ISSN: 2958-2326

African Journal of Commercial Studies

Publisher's Home Page: https://ijcsacademia.com/

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Credit Cost Management and Financial Performance of Hotel Businesses in Kenya

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African Journal of Commercial Studies, 2024, 5(4), 248–256
DOI Link: https://doi.org/10.59413/ajocs/v5.i.4.6

Article Info

Volume 5, Issue 4

Publication history:
Accepted on 25 October 2024;
Published on 30 October 2024

Article DOI:
10.59413/ajocs/v5.i.4.6

Abstract

This study explores the impact of credit cost management on the financial performance of businesses in Kenya's hospitality sector. Specifically, it examines how interest rates, loan collateral, and loan repayment terms influence the profitability and financial stability of small and medium-sized enterprises (SMEs) in the industry. The study is supported by Loanable funds theory, Credit scorecards theory and Tradeoff theory. Through a desk review of existing literature, the study identifies that high interest rates increase the cost of borrowing, creating financial pressure on businesses, while lower rates support profitability. Loan collateral is found to be a major determinant of access to credit, with businesses that provide sufficient collateral securing loans more easily. Flexible loan repayment terms contribute to better cash flow management and liquidity, improving overall financial performance. The study concludes that effective credit cost management is critical for the success of hospitality businesses and recommends that financial institutions and policymakers collaborate to provide more favorable credit terms, including lower interest rates, reduced collateral requirements, and more flexible repayment options. Increased transparency in loan agreements and government interventions to support SMEs are also essential for fostering financial growth in the sector.

Keywords: credit cost management, interest rates, loan collateral, loan repayment, financial performance, SMEs, Hotel industry

1. Introduction

Capital is one of the integral internal factors of any business, alongside labor and technology. Different firms and businesses raise their capital in various ways, among which access to loans from lenders, Sacco's, microfinance institutions, and commercial banks is considered. Credit is one of the various aspects that business entities can utilize to increase demand for their goods and services and ensure users have more preference for what they have to offer. In this case, credit can be more beneficial to the entity when profit generated from the sales exceeds the opportunity cost for the receivable. Baker, Pattnaik, and Kumar (2022). Mitang and Kiha (2023) defined credit as a method used to exchange goods and services between business partners with the agreement to make payment at a later date. However, credit in any firm requires a certain level of control while disbursing loans to SME's. Primarily, sound credit management practices in a firm will mean that there should not be any delay in payment or, in the worst scenarios, no payment at all towards an existing loan (Baker et al., 2022).

Worldwide, a study by Mckinsey and IFC 2020 reveals that over 90% of the current setup and recognizable large ventures currently in the global market are SME's. A prior study on the number of SME's claims that it hovers around 400 to 600 million (Tumbunan, 2019). This study also established the fact that these SME's were also the largest procurers of the GDP and for the employment opportunity in the creation of undeveloped economies of the world (Tumbunan, 2019).

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Globally, an approximate ninety percent of all companies active on the African continent other than the agribusiness sector are MSME's and are significantly contributing to the nation's cumulative GDP (Muriithi, 2017). From Hassan, Aku, and Habakuk's (2017) analysis, 93% of Morocco's industrial enterprises are SME's, where they have contributed 37% in production, 33% in investment, and 30% in export. In addition, in SA, there are about 91% formal entities that are SME's and contribute to between 52% and 57% of SA GDP (Muriithi, 2017). On the continental level, probably the largest challenge has been access to finance with regard to the general growth of the SME's sector. Since the financial crisis of the year 2008, the access to finances for SME's in Africa has been highly impacted, and in the wake of this, a prominent economic decline has been noticeable (Muriithi, 2017). Even before the occurrence of the downfall, manufacturers and exporters in most of the developing world had heavily limited access to the finance they needed for their growth SME's.

Locally in Kenya, SME's are regularly believed to have limited access to deposits, customized credit facilities, and other financial-related services provided by financial institutions. The reason is that most SME's cannot meet the credit requirements demanded by lending institutions, the interest rates. Statistically, SME's are reported to have high failure rates, making it difficult for the lender to access the viability of the enterprise's investment and that of the owner of the business and subsequent likelihood of repayment of the loans accurately (Ndemi & Mungai, 2018). Kenya has been maintaining a large interest spread regularly, even after the financial industry was liberalized. The financial environment in Kenya provides evidence of the necessity to address the ongoing and harmful technical issue of usurious interest rates given to the hardworking poor and those who are financially excluded (microfinance transparency). Effective interest rates in Kenya vary from 18% to 20%. Both national and individual economic growth and development are impeded by high interest rates.

