

Effect of Firm Size on Financial Performance of Star Rated Hotels in Nairobi County, Kenya

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Abstract:

Background: The hotel industry globally is characterized by high capital costs and a high proportion of fixed costs to total costs. This study aimed to observe the effect of capital structure determinants in the hotel industry and how this can influence their financial performance, specifically to determine the effect of firm size on financial performance of star rated hotels in Nairobi County, Kenya. The hotel industry was chosen because of its importance in the Kenyan economy as well as this particular industry hardly having been studied in relation to its capital structure determinants and their effect on financial performance.

Materials and Methods: A census of the registered, licenced and classified hotels in Nairobi county, Kenya retrieved from the Tourism Regulatory Authority (TRA) website "tourismauthority.go.ke" for the period January 2011 to December 2019 (both years inclusive) constituted the target population. This study used explanatory research design and utilised secondary panel data extracted from the financial statements of the target population, which is 40 star rated hotels.

Results: Results of the study indicate that there was a positive and significant effect of firm size on financial performance of star rated hotels in Nairobi County ($\beta = 0.019$, p value < 0.05). This indicates that unit increase in firm size increases financial performance by 0.019 units.

Conclusion: Since there was a positive and significant effect of firm size on financial performance. It can be concluded that there was a positive co-movement between firm size and financial performance of star rated hotels in Nairobi. Hence, it can be implied that star rated hotels in Nairobi County were deriving value from increased number of employees whom they had engaged.

Key Word: Financial Performance, Firm Size, capital structure determinants.

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I. Introduction

Size is an explanatory predictor for variations in organization financial performance. Larger organizations are likely to take on more debt than smaller organizations for both their operations and capital at different growth phases that improve their financial performance. [1] argue, firstly, that larger firms can negotiate for loans on more favourable terms. This enables them to take on more debt at lower interest rates. Secondly, because larger firms are less risky than smaller firms, banks are willing to loan them more funds. This lowers their probability of default. Hence, a positive association is likely to be observed between size and leverage. On the contrary, [2] argue that large firms have sufficient analyst coverage and are subject to lower costs of information asymmetries. Hence, they should access equity markets with relative ease. Moreover, the fixed costs associated with equity issues should be smaller for large firms. On that account, size should be inversely correlated to leverage.

The relationship between financial performance and firm size can be explained with some theories that have been argued by many different authors. According to Trade-off theory a firm's size has a positive effect on leverage in that large firms are expected to have a higher debt capacity. In larger firms, it is less likely to see higher bankruptcy risk and bankruptcy cost. Larger firms tend to take long term debt while small firms choose short term debt [4]. According to Free cash flow theory which was offered by [5], larger firms have more stable cash flow and firm size has a positive effect on the debt. Since larger firms have more bargaining power over creditors, they may take the advantage of economies of scale in issuing long term debt. Consequently, the cost of allotting debt and equity is negatively associated to firm size [6]. [7] study suggests that larger firms are more diversified and fail less often. On the other hand, there are some studies that explain the negative relationship. For instance, [8] offers that since larger firms tend to provide more disclosure to outside than small firms, this situation may lead to prefer more equity financing relative to debt. [9] also provided that there is negative association between debt level and firm size.

Numerous studies on capital structure observed that company size is among the aspects that affect the capital structure determinants [10]. Rationally, larger organisations need more financial assistance in expanding and refurbishing their operations. Therefore it is possible that larger companies need higher debt as compared to smaller firms. Trade-off theory concludes that company size is positively correlated with leverage level. This is because company size has inverse relationship to bankruptcy probability which means that the bigger the size of a firm, the ability to overcome the bankruptcy is high, therefore the bankruptcy risk is low. Besides that, larger company may issue debt at lower cost than smaller companies; hence they are capable to consume more debt.

