 designates that about 69.5% of the variability in the monetary performance of star-rated hotels is explained by the three cash management practice dimensions. The model has substantial explanatory strength because its three predictor variables remain intact while the Adjusted R^2 of 0.671 assesses model complexity. Murimi et al. (2021) reported a comparable coefficient of determination in their investigation of revenue management and monetary performance in Kenyan hotels which strengthens the current model's credibility.

ANOVA Analysis

The ANOVA test was done to establish whether the general regression model achieved statistical significance, that is, whether the collective impact of the three predictors on monetary performance was unlikely to have occurred by chance. The outcomes are outlined in Table 12.

Table 12: ANOVA Outcomes

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	19.847	3	6.616	26.134	0.000
Residual	8.330	129	0.253		
Total	28.177	132			

Source: Field Data (2026)

The ANOVA outcomes from Table 12 demonstrate that the regression model provides substantial statistical evidence through its F-value of 26.134 and p-value of 0.000. The regression sum of squares reached 19.847 which far surpasses the residual sum of squares at 8.330, thus producing a regression mean square of 6.616 and a residual mean square of 0.253. The F-ratio which achieved high statistical significance proves that cash budgeting methods together with liquidity management practices and centralized banking systems create an effect on financial performance that does not result from sampling error. The outcomes of this research match of Twaha and Ibrahim (2022) who developed a regression model that examined working capital management and monetary performance of hotels in Mombasa and uncovered a highly significant F-statistic which confirmed the strength of regression-based methods used in hospitality financial research.

Regression Coefficients

This indicates the separate contributions of every predictor variable to the dependent variable while governing for the influence of the other predictors and Table 13 outline the outcomes.

Table 13: Regression Coefficients

Predictor Variable	β	Std. Error	Beta (Standardized)	t	Sig.
(Constant)	0.812	0.324		2.506	0.014
Cash Budgeting	0.274	0.087	0.289	3.149	0.002
Liquidity Management	0.319	0.092	0.331	3.467	0.001
Centralized Banking	0.261	0.084	0.276	3.107	0.002

Source: Field Data (2026)

Based on Table 13, the estimated regression equation takes the following form:

$$Y = 0.812 + 0.274X_1 + 0.319X_2 + 0.261X_3 + \varepsilon$$

Where: Y = Financial Performance, X_1 = Cash Budgeting, X_2 = Liquidity Management

X_3 = Centralized Banking, ε = Error Term

The constant value of 0.812 ($p = 0.014$) signifies the reference point level of financial performance that would prevail in the theoretical absence of the three cash management practice constructs.

Cash Budgeting ($\beta = 0.274$, Beta = 0.289, $t = 3.149$, $p = 0.002$) showed that cash budgeting operations brought about significant positive effects which enhanced financial results. The study shows that financial results will increase by 0.274 units for every single improvement

which organizations achieve through better cash budgeting methods. Twesige (2023) demonstrated that formalized budgeting methods which organizations used brought about better financial results because the establishment of budgetary procedures led to necessary financial control which organizations required for their ongoing success. The results show that different studies found budget enforcement which required strict compliance to established procedures restricted hospitality businesses from seizing immediate revenue opportunities because they needed to maintain operational flexibility. The optimal budgeting process requires organizations to establish budget frameworks which include possibilities for operational flexibility.

The study showed that liquidity management ($\beta = 0.319$, Beta = 0.331, $t = 3.467$, $p = 0.001$) produced the highest statistically significant coefficient among all tested predictors which proved to be essential for determining hotel financial success. The research demonstrated that liquidity management served as the most important factor which predicted the monetary performance of star-rated hotels according to the results obtained by Makena et al. (2023). Sawayanagi (2024) showed that hotels which implemented proper liquidity management systems could better withstand demand shocks. The research results revealed a different outcome from the study by Adesina et al. (2020) which uncovered that manufacturing companies experienced profit declines because their excessive liquidity blocked access to funds required for generating returns. The research results demonstrate that different sectors maintain distinct relationships between their liquidity levels and performance outcomes.

