Journal of Hospitality and Tourism Management

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ISSN: 2706-6592

Stratford Peer Reviewed Journals and Book Publishing
Journal of Hospitality and Tourism Management
Volume 8||Issue 2||Page 102-118/December||2025
Email: info@stratfordjournals.org ISSN: 2706-6592

Role of Risk Identification on the Financial Performance of 3-5-Star Hotels in Nairobi City County, Kenya

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How to cite this article: **Njeru, S., M., Mwangi, P. & Maranga, V. (2025). Role of Risk Identification on the Financial Performance of 3-5-Star Hotels in Nairobi City County, Kenya.** ***Journal of Hospitality & Tourism Management*** **8(2), 102-118. https://doi.org/10.53819/81018102t3157**

Abstract

Risk identification is crucial to success in hospitality, helping achieve stakeholders' income and growth objectives. Risks can negatively affect financial outcomes. This study examines how risk identification influences the financial performance of 3- to 5-star hotels. It provides insights for hotel owners, managers, industry stakeholders, officials, policymakers, and researchers, emphasizing the importance of risk mitigation strategies in ensuring financial stability. Data was collected from 396 participants across 44 star-rated hotels, divided into three groups, using structured questionnaires, interviews, observation, and published sources. A stratified random sample of 196 respondents, including hotel managers, staff, and suppliers, was selected. The study employed a descriptive, mixed-methods approach to analyze both qualitative and quantitative data to answer the research questions. Data analysis was conducted with SPSS, utilizing descriptive and inferential statistics. Results indicated that risk management practices significantly impact the financial performance of star-rated hotels. Risk identification ($\beta = 0.4080$, $p < 0.05$) enables 3- to 5-star hotels in Nairobi City County, Kenya, to anticipate financial uncertainties, reduce losses, minimize disruptions, and enhance operational efficiency. The study emphasizes that a strong risk identification strategy contributes to long-term financial stability. The conclusion states that a structured risk identification approach improves hotels' financial performance, leading to higher profitability, lower risk, and sustainable growth. Risk governance officers should enhance risk identification and incorporate it into strategic planning for stability. Future research might explore differences in risk mitigation between private and franchise hotels and their financial outcomes.

Keywords: *Risk Identification, Financial Performance, 3-5-Star Hotels, Nairobi City County, Kenya*

1.0 Introduction

Risk pertains to the chance of an unfavorable deviation from a desired outcome in an economic activity (Sheedy, 2021). The COSO framework defines risk as "the likelihood of an event that could hinder an organization's goal achievement (ISO, 2009)." Likewise, ISO 31000:2009 characterizes risk as the likelihood of hazard occurrence and its impact. Hajimahmud, Khang, Ali, Aliyeva & Asgarova (2024) agree that risk represents the potential for an adverse event within a specific timeframe. In entrepreneurship, risk arises when disruptions lead to undesirable financial outcomes. When not properly managed, risks can negatively affect hotel financial trends (Ritchie & Jiang, 2021). Countries like the United Arab Emirates, Singapore, and the U.S. adopt comprehensive risk management strategies aligned with industry standards and governance frameworks. These initiatives help hotels implement measures that protect stakeholder interests, bolster financial resilience, and enhance industry performance. Research by Pai, Chen, & Wang (2024) investigated the connection between hazard control governance and economic results in China's broader hospitality industry, finding that effective risk management—covering risk identification, training, assessment, and mitigation—positively correlates with hotel performance. Lai & Wong (2020) highlight that the hotel sector faces operational, liquidity, strategic, and cybersecurity risks, all of which can impair financial performance if neglected. A U.S. study emphasizes that hoteliers should enforce strict risk control measures, including risk assessments, to avoid or minimize risks and improve financial outcomes (Carr, 2024). Star-rated hotels should develop frameworks to identify risks that could be transferred or insured. Operational risks arise from internal process failures, employee issues, and external events (Donbak, Kirpik, & Valeri, 2022).