On the other hand, pecking order theory mentioned that leverage level and firm size has negative relationship. It means that the larger the company, the lower the leverage level of the company. This is as a result of information asymmetry which is less severe for large firms. Empirical findings on this issue are still mixed. Some studies found positive relationship between firm size and debt level, such as [11] and [12] and some observed negative connection as in [9] and [13].

However, some empirical studies have established that with increasing information asymmetries, small firm experience high cost of issuing share [14]. [15] propose that asymmetry information that exist amongst management and external investors in capital markets is less in larger companies, which lowers cost of share capital for large companies, which make it make more used method of financing for large companiaes. When making choices on the source of external financing, issuance cost is key factor for consideration. Small companies are deterred by these costs into taping the equity market. Small companies' results into issuing debt in order to lessen the cost of issuance [14].

In this study, the researcher expected a positive relationship between size and financial performance of the hotels. To measure size, the number of employees was perceived as a sound measure for the hotel industry. So, the natural logarithm of total employees was taken to measure the size as used in some previous studies.

Financial performance refers to the measure of operations in monetary terms as well as organisation's policies. It is an overall measure of an organization's financial well-being for a given period of time and may also be used to compare similar organizations across the same sector or to compare sectors or industries in aggregation ([16]. It encompasses profit making and enhancing shareholders' wealth which are among the major objectives of an organization. Stakeholder's wealth is largely influenced by capital structure decisions, capital investment decisions, growth in sales and improvement in profit margin [17]. As [18] puts it, financial performance is the practice of assessing the results of an organization's operations and policies in monetary terms by identifying the financial weaknesses and strengths of an organization through establishment of a relationship between the income statement and the items of the financial position. Liquidity ratios, return on equity and profitability among others provide measures or valuable tools to shareholders to evaluate the current and past financial performance of an organization.

Financial performance has established significant consideration from scholars in various areas of strategic management and business. Business practitioners in all forms of organizations have had primary concern since financial performance has consequences to organization's well-being and eventually its survival. Great financial performance replicates management efficiency and effectiveness in use of business resources and in turn this contributes to the nation's economy at large [16]. There are various measures of financial performance such as, return on assets assesses a business ability to utilise its assets, return on sales discloses how much a business earns in relation to its sales and return on equity determines what investors take for their investments. The advantages of financial methods are the easiness of calculation that are agreed worldwide. Customarily, the success of a business has been estimated through use of financial measures. A sound designed and implemented financial management is expected to contribute positively to the creation of a business' value [17].

Many theoretical and empirical studies as deliberated in literature have revealed that capital structure certainly influences organization's performance. [19] looked at capital structure and its impact on financial performance of construction companies listed in Malaysia for the period between 2005 and 2008. The study found out that capital structure had a significant impact on the firm performance. [20] evaluated the effect of capital structure on financial performance of public sector banking firms in India between 2008 and 2013. His study revealed a positive relationship between capital structure as measured by ROE, short term debt and ROA using multiple regression analysis. The results from the study done by [21], suggested that there was significant negative relationship among debt ratio and financial performance of organisations, and a significant positive association between firm size, asset turnover, asset tangibility and growth opportunities with financial performance measures. But the association between ROE and ROA measures with the firm age was not substantial. [22] did research on how debt and liquidity affected the financial performance of commercial state corporations in Kenya's tourism industry and the results revealed that there was a negative insignificant association between firm profitability and debt. In summary, capital structure employed by organizations' influence their financial performance inclinations, whose empirical determination and analysis of capital

structure determinants using hotels in Nairobi Kenya was the overall objective of this study. Subsequently, ROE was used as a proxy for financial performance and was measured as the ratio of EAT to total equity.

[23] studied the effect firm size and corporate performance of listed manufacturing companies in Indonesia stock exchange. Cross sectional research design was applied and secondary data retrieved from annual financial statements. Random effects model was fitted. It was found that firm size has positive effect on corporate performance of listed manufacturing companies. The results conflicted with signalling theory that allude the higher the firm size the higher the odds of positive effects. The study may have considered reporting on diagnostic tests that guided the choice of random effects model, also data over a long period may have been considered so as to examine long run effect of selected variables.