Research being done acknowledges the cost of credit as interest charged to the extra fees agreed upon by the borrowers in addition to the sum that borrowers are supposed to pay to the lender together with the interest for the money borrowed and the processing fee, among others. They are featured in loan repayments, which entail the act of repaying a loan in small or huge fortunes in proportion to the time span of the loan, according to Kamau (2021). Credit costs are relative; this implies that they are subject to change over time and they are different for different credit organizations.

Borrowers can typically lower the total interest paid by selecting the best interest rate lender, repaying the loan faster, and repaying the loan principal earlier than expected. According to Hackmann et al. (2015), while the majority of borrowers were aware of their loan's lump sum payment, they were unaware of the interest charged and the procures used to calculate it. To effectively measure the cost of lending, small businesses required a fixed and transparent total cost of credit (Barboni & Rossi, 2013). Lending institutions should make all charges visible to borrowers as part of loan agreement signoffs, including interest rates, legal fees, loan processing fees, default penalties, and insurance expenses.

An organization's credit history reveals how they handle coupon redemption and their record of meeting their obligations. Here, credit accounts opened and maintained, the age of credit accounts, the credit limit requested and granted, the amount of credit utilized, timely repayment, and latency in credit repayment are equally valid to acknowledge a company's credit status. Concerning the credit history, when it is excellent, the interest rates of loans get lowered as well as becoming more affordable (Brock & Haslag, 2019). Scoring of credit can be understood as an approach to the evaluation of the creditworthiness of a customer as to the definite credit performance. This assessment uses the amount borrowed from similar clients that have been used in assessing the credit reference score.

A loan collateral is a guarantee for a previously taken loan. There is an unfavorable selection problem because of the lack of information asymmetry between the lender and the borrower at the time of the loan decision. Due to information imbalances between both the bank and the borrower, lending institutions are forced to employ collateral as a selection indicator (Hasnah et al., 2013). Collateral can help alleviate moral-hazard concerns even when lenders are aware of the borrower's creditworthiness. Accordingly, Aghion and Bolton (1992) have defined collateral as a mechanism of managing the conduct of borrowers as a result of the existence of realistic threats. Small productive companies colored the overall perception with a larger request for collateral than large productive companies that employ many people. It could also be used for easing some of the moral hazard oversight problems that affect commercial borrowing (Boot, Thakor & Udell, 1991).

2. Literature Review

2.1. Theoretical Framework

The loanable funds theory, the credit score card theory, and the trade-off theory were among the theories that informed this investigation.

Loanable Funds Theory

The concept of the theory of loanable money is ascribed to Robertson (1934). When there is an equilibrium between money's demand and supply, then the interest rate stands. Therefore, as per the conventional demand-supply framework,

the interest rate is a quantity of loanable funds over each unit period. The loanable funds concept builds upon standard savings and investment theories. These include both financial and non-financial components like saving and investing (Ohlin, 1937). This theory has several simplifying assumptions, which are: 17 that there is only one non-segmented market for all segments in loanable funds having perfect fund mobility; all borrowers and lenders act like price takers in a competitive market; and that there exists only one pure interest rate at any particular time.

The single interest rate was designed to be a clearing rate of interest because of competition forces. It adopted the approach of partial symmetry that presupposes all other determinants of demand and supply for loanable funds are constant, as well as the non-interaction between its price and macrostructures (Patinkin, 1958). The year that followed (Patinkin, 1958). However, Bertocco (2013) argues that modern monetary theory departs from Keynes' view on interest rates as money issues by accepting the loanable funds theory and overlooking the criticisms Keynes used to refute objections against it, such as Ohlin (1937) and Robertson (1998). Irrespective of wide acceptance of this theory, he opines that we must specifically focus on financial motivation and the role played by banks in financing investment if alternative approaches to explaining it will develop. Fabian (2013) supports the saving finances investment doctrine, which implies that savings in any given period are representative of the maximum number of loans that can be made, thereby reducing consumption so as to raise credit available for investors. This viewpoint is grounded upon a considerable number of contemporary economists who support loanable funds theory.