Data breaches are increasingly concerning, as hotels collect customer information via digital networks to personalize services (Florido-Benítez, 2024). For instance, the 2018 Marriott International cyberattack compromised customer data, damaging the brand and eroding trust (Young, 2021). This incident resulted in poor customer experiences, costly cybersecurity investments, fines, and guest compensation claims, affecting Marriott's investments, operations, and revenue. In Africa, risk impacts have hindered hotel growth, leading to closures and reduced operations, underscoring the need for strategic risk management to prevent business failures (Mahembe & Mutezo, 2025). A South African tourism case study revealed that disasters negatively affected hotel investments and operations due to inadequate disaster preparedness. Similarly, a 2020 fire in a Zambian hotel demonstrated that neglect of maintenance and lack of risk mitigation contributed to property loss. Hotels should adopt risk mitigation frameworks involving staff and stakeholders. Research by Isibor Ibeh et al. (2022) recommends that hotel managers maintain strategic budgets, including funding for employee training on risk identification and mitigation to enable early prevention (Ogunmokun, Balogun, & Ogunsola, 2022). This strategy helps protect cash flow from costly compensations or legal expenses (Zhang & Guan, 2021). In Kenya, ongoing financial challenges include losses and closures caused by disruptions, layoffs, and job cuts (Nzisa, Gitahi, & Kiprop, 2021). The shutdown of iconic hotels like the Intercontinental and Hilton in 2020 and 2022 illustrates the economic downturn's impact, leading to operational and cash flow issues and reduced capacity (Jaindi Kisero, 2025).

These risks have resulted in lost international business, operational disruptions, and significant employment effects. Proper risk control is essential for hotel success and stakeholder satisfaction. Murimi, Wadongo, & Olielo (2021) emphasize that effective risk management sustains hotel viability when financial factors are well managed. Financial performance is a key measure of a hotel's operational viability, with revenue maximization aligned with entrepreneurial goals. Krastanova (2025) notes that solid financial risk management enables

star-rated hotels to withstand industry volatility. It is important to analyze how risk oversight strategies influence economic outcomes. Maina (2021) states that revenue and profitability depend on effective risk management and ROI. Studies by Babajee, Seetanah, Nunkoo, & Ramdhany (2022) show a direct relationship between risk control practices and hotel financial performance, also impacting customer satisfaction, staff welfare, ROI, and profitability (Gray & Liguori, 2003; Amar et al., 2021). Robust risk management helps hotels mitigate liquidity risks, reputation damage, and operational disruptions that could harm financial health.

1.1 Statement of The Problem

The hospitality industry plays a crucial role in both global and local economies, yet its financial stability is continually threatened by various risks (Kolomiiets, 2024). These risks in the hotel sector include regulatory violations, operational inefficiencies, financial instability, reputational and technological threats, security concerns, and environmental issues (Usta, 2024). The financial impact of these vulnerabilities is substantial, affecting the industry's performance. Hotels face high costs from security threats, especially for technology to prevent data breaches, which strains their finances (Yallop et al., 2021). Despite efforts to streamline risk management, hotels worldwide still encounter financial stability challenges that hinder sustainability, growth, and investor returns (Wei, 2024). Additionally, regional and local tourism and hospitality businesses often risk closure and market exit due to poor risk management strategies causing financial instability (KNBS 2024). Wambua (2024) notes that ongoing technological changes, legislation, and regulatory shifts expose hotels to financial risks, often leading to costly penalties and reputational damage.

Muiruri and Kabata (2025) stress that the exposure to diverse and evolving risks results in inconsistent financial outcomes, posing a significant concern for the long-term growth and resilience of hotel businesses. Previous research has examined how risk management affects hotels' operational performance; however, despite risk mitigation efforts, many star-rated hotels still face challenges that impact their financial health (Matey, 2022). Ng'olua (2024) found that risk management improves hotel performance in three-star-rated hotels. Wachira (2022) analyzed how internal control mechanisms influence the financial performance of classified hotels in Nairobi, recommending measures for improvement and suggesting that future research explore other sectors and variables. Nevertheless, the current literature largely overlooks the specific role of 3- to 5-star hotels in risk control, focusing mainly on individual star categories and overall performance (Kitoto, 2024). This gap in targeted research creates uncertainty about the effectiveness of existing risk management measures in ensuring sustainable financial stability for this vital market segment. Unmitigated risks could result in reduced hotel operations, reputational damage, and diminished stakeholder confidence, ultimately harming Kenya's reputation as a top tourist destination (Kumar, 2024). Given the importance of these hotels, it is critical to explore how their risk governance correlates with their financial stability (Chung et al., 2024).