[24] studied the effect of firm size on financial performance of manufacturing firms listed in Nairobi securities exchanges. Explanatory research design was applied and secondary data sourced from annual financial statements between 2012 to 2018. The study found that there were differences in firm sizes among manufacturing companies listed in NSE. Further, firm size positively and significantly affected financial performance of manufacturing firms listed in NSE. Since the study drew panel data there was need for consideration of diagnostic tests associated with it prior to fitting the model. Further, the study may have considered drawing data over a long period to eradicate the odds of small sample problems.

[25] investigated the impact of firm size on financial performance of banking companies in Bangladesh. The study drew a sample of 10 listed banks in Dhaka Stock Exchange. Secondary data from 2011 to 2015 was collected from annual financial statements. Firm size was operationalized as number of branches, number of employees and total assets. Financial performance was operationalized as return on equity and return on assets. Firm size (total assets, number of branches and number of employees) positively and significantly affected financial performance of banking companies in Bangladesh. Further, age and board independence had inverse and significant impact on financial performance of Bangladesh banking industry. Since the study drew data from banking sector it was appropriate to consider hospitality sector data due to contextual factors associated with the study.

[26] examined the effect of firm size on profitability of Sri Lankan hospital and travel sector. The study applied correlation research design and sourced secondary data from annual financial statements for period 2008 to 2012. Fixed and random effects regression models were fitted. It was found that there was a positive and significant effect of firm size on profitability. In contrast there was an inverse and significant effect of debt ratio on financial performance of hospitality and travel companies in Sri Lanka. The study presents contextual gaps since there are business risks which are unique to companies operating in Sri Lanka.

[27] examined the effect of leverage and firm size on financial performance of deposit taking savings and credit cooperative societies in Kenya. Mixed method was applied and primary and secondary data gathered through administration of questionnaires. Univariate and bivariate statistics were applied for data analysis. It was found that leverage and firm size have significant effect on financial performance of deposit taking savings and credit cooperative societies in Kenya. The study may have considered drawing only secondary data from annual financial statements over a period so as to examine short and long run effect of leverage and firm size on financial performance. Furthermore, there are industry specific risks in financial sector that may not be replicated in star rated hotels in Nairobi County.

[28] examined the effect of firm size on financial performance of commercial banks in Kenya. Descriptive research design was applied and a census of 42 banks was considered and their secondary collected from annual financial statements. Firm size was operationalized as number of branches, capital base, customers deposit and loan and advances. Panel data was collected from 2012 to 2016. Univariate and multivariate statistics were used for data analysis. Results of the study indicated that there was a positive and significant effect of firm size on financial performance of commercial banks in Kenya. Since the study was among commercial banks there are population gaps that may not warrant generalization of the study findings in hotel industry in Nairobi County.

[29] examined the effect of firm size moderating role on the effect of micro factors on financial performance of manufacturing firms in Kenya. Specifically, the study examined the effect of operation practices, management practices and production capacity. Descriptive research design was applied and primary data gathered through administration of questionnaires among 180 manufacturing firms. Results of the study indicated that operation practices, management practices and production capacity have positive and significant effect on financial performance. Further, firm size have positive and significant moderating effect on the influence of micro economic factors on financial performance of manufacturing firms. The study may have considered secondary data so as to examine co-movement among variables under examination. Further, the study ought to have adopted ordered probit or logit owing the nature of its measurement scale of response variable.

[30] examined the influence of firm size on financial performance of deposit money banks quoted banks in Nigeria stock exchange. The study applied descriptive research design and gathered data of five deposit

money banks. Descriptive and multiple regression analyzed the data. Firm size was operationalized as natural logarithms of total assets. Results of the study indicates there was an inverse effect on financial performance of quoted money banks in Nigeria stock exchange. It was recommended that the industry ought to minimize expansion cost and seek for measures to optimize measures associated with economics of scale as well as stimulation of financial performance.