Wanyonyi et al (2019) concluded that there was a positive and significant relationship between loanable fund and financial performance. This crowding-out tendency causes a slowdown in the economy since fewer borrowers are investing in their companies. Lower sales, output, and the creation of new capital assets are the outcomes of decreased company investment. Therefore, the idea of loanable money is crucial to the health of the economy as a whole. This study looks at some of the elements that determine credit costs, like lending market interest rates.

Credit Scorecards Theory

The theory, which is a direct result of Altman's work in 1968, provides a quantitative assessment of the likelihood that a client would participate in a defined activity, such as loan default, in connection with their current or prospective credit position with a lending organization. Credit scorecard theory has been greatly embraced as a result of Altman's work of 1968. Historic data is used to estimate the probability of an observation in statistical methods like logistic regression and profit model analysis. For instance, a credit scoring model would find such a type of data, like age and income, useful to predict the risk of new customers' default. Statistical analysis methods are represented as the most frequently applied in credit scorecard development. One reason is that knowledge about sample estimators and their properties can, together with confidence intervals and hypothesis testing, be exploited in credit scoring. For example, such knowledge may be used to estimate the relative importance of different attributes with a view to ensuring the meaningfulness of relevant constructs and eliminating less meaningful ones. The objective of credit scorecards was the provision of a statistical method that would be applied to a sample of the previous customers in order to determine existing or new applicants who were likely going to be satisfied (Desai et al., 1997).

The use of credit scorecards allows lenders to make educated guesses about the credit-seeking behavior of potential borrowers (U.S. Comptroller of the Currency, 1998). Predicting the future performance of existing accounts using scorecards is also an option. Data from actual loans and applications is used to build statistical scorecards, which offer the additional benefit of quantifying the likelihood of default (Microfinance Risk Management, L.L.C. 2008). This is a good example of a microfinance risk management firm's work from 2008. There is a growing interest among SME lenders in the benefits of credit scoring, which can help small businesses gain greater access to financing. This instrument can assist SMEs in reducing their credit risk by providing them with access to formal financing that is commensurate to their risk and performance. Lenders' willingness to lend can be boosted by appropriate frameworks and property rights (Malhotra & Singh, 2006). Please see for additional information (Malhotra & Singh 2006). As a result, a credit score has an effect on the likelihood of default. This score does not 20 provide a clear indicator of how likely clients are to default. The Z-score is one of the most extensively utilized credit scoring algorithms. According to Altman (2000), academics appeared to be abandoning ratio analysis as a method for analyzing commercial firm performance. As a result of this idea, all potential borrowers were given a credit score that indicated whether they were high, medium, or low-risk borrowers. The lender then utilized this information to determine the type and value of collateral to be used to secure the loan. A borrower's risk assessment rating informed the financier on whether or not to lend money to that borrower, as well as the interest rate to be paid on the loan (Adaba, 2024). The theory took into account three distinct constructs: borrowers' credit history, collateral requirements, and loan repayment.

Trade-Off Theory

As per Kraus and Litzenberger, 1973, a firm chooses the amount of debt finance and also the quantity of equity finance through a balance of benefits against costs. The earlier version of this theory measured the tax benefits of debt against the distress cost of bankruptcy. Frank and Goyal (2015), in their literature review, show that debt and equity are predominantly used sources of finance for any business. One of the benefits of borrowing money is noted, such as lower