Centralized Banking ($\beta = 0.261$, Beta = 0.276, $t = 3.107$, $p = 0.002$) showed that centralized banking functions as a positive financial performance predictor which researchers considered to be statistically significant. The research shows that hotels which implement centralized banking systems with automated cash management systems achieve superior financial performance results. Defranco and Schmidgall 2020 established theoretical basis for this result by showing how centralized cash control systems decrease cash handling expenses while decreasing cash wastage and enhancing financial report accuracy. Ahmad et al. 2020 showed that European hospitality companies which used centralized cash management systems benefited from increased profitability. The findings show that Centralization causes operational rigidity in hotel chains which need unit-level financial autonomy to function effectively.

Hypothesis Testing

The hypotheses H_1 , H_2 and H_3 were based on cash management practice dimensions and their respective influence on financial performance of star-rated hotels in Nairobi City County. The study hypotheses were evaluated using a 0.05 significance level to determine whether they were accepted or rejected.

H_1 : Cash budgeting has no statistical influence on the financial performance of the star-rated hotels in Nairobi City County, Kenya.

The study assessed cash budgeting's effects on financial performance of star-rated hotels. A statistically significant positive relationship ($\beta = 0.274$, $p = 0.002$) between cash budgeting and financial performance was established, indicating that hotels with well-structured cash

budgeting practices achieved improved financial performance. Given that the P-value is less than 0.05 at 5 percent level of significance, the null hypothesis is rejected, inferring that a unit increase in cash budgeting practices leads to 0.274 units increase in hotels' financial performance. This signifies that cash budgeting, which encompasses forecasting of cash needs, participatory budgeting and variance analysis, ultimately contributes to the financial performance of star-rated hotels in Nairobi City County. Twesige (2023) opined that participatory and activity-based budgeting are effective practices that positively affect the monetary performance of hotels, thereby calling for the need for optimum budgeting procedures capable of anchoring best financial management practices that guarantee higher financial returns for the listed hotels.

H₂: There is no significant statistical difference in the financial performance of star-rated hotels in Nairobi City County, Kenya, based on liquidity management.

Liquidity management's effects on star-rated hotels' financial performance were analyzed by the study. Liquidity management exhibited the highest positive coefficient ($\beta = 0.319$) that was statistically significant on listed hotels' financial performance. The P-value was less than 0.05 at 5 percent level of significance. This shows that liquidity management significantly and positively affects financial performance of star-rated hotels in Nairobi City County, hence rejecting the null hypothesis. The finding is consistent with Makena et al. (2023) that found liquidity management to positively influence the operational capacity and financial results of star-rated hotels. Similarly, the finding supports Sawayanagi (2024) who found that hotels with proper liquidity management systems could better withstand demand shocks and maintain financial stability. Therefore, there is need to strengthen the liquidity frameworks of star-rated hotels to ensure optimal financial performance.

H₃: Centralized banking is not statistically significant on the financial performance of star-rated hotels in Nairobi City County, Kenya.

The study analyzed centralized banking's effects on star-rated hotels' financial performance. Outcomes from Table 4.7 regarding the hypothesis show that the P-value (0.002) is less than 0.05 at 5 percent level of significance, indicating that centralized banking significantly and positively influences the financial performance of star-rated hotels, hence the finding rejects the null hypothesis that centralized banking has no significant effect on the financial performance of star-rated hotels in Nairobi City County. The significance indicates that centralized banking, including daily banking procedures, cash pooling and safe custody mechanisms, positively translates to improved financial performance. The finding confirms Doe and Smith (2023) who found a significant positive effect of centralized cash management on financial performance of the listed hotels, as centralizing cash management enhances cost efficiency and gives incentives to improve revenue of the hotels hence raising profitability. Further, the finding confirms Koech and Muturi (2021) that found a favourable role with which centralized cash management practices have on firms' monetary performance.