[31]investigated the effect of firm size on financial performance of sugar companies in Western Kenya. Correlation research design was applied and secondary data sourced over 10 years among eight sugar firms. Univariate and bivariate statistics analyzed the data. Results of the study indicated that there was a positive and significant effect of firm size on financial performance of sugar firms in Western Kenya. The study may have considered data over a long period of time so as to minimize odds of facing challenges associated with small panels.

[32]examined the effect of firm size on financial performance of non-financial firms listed in Nairobi securities exchanges. Correlation research design was applied and secondary data was sourced from 2010 to 2016. Univariate and multiple regression analysis. Results of the study indicated had inverse and insignificant effect on financial performance of non-financial firms listed in Nairobi securities exchanges. The study may have considered drawing data for more than 28 firms so to minimize odds of challenges linked with small panels problem.

[33]examined the effect of firm size on financial performance of listed banks of emerging economies in Africa. Correlation research design was applied and secondary data sourced from annual financial statements. Univariate and bivariate techniques were used for data analysis. Results of the study indicated that operating, financing and investment cashflows have positive and significant effect on financial performance of listed banks in emerging economies. The study leads to methodological gaps since it did not examine the controlling effect of country specific aspects that may have had effect on financial performance of listed banks in emerging economies in Africa.

[34]examined the impact of firm size on performance of Vietnamese private enterprises. Correlation research design was applied and secondary data was collected from financial statements. Univariate and bivariate statistics analyzed the data. Growth rate, total assets and total labour have positive and significant effect on performance of Vietnamese. Since the study was carried out in Vietnam there is need for a localized study to confirm or contradict the current findings.

[35]) studied the impact of firm size on firms financial performance in building and construction companies in Nigeria. Correlation research design was applied and secondary data sourced from annual financial statements from 2004 to 2017. Descriptive and inferential statistics were applied for data analysis. Firm size was operationalized as total sales. The study found that there was a positive and significant effect of firm size on financial performance. Financial leverage have inverse and significant effect on financial performance of building and construction companies in Nigeria. The study presents population gaps since there are different firm characteristics between building and construction companies and star rated hotels in Kenya.

[36]studied the influence of firm size on profitability of Sri Lankan diversified holding firms listed in Colombo stock exchange. Correlation research design was applied and secondary data retrieved from annual financial statements. Descriptive and inferential statistics were used for data analysis. Results of the study indicated that there was a positive and significant effect of firm size on financial performance. Further, leverage have inverse and significant effect on financial performance of Sri Lankan diversified firms. The study poses contextual gaps since it drew data from listed institutions whose regulations are heterogenous to star rated hotels in Nairobi County.

[37]studied firm size, operational risk and financial performance of commercial and services firms listed in Nairobi securities exchanges. Explanatory research design was applied and secondary data sourced from financial statement from 2013 to 2017. Findings showed that operational risk have positive and insignificant effect on performance. Firm size has moderating effect the relationship between operational risks and performance. It was concluded that firm size has significant role in financial performance of companies whereby firms with higher assets base managing their risks better as compared to their counterparts. It was recommended that to enhance financial performance, firms ought to manage their operational risk management initiatives and increase their asset base.

[38]studied the nexus between firm size, growth and profitability among firms in Asian Pacific markets. The study applied explanatory research design and sourced primary data through collection of data from Compustat from 1995 to 2016 among 12 emerging industrial and emerging Asia and pacific economies. Findings of the study indicated positive and significant effect of firm size on profitability. Further, there was an inverse and insignificant effect of firm leverage and asset tangibility. The findings pose contextual gaps since compared to Kenya and Asian Pacific markets there are data bases that may enhance the quality of data management.

[39] studied the effect of firm size on company value in Indonesia Stock Exchange. Purposive sampling was used to select a sample of manufacturing companies listed in Indonesia Stock Exchange. Secondary data was collected from annual financial statements from 2017 to 2019. Data was analyzed using descriptive and multiple regression analysis. It was found that firm size has positive effect on firm value. Further, there was significant moderating effect of dividend policy on the relationship between firm size and company value.