taxes, but one of the costs of borrowing money is noted, such as the costs of financial distress, such as bankruptcies and the costs of not filing for bankruptcy. In determining the mix of debt and equity in financing, a value-maximizing firm would balance the increasing marginal benefit against the increasing marginal cost. Philippe and Mohamed (2018) conducted an empirical study on a large sample of 2,370 French SMEs during a nine-year period to explain the determinants of debt ratio. The researchers investigated the trade-off and Pecking-order theories, which describe the financial structure of SMEs. The researchers' results showed that both models could only explain the debt-related behavior of SMEs to a limited extent. According to Haddad and Lotfaliei, 2019, the static trade-off theory holds that the period of loan issue is critical in creating zero leverage across firms. The result, therefore, does not quite contradict zero leverage or the "zero leverage paradox" in tradeoff theory. This group of people had reasoned that previous fixed trade-off models failed to generate zero leverage because they failed to recognize the optimal time to take on debt. In addition to default costs, they introduced a new mechanism in the static trade-off model that seemed quite effective. Hovakimian et al. (2012) argue that static trade-off theory measures the exogenous effect of capital structure on the probability of default. The authors have tested the hypothesis directly by regressing the probability of default on debt cost and benefit proxies. Firms that are small and have a low level of tangible assets deviate from the hypothesis and instead choose riskier capital structures. Moreover, the smaller firms with less tangible assets had access to capital markets and were more likely to experience adverse shocks to profitability and stock values, therefore facing a higher probability of bankruptcy. The theory, despite the fact that Miller (1977) criticized that if the trade-off theory were correct, 23 corporations would have "significantly larger debt levels than we observe in the world," was generally accepted. Contrary to what Miller argued that it is impossible to refute verbally, dynamic trade-off models were actually very hard to refute empirically. Debt financing was therefore an element of paramount necessity for a firm's success and a requirement for a proper balance between debt and equity capital in small businesses. In assessing this balance, loan affordability criteria—the cost of credit, collateral requirements, the borrower's credit history, and loan repayment—come into play. This is because lending firms have looked at the potential borrowers using rather common metrics of credit administration.

2.2. Empirical Review

The review of empirical literature underscores that effective management of interest rates, collateral, and loan repayment is essential for the financial success of hotels in Kenya. The unique economic conditions of the region necessitate a tailored approach to credit cost management to ensure that hotels can maintain profitability and thrive in a competitive market. Further research is needed to explore these dynamics more deeply, particularly in the context of Kenya's hospitality industry.

A study by Mulwa (2014), evaluated the effects of bank credit on the financial performance of small and medium enterprises in Dagoreti North constituency, Kenya. The capital resources frequency, technology, management skills, productivity, and firm size were the independent variables. A descriptive research design was utilized to guide this study. Primary data were collected using questionnaires. Data were analyzed using descriptive statistics such as distribution, percentages, variation, and measures of central tendency. The findings indicated that access to capital resources increases not only the creation of wealth but also has a major impact on financial performance.

Muriu and Thiongo (2021) evaluated the effect of informal savings schemes and short-term loans on livelihoods in Laikipia County, Kenya. In this study, an exploratory design incorporating a quantitative cross-section survey was applied. The target population was 920. Paper questionnaires, structured and unstructured interviews, focus group discussions, and key informant practices were among the instruments used in the study in gathering data. The findings of the study revealed that participants could easily remain SME ventures since short-term loans from the informal schemes guaranteed them the continuity of income streams. In this respect, the research concluded that the informal savings schemes offered short-term loans, which influenced families' socio-economic status and the eradication of poverty.

Muguchu (2013) explored the relationship between access to investment finance and the economic performance of SMEs in Nairobi. The study concluded that financing constraints disproportionately adversely affect the smallest firms, and gradual improvement of the financial techniques that could serve to relax such constraints would be highly beneficial for SMEs. The study recommended that the national government must come to the aid of SMEs by regulating how economic institutions charge interests to these firms. This study was concerned only with investment financial constraints in SMEs and focused only on formal sources of investment finance but overlooked government, personal, and informal sources of finance.

According to Spuchľáková et al. (2015), credit risk is simply defined as the potential that a bank borrower or counterpart will fail to meet its obligations in accordance with agreed terms. The goal of credit risk management, therefore, is to maximize a bank's risk-adjusted rate of return by maintaining credit risk exposure within acceptable parameters. Accordingly, banks must manage both the credit risk inherent in the entire portfolio and the risk in individual credits or transactions. Banks should also account for relationships between credit risk and other risks. Effective credit risk management is of fundamental importance to an institution-wide approach to risk management and is also essential for the long-term success of any banking organization.