CONCLUSIONS AND RECOMMENDATIONS

Study Conclusions

The study concludes that cash budgeting is critical in enhancing financial performance among star-rated hotels in Nairobi City County. Well-structured cash budgets contribute to improved fiscal discipline, strategic resource allocation and reduction of financial deficits, which collectively strengthen financial performance. Hotels that maintain a disciplined cash budgeting framework are better positioned to forecast cash inflows and outflows, minimize financial shortfalls and enhance overall profitability. However, the area of long-term cash planning remains a relatively weaker practice, underscoring the need for hotel management to integrate both short-term and long-term cash planning into their financial management cycles. The study concludes that liquidity management has the most significant positive relationship with financial performance among the three cash management dimensions studied. Effective liquidity management enables hotels to fulfil their operational and financial commitments on schedule while minimizing insolvency risks and maintaining ongoing service provision. The maintenance of defined liquidity policies, efficient operating cash flow procedures and a well-maintained credit management system are essential pillars that support the financial sustainability of star-rated hotels. The finding emphasizes that hotels should not view liquidity management as a mere compliance exercise but as a core strategic tool for financial performance enhancement.

The study concludes that centralized banking, although having the smallest marginal impact among the three predictors, nonetheless significantly and positively influences financial performance of star-rated hotels. Centralization of banking functions allows hotels to gain better control over their cash resources, simplify payment operations, decrease excess cash storage at multiple accounts and enhance financial reporting accuracy. Automated cash management systems further contribute to cost reduction and improved oversight, reinforcing the value of centralizing treasury operations in the hospitality sector. Hotels that have adopted centralized banking systems demonstrate greater financial efficiency and better overall monetary outcomes.

Recommendations of the Study

The study sought to examine cash management practices' effects on financial performance of star-rated hotels in Nairobi City County. The findings revealed important insights into how cash management attributes influence hotel performance in the Kenyan hospitality context.

The study has revealed that cash budgeting has a positive and significant relationship with financial performance. This suggests that hotels with well-structured and disciplined cash budgeting frameworks tend to perform better financially due to improved fiscal discipline, better resource planning and enhanced variance monitoring. The hotel management should ensure that formal and standardized cash budgeting processes are embedded across all operational departments. Particular attention should be paid to long-term cash planning, which the descriptive findings suggest is a relatively weaker area of practice. Additionally, policymakers and industry regulatory bodies such as the Tourism Regulatory Authority (TRA)

should consider incorporating minimum cash management standards into the star-rating renewal criteria to institutionalize financial discipline in the sector.

The examination established that liquidity management positively and significantly affected financial performance, implying that stronger liquidity controls result in improved hotel financial results. Hotel finance managers should strengthen their liquidity management frameworks by diversifying the liquidity indicators used, incorporating stress testing scenarios into liquidity planning and maintaining proactive credit management systems to minimize the accumulation of outstanding receivables. The board and management should put in measures to address liquidity adequacy policies and succession planning in financial management to promote fresh ideas and maintain independence in financial oversight. Lastly, the study has revealed that centralized banking is a significant and effective predictor of financial performance; therefore, hotels should invest in automated cash management and centralized banking technologies. Smaller hotels that may face resource constraints in adopting such technologies should explore industry-wide shared service models or collaborative procurement arrangements.

Areas for Further Research

The findings have shown that cash budgeting had a positive significant effect on financial performance; therefore, future research should be conducted to establish the optimal cash budgeting frequency and model that is necessary for hotels' financial performance across different star-rating categories. In addition, the findings have pointed to the fact that liquidity management most significantly influenced financial performance of star-rated hotels; therefore, future research should be conducted to establish the threshold liquidity ratios that maximize financial performance in the hospitality sector without inducing over-liquidity that may reduce profitability through idle cash.

Furthermore, the current model explained 69.5% of the variance in financial performance, implying that about 30.5% of the variance is attributable to factors not captured within this framework. Future investigations may incorporate additional variables such as digital payment system adoption, corporate governance structures, human resource capabilities in financial management, and the moderating role of hotel size and star classification on the cash management-performance relationship. Finally, longitudinal studies tracking changes in cash management practices and financial performance over time would strengthen the causal evidence of the relationships documented in the current study.

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