[40] studied the effect of firm size on performance of deposit taking micro finance institutions in Kenya. Exploratory research design was applied and secondary data sourced from annual financial statements of six micro finance institutions. Univariate and multivariate techniques analyzed the data. Results of the study indicated that there was a positive and significant effect of firm size on performance of deposit taking micro finance institutions in Kenya. Further, there was a positive though not significant effect of customer deposits on financial performance of deposit taking micro finance banks. Since only six micro finance banks were considered there was need to increase the sample size and minimize odds of facing challenges associated with small panels.

[41] studied the effect of firm size and age on leverage of listed firms in Nigeria. Cross sectional research design was applied and secondary data collected for 12 years from 49 listed firms. Univariate and multivariate techniques analyzed the data. There was an inverse and significant effect of firm size on leverage of listed companies in Nigeria. Further, age positively and significantly affected leverage of listed companies in Nigeria. Listed companies ought to consider optimization of debt levels so as to enjoy tax shield benefits and optimize shareholders wealth.

[42] studied the impact of bank size on commercial bank performance in Kenya. Correlation research design was applied and secondary data sourced among 39 commercial banks. Descriptive statistics and multiple regression analysis analyzed the data. Results of the study indicated that bank size have positive and significant impact on performance of banks in Kenya. It was found that there was need for commercial banks to develop measures aimed at enhancing the quality of loan portfolio.

II. Material And Methods

A census of the registered, licenced and classified hotels in Nairobi county, Kenya retrieved from the Tourism Regulatory Authority (TRA) website "tourismauthority.go.ke" for the period January 2011 to December 2019 (both years inclusive) constituted the target population. This study used explanatory research design and utilised secondary panel data extracted from the financial statements of the target population, which is 40 star rated hotels. The nine-year period secondary data was collected through data collection instruments. Data was analysed quantitatively using descriptive statistics and panel regression analysis techniques with the aid of STATA 16. F-test was used to determine the denotation of the overall model; while significance of individual variables was determined by t-test. For ease of interpretation, the results are presented graphically by use of tables, graphs and charts.

III. Result

Descriptive Statistics

Descriptive measures of dispersion and central tendencies are tabulated in Table1. The mean return on equity of hotels was 3.3% with a maximum of 72.4% and a loss of 17.4%. Hotel performance varied widely since the standard deviation was 38.2%. Financial performance was not normally distributed since the Jarque Berra coefficient had p value greater than 0.05. Non-normality of financial performance was in agreement with [43] who documented non-normality of profitability of listed non-financial companies in Nairobi Securities Exchange. Similar results were reported by [44] who found that commercial banks in Kenya have non-normally distributed data.

The mean firm size was 4.826 with a standard deviation of 0.542. Since the minimum was 3.738 and maximum of 5.875, this indicates that most of the star rated hotels in Kenya are medium sized since World Bank (2017) alludes those small sized enterprises have at most 99 employees, medium sized have 99 to 250 and large firms has more than 250 employees.

On asset tangibility, the study reveals that during the period under examination the mean was 0.814, with a standard deviation of 0.339. The tangibility ranged between 0.273 to 6.834. This indicates that there were some hotels whose fixed assets was 683 times of their total assets. This may pose a challenge to their operating cash flows since huge number of resources might be held in non-tangible assets that may not be easily disposed.

Concerning, liquidity the hotels in Nairobi County has an average of 14.243 current assets to current liabilities. Owing to the wide variations of the liquidity, it clearly indicates that some hotels may have been exposed to challenges due to excessive holding of current assets. Negative liquidity ratio indicates that there were some hotels whose current liabilities exceeded current assets.