However, Nelson and Schwedt (2006) also argue that credit risk management has also been enhanced in the banking industry. While early into the 1990s analysis of credit risk was limited to individual loan reviews and banks held most loans on their balance sheets until maturity, now, credit risk management encompasses more than loan reviews but also portfolio analysis. Newly developed technologies of buying and selling risks have enabled many banks to depart from the traditional book-and-hold lending practice in support of an active strategy in search of the optimal mix of assets in light of the ongoing credit environment, market conditions, and business opportunities. Far more than in the past, today banks are able to monitor and manage obligor and portfolio concentrations, maturities, and loan size, as well as identify and even preclude problem assets before they generate losses. Most banks also perform stress tests on their portfolios at the business line level to help inform overall management.

2.3. Critique of the study

While these studies also add to existing knowledge on effects of credit cost management on financial performance, there are some areas for improvement, such as providing more details on the methodology, sample size, and data analysis technique, as well as improving the findings generalizability to other contexts. Furthermore, future studies might adopt more robust research designs and investigate potential confounding variables in order to establish more definitive links between credit cost and business effectiveness.

Mulwa's (2014) study offers a valuable contribution to its field by clearly stating its objectives and situating itself within existing literature, although the literature review could benefit from addressing more recent studies to enhance its relevance. The methodology is appropriate, yet the sample size and selection process may introduce biases that could affect the findings. The results are presented logically, but the analysis could be strengthened with more robust statistical methods. While the discussion effectively interprets the findings, it could delve deeper into the implications for future research. Additionally, the study acknowledges its limitations, although a more thorough exploration of their potential impact would enhance its credibility. Overall, Mulwa's work advances knowledge in its area, though it could be further refined to address identified gaps and limitations.

The literature review by Muriu and Thiongo (2021) effectively synthesizes key themes and findings from existing research, providing a comprehensive background for their study. However, it tends to rely heavily on older sources, which may limit its relevance to current discussions in the field. While the authors successfully identify gaps in the literature, they could enhance their review by integrating more recent studies to better contextualize their research within contemporary debates. Additionally, the organization of the literature review could be improved for clarity, as some sections appear somewhat disjointed, making it challenging to follow the progression of ideas. Overall, while the review establishes a solid foundation, it would benefit from a broader range of sources and a more coherent structure.

Muguchu's (2013) literature review presents a thorough overview of key concepts and theories relevant to the study's focus, effectively highlighting foundational works in the field. However, it shows some limitations, particularly in its engagement with more recent literature, which may undermine its relevance to current research trends. The review adequately identifies gaps and areas for further exploration, but the organization could be improved to enhance readability, as some arguments appear repetitive or fragmented. Additionally, while Muguchu references a range of sources, a more critical analysis of the cited studies would strengthen the argumentation and provide deeper insights into the prevailing debates. Overall, while the literature review is informative, it would benefit from a more updated and cohesive approach.

2.4. Summary

The variables of interest rates, collateral, and loan repayment periods are interconnected elements of credit cost management that significantly impact the financial performance of hotel businesses. Effective management of these variables is essential for maintaining profitability and financial stability, particularly in a competitive and dynamic environment like Kenya's hotel industry. Further investigation into these variables will provide insights into the best practices for credit management in the hospitality sector, contributing to improved financial outcomes in Kenya.

3. Methodology

This study utilized a desk review methodology, which involved the systematic collection, analysis, and synthesis of existing secondary data from a wide range of sources. The aim was to review and consolidate findings on credit cost management—focusing on interest rates, collateral, and loan repayment periods—and their impact on the financial performance of businesses, particularly hotels, in Kenya. This method allowed for the examination of existing literature and data without direct fieldwork, enabling the researcher to draw conclusions from available resources.

The research adopted a desk-based qualitative research design, which involved the review of both academic and industry publications, government reports, policy papers, journal articles, and financial institution reports related to credit

management and the financial performance of businesses. This design was chosen because it allows for a comprehensive understanding of the topic through existing data, minimizing time and resource constraints associated with field data collection.

4. Findings and Discussions

4.1. Findings

The reviewed literature underscores the critical role of credit as an integral internal factor for businesses, specifically highlighting its importance in increasing demand for goods and services. Credit, when managed effectively, can benefit businesses by helping generate profit that exceeds the opportunity cost associated with receivables (Baker et al., 2020). However, credit mismanagement can lead to significant financial setbacks, particularly for small and medium enterprises (SMEs) which face various challenges, including access to capital and high interest rates.