Regarding earnings volatility, the mean was 6034.482, with a minimum of 4.558 and maximum of 17117.050. The results are in support of [15] who alludes that adoption of alternative sources of financing may

expose a firm to higher risks thus there is need for adoption of the most optimal combination of debt and equity. Since hotels aims at providing services to their customers ,there is need for consideration of sales growth strategies that would not be capital intensive and would guarantee steady flow of income.

The average operating cashflows was 15.10 and not normally distributed since P value for Jarque Berra was less than 0.05. The results of the study were in support of Nasir et al., (2011) who argues that organizations experiencing liquidity challenges are associated with poor management of working capital that would minimize likelihood of achieving desired objectives. Hossain and Hossain (2015) call for prudent working capital management so as to optimize value maximization of shareholders wealth and minimization of conflicts linked to heterogenous organization stakeholders.

Table 1: Descriptive Statistics

	Financial Performance	Firm size
Mean	0.03	4.83
Median	0.01	4.73
Maximum	7.24	5.87
Minimum	-0.17	3.74
Std. Dev.	0.38	0.54
Skewness	18.71	0.14
Kurtosis	353.32	1.97
Jarque-Bera	1861882	17
Probability	0.00	0.00
Observations	360	360

Hotel Ownership

Regarding hotel ownership pictorial presentation in Figure 1, indicates that 70% of hotels in Nairobi County are locally owned. Thus, it can be concluded that majority of hotels are locally owned thus there may have to mainly rely with locally available sources of financing.

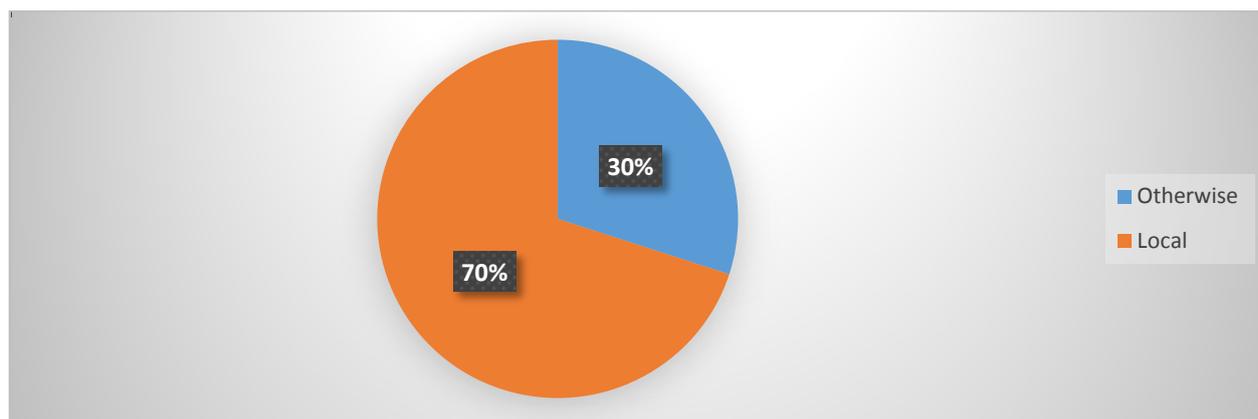


Figure 1: Hotel Ownership

Hotel Classification

Concerning the classification of hotels 30% were four stars, 25% were either five or three stars and minority (20%) were two stars.

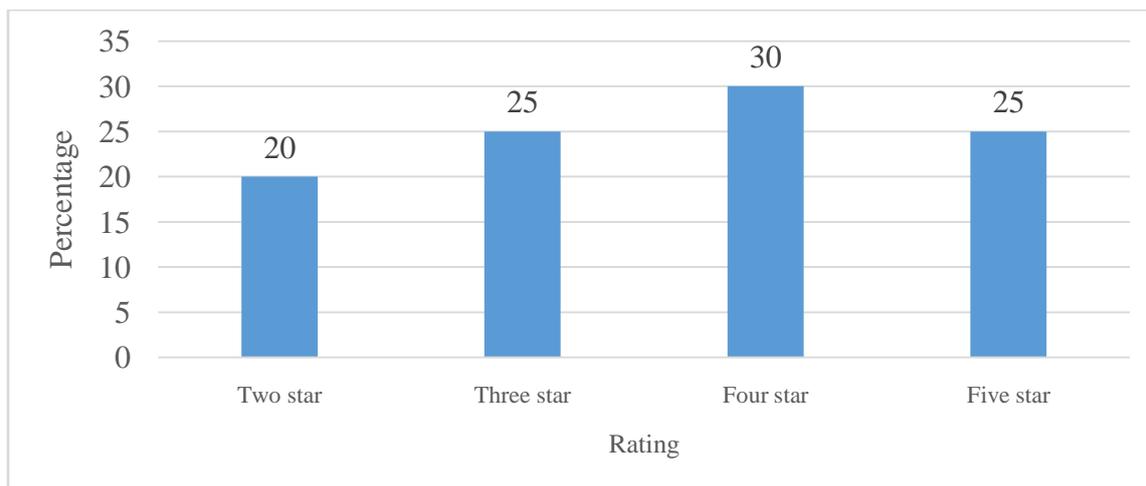


Figure 2: Hotel Classification

Karl Pearson Correlation Analysis on the Effect of Firm Size on Financial Performance

Correlation analysis examined the effect of firm size on financial performance. Results in Table 2 indicated that sales have positive and not significant ($\rho = 0.561$, p value > 0.05). Secondly, total assets have positive and significant effect on financial performance ($\rho = 0.613$, p value < 0.05). Number of employees has positive and significant effect on financial performance ($\rho = 0.765$, p value < 0.05). The results mirrored [1] who alluded that large organizations can easily access financial services as compared to small institutions. This may enhance achievement of organization desired objectives. Moreover, [3] assert that big corporations have lower asymmetrical costs that minimizes their financial costs.

Table 2: Karl Pearson Correlation Analysis on the Effect of Firm Size on Financial Performance

	Financial Performance	Sales	Total assets	Employees
Financial performance	1			
Sales	0.561	1		
	0.065			
Total assets	0.613	0.038	1	
	0.004	0.056		
Employees	0.765	0.213	0.117	1
	0.000	0.000	0.735	

Firm Size and Financial Performance

The objective of the study sought determine the effect of firm size on financial performance of star rated hotels in Nairobi County, Kenya. Simple regression in Table 3 has an R squared 0.424, that indicates 42.4% of changes in financial performance can be explained by firm size while the remaining financial performance can be accounted by other factors. F statistics of 11.139, has a p value of 0.00, this indicates firm size effect on financial performance was significant. Further, there was a positive and significant effect of firm size on financial performance of star rated hotels in Nairobi County ($\beta = 0.477$, p value < 0.05). This indicates that unit increase in firm size is associated with an increase to financial performance. The resultant equation is of the form:

$$\text{Financial Performance} = 2.335 + 0.477 * \text{Firm Size} \dots\dots\dots 1$$

These findings are consistent with the theory of variable proportions which states that as variable inputs are added to fixed factors of production, the output increases at an increasing rate, then at a decreasing rate but, beyond a certain level, production declines. This could mean that employing a larger workforce, does not lead to increased earnings but, rather, diminishes earnings, and therefore, negatively affecting ROE.

The interpretation of this theory is that increasing staff beyond certain limits on fixed factors of production could render some employees idle and since they are being paid, they end up reducing the earnings

of the firm that is, they earn wages/income and yet they are not productive. This therefore, means that majority of the star rated hotels in Nairobi County are overstaffed. In addition, Pecking Order theory asserts that the size of the firm has a negative relationship with its capital structure. This implies that larger firms have lower leverage levels, due to less severe information asymmetry as compared to smaller firms. Thus, the size of the firm could have a negative effect on financial performance. On the contrary, trade-off theory asserts that firm size has a positive effect on leverage. This is hinged on the premise that larger firms have more power to bargain with creditors and may also take advantage of economies of scale, in obtaining long-term debts.