SMEs are vital to global economies, contributing significantly to GDP and employment opportunities. Muriithi (2017) shows that in Africa, SMEs represent about 90% of companies outside the agribusiness sector. The financial crisis of 2008 notably impacted SMEs' access to financing, exacerbating the challenges they face in obtaining affordable credit. The impact of high interest rates, ranging from 18% to 20%, poses a significant barrier to SME growth in countries like Kenya (Ndemi & Mungai, 2018). Despite the liberalization of Kenya's financial industry, SMEs struggle with limited access to financial services due to their inability to meet stringent lending requirements.

Several empirical studies highlight the interplay between credit, financial performance, and economic growth. Mulwa (2014) found that access to capital resources positively influences wealth creation and financial performance among SMEs. Similarly, Muriu and Thiongo (2021) demonstrated that short-term loans from informal savings schemes supported the continuity of income streams for SMEs in Laikipia County, Kenya. These findings emphasize the need for flexible, affordable credit solutions tailored to the needs of small businesses.

Muguchu (2013) further explored how investment finance constraints adversely affect smaller firms in Nairobi. His study recommended that the national government regulate the interest rates charged to SMEs to promote financial inclusion and sustainability. These studies highlight the significant challenges SMEs face regarding credit access, particularly due to high interest rates and stringent collateral requirements.

The literature also highlights three critical themes in credit cost management: interest rates, collateral, and credit risk management. High interest rates are a substantial barrier to SME growth, and lowering these rates is essential to improving credit accessibility. Collateral remains a contentious issue, as SMEs often struggle to provide sufficient guarantees, limiting their access to loans (Hasnah et al., 2013). Proper credit risk management, as discussed by Wanyonyi et al. (2019), is essential for banks to mitigate the risks of loan defaults while ensuring profitability.

While the reviewed studies provide valuable insights into credit cost management, some methodological and contextual limitations are apparent. For instance, Mulwa (2014) utilized a small sample size, potentially introducing biases that affect the generalizability of the findings. Similarly, Muriu and Thiongo's (2021) reliance on older data sources reduces the relevance of their findings in today's fast-evolving financial landscape. Additionally, Muguchu's (2013) study did not consider informal sources of finance, which are critical in the SME ecosystem.

From the literature, it is clear that effective credit cost management, encompassing interest rates, collateral, and loan repayment, is essential for the financial success of SMEs and hotels in Kenya. Given the unique challenges of the region, including high interest rates and collateral demands, businesses must adopt tailored approaches to credit cost management (Kengere et al., 2023). The findings suggest that reducing the cost of credit and improving access to flexible financial products would foster greater financial inclusion and business sustainability in the SME sector.

4.2. Framework

The conceptual framework in Figure 1 illustrates the relationship between three key credit cost management variables (interest rates, loan collateral, and loan repayment) and the financial performance of businesses, particularly in the hotel industry.

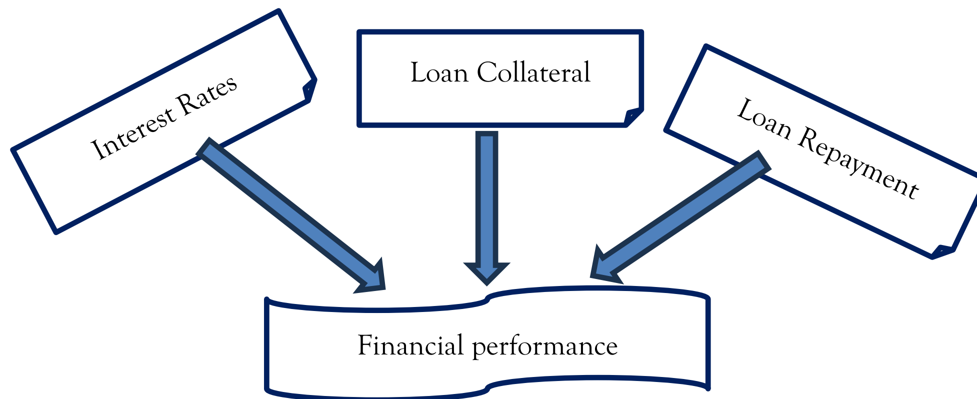

Figure 1: Conceptual framework

Figure 1 illustrates the conceptual framework showing the relationship between three critical variables in credit cost management—interest rates, loan collateral, and loan repayment—and their collective impact on the financial performance of businesses, particularly in the hotel industry. Interest rates represent the cost of borrowing funds from lenders. When interest rates are high, the cost of obtaining credit increases, which can place a financial burden on businesses and negatively affect their profitability. Conversely, lower interest rates reduce the borrowing cost, enabling businesses to manage their finances more efficiently and improve financial performance.

Loan collateral refers to assets that borrowers pledge to secure loans. Collateral is a significant determinant of access to credit since lenders often require collateral to mitigate risk. For businesses, having sufficient collateral can facilitate access to necessary funding, which is crucial for growth and operations. However, the lack of adequate collateral can limit a business's ability to secure loans, restricting its capacity to invest and expand, thereby influencing financial performance. Loan repayment refers to the terms and conditions under which a borrower repays a loan, including the repayment period and schedule. Favorable repayment terms, such as longer durations or flexible schedules, can ease the financial burden on businesses by allowing them to manage cash flows effectively. On the other hand, tight repayment terms may strain liquidity and increase the likelihood of default, which could harm a business's overall financial health.

The framework visually represents how these independent variables—interest rates, loan collateral, and loan repayment—collectively influence the dependent variable, which is the financial performance of businesses. The arrows in the diagram signify the direction of influence, emphasizing that effective management of these credit cost variables is essential for maintaining financial stability and profitability, particularly in the hotel industry.

5. Conclusion and Recommendations

This study highlights the importance of effective credit cost management, focusing on the variables of interest rates, loan collateral, and loan repayment, in determining the financial performance of businesses, particularly in the hospitality sector. Interest rates directly affect the cost of borrowing, with high rates putting financial strain on businesses and lower rates allowing for more affordable credit, thereby supporting profitability. Loan collateral plays a critical role in accessing credit, where businesses with sufficient collateral are more likely to secure loans, while those without adequate collateral may struggle to obtain necessary funding. Loan repayment terms also have a significant influence on business cash flow and liquidity, with flexible repayment schedules helping businesses manage their finances better, while strict terms may lead to financial stress and potential default.

To improve financial performance in the hospitality industry, particularly for small and medium-sized enterprises (SMEs), several recommendations can be made. First, interest rate management should be a priority. Financial institutions and policymakers should collaborate to offer more favorable interest rates to businesses in the sector. Reduced or flexible interest rates would make borrowing more affordable and help businesses allocate resources toward growth and operational improvements. Second, expanding access to loans without requiring high collateral is essential. Financial institutions should consider offering collateral-free loans or reduce collateral requirements for SMEs, enabling more businesses to access the funds they need for expansion. This would encourage financial inclusion and help bridge the credit gap faced by smaller businesses.

Third, loan repayment terms should be more flexible and tailored to the cash flow patterns typical of businesses in the hospitality sector. Lenders should offer longer repayment periods or adjustable schedules to help businesses manage their debt obligations without compromising liquidity. This flexibility would reduce the likelihood of defaults and promote

long-term financial stability. Additionally, there is a need for greater transparency and education regarding credit terms. Financial institutions should provide clear information about the total cost of credit, including all fees and interest rates, so that businesses can make informed decisions about borrowing. This transparency will help business owners better understand their obligations and the true cost of taking out loans.

Finally, government intervention is crucial in creating an enabling environment for SMEs in the hospitality industry. Policymakers should regulate interest rates to prevent excessive charges and consider offering credit guarantee schemes to support businesses with limited collateral. Additionally, tax incentives could be provided to lenders who offer favorable terms to SMEs, further encouraging lending to this important sector of the economy. By implementing these recommendations, businesses in the hospitality sector can better manage their credit costs, leading to improved financial performance, greater profitability, and long-term sustainability.

Declaration of Competing Interest

The authors declare that they have no known competing financial interests or personal relationships that could have appeared to influence the work reported in this paper.

Funding

This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors.

Data availability statement

Data associated with this study has not been deposited into a publicly available repository however, the data will be made available on request.

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