Other studies have also found similar results, that is, the size of the firm has a negative effect on firm's financial performance. For instance, a study by [45] reported that firm size of the manufacturing firms had a negative effect of capital structure which in turn affects financial performance, negatively. Similarly [8] held that because bigger firms prefer to disclose more to the outside world than small ones, this situation could lead to more equity financing in relation to debt. Moreover, [9] found a negative relationship between the size of the firm and capital structure. Furthermore, it has also been revealed that the transaction cost of allotting debt and equity are negatively associated with firm size [6].

On the contrary larger companies are more diversified and therefore, their chances of failing are more minimal. This means that they can borrow more at a lower interest rate. Thus, it is expected that bigger firms have a positive association with leverage and subsequently, financial performance [11]. Given that the firm size is negatively associated with firm bankruptcy, there is a possibility that larger firms have lower possibilities of bankruptcy and hence the ability to borrow more.

Table 3: Firm Size and Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	2.335	1.943	1.202	0.230
Firm size	0.477	0.218	2.185	0.000
R-squared	0.424	Mean dependent var		0.033
Adjusted R-squared	0.415	S.D. dependent var		0.382
S.E. of regression	0.379	Akaike info criterion		1.006
Sum squared residuals	45.883	Schwarz criterion		1.448
Log likelihood	-140.017	Hannan-Quinn criterion.		1.182
F-statistic	11.139	Durbin-Watson stat		2.515
Prob(F-statistic)	0.002			

Drivers of Financial Performance

Examination on the driver of financial performance of star rated hotels in Nairobi has an R squared of 78.8% that indicates that firm size accounts for 78.8% of changes in financial performance while the remaining portion is attributed to other factors excluded in the model. F statistics of 591.218 and p value of 0.000 indicates that regression model would have been adopted to examine the effect of firm size, tangibility, liquidity and earnings volatility on financial performance.

The study hypothesis of the study stated that there was no significant effect of firm size on financial performance of star rated hotels in Nairobi County. Results of the study indicate that there was a positive and significant effect of firm size on financial performance of star rated hotels in Nairobi County ($\beta = 0.019$, p value < 0.05). This indicates that unit increase in firm size increases financial performance by 0.019 units.

The resultant equation is of the form:

$$\text{Financial performance} = 0.862 + 0.019 * \text{Firm size} \dots\dots\dots(2).$$

Table 4: Drivers of Financial Performance

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	0.862	0.224	3.848	0.0003
Firm size	0.019	0.008	2.375	0.000
R-squared	0.788	Mean dependent var		
Adjusted R-squared	0.762	S.D. dependent var		
S.E. of regression	0.045	Akaike info criterion		
Sum squared residuals	0.644	Schwarz criterion		
Log likelihood	627.952	Hannan-Quinn criterion		

F-statistic	591.218	Durbin-Watson stat
Prob(F-statistic)	0.000	

IV. Summary and Conclusion

The need for the current study arose from empirical, conceptual, theoretical, contextual and methodological gaps that arose from past studies. Correlation research design was applied and panel data sourced from five, four, three- and two-stars hotels in Nairobi County, Kenya. Univariate, bivariate and multivariate techniques were applied for data analysis. Trend analysis indicated that there were noticeable upward and downward trends of firm size, tangibility of assets, liquidity, earnings volatility and financial performance.

The objective of the study examined the effect of firm size on financial performance of star rated hotels in Nairobi. Results of the study indicated that there was a positive and significant effect of firm size on financial performance of star rated hotels in Nairobi Kenya. This shows that an increase in firm size increases financial performance of star rated hotels in Nairobi, Kenya.

Since there was a positive and significant effect of firm size on financial performance. It can be concluded that there was a positive co-movement between firm size and financial performance of star rated hotels in Nairobi. Hence, it can be implied that star rated hotels in Nairobi County were deriving value from increased number of employees whom they had engaged.

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