1.2 Objective of The Study

The objective of this study was to evaluate the importance of risk identification on the financial performance of 3-5-star hotels in Nairobi City County, Kenya.

2.1 Literature Review

The section presents the literature for the sections and conceptual framework.

2.1.1 Financial Performance of Star-Rated Hotels in the Hospitality Industry

The study conducted an analytical review of existing research on risk control practices in the hospitality industry to identify gaps and ensure consistency with current evidence. Prior studies

have examined risk control management and financial performance in the hospitality sector, including star-rated hotels.

A study by Phung and Nguyen (2025) highlights that "hotel financial performance impacts stability and sustainability." Conducted in U.S. hotels, it found that risk management significantly influences financial outcomes. The research applied risk management, financial risk transfer, and contingency theory to examine how enterprise risk management fosters growth by analyzing key links through a theoretical and descriptive approach (Bednarska, 2004). Furthermore, the study evaluated risk control methods, tools, demand strategies, and timing as critical factors. It concluded that stakeholder involvement in risk control is essential for achieving effective financial performance. Ndung'u (2022) stressed the role of enterprise risk management in promoting growth with customized measures. Similarly, Judijanto et al. (2024) confirmed that management support is crucial for risk practices to enhance financial results, emphasizing that effective risk management positively impacts performance.

Additionally, a study indicates that not all risks should be avoided, as they can create investment opportunities (Megeid, 2024). Although costs may be high, sharing or spreading them can help reduce their impact on operations. Ezema and Okeahialam (2025) explored risks and returns in Nigerian three-star hotels through a qualitative, descriptive approach, supported by modern portfolio theory, the risk-return trade-off, and real estate investment theories. They used hotel size and capital values as indicators to assess investment returns. A quantitative survey examined the risk-return profile and found that hotels capitalizing on uncertainties can enhance financial performance (Santa et al., 2025). Mugambi and Muturi (2023) explored how factors affecting capital structure influence the financial performance of hotels, highlighting the sector's vital role in Kenya's economy and its financial challenges. Their primary goal was to investigate the effect of liquidity on the financial results of star-rated hotels in Nairobi, testing the null hypothesis (H0) that no significant relationship exists. They employed an explanatory research approach, analyzing secondary panel data from the hotels' financial statements (Mugambi & Muturi, 2023). The findings showed that liquidity significantly affects performance, as reflected in return on equity and the current ratio. Additionally, Opreana et al. (2024) found that increased liquidity improves financial performance.

These studies suggest that effective management of working capital and risk enhances operational capacity and shareholder value (Sharma et al., 2025). Earlier research on risk management and hotel financial performance has yielded mixed findings. Bednarska (2004) in Europe and Mugambi and Muturi (2023) in Kenya identified positive associations between risk control practices and financial outcomes. However, Bednarska's study was descriptive and did not establish a clear causal link. Mugambi and Muturi narrowly examined liquidity using secondary data, which may not fully represent risk control measures. In contrast, Ezema and Okeahialam (2025) descriptive study in Nigeria found that increased capital investments raised risk, suggesting a different relationship. Methodological limitations such as reliance on descriptive methods, self-reported data, small samples, and narrow focus highlight the need for more rigorous research.

2.1.2 Risk Identification and Financial Performance

Threat detection involves recognizing and recording potential uncertainties that might impact a business's financial results. Usta (2024) emphasized that risk identification systematically involves recognizing all risks that could hinder objectives and opportunities that could support achieving them. Gupta (2024) investigated the impact of risk control on financial outcomes in Indian hospitality firms through an exploratory, qualitative approach. Milton (2024) states that risk identification frameworks improve profitability and efficiency, with risk-mitigating

managers achieving better financial results. Tajeddini et al. (2023) studied entrepreneurs' creative use of resources, which is crucial for long-term competitive advantage in Indian hotel SMEs, using mixed methods. The study revealed that risk identification is an ongoing, adaptive process and a common informal practice in enterprises. Ghaderi et al. (2022) showed that efficient resource use aids in identifying emerging risks. Ephrim (2025) examined risk management in Ghana's food and beverage industry, highlighting how external factors such as regulation, environment, supply chain, credit, and technology influence hotel revenue success. These external factors were analyzed as independent variables affecting new product development.

Gamage et al. (2023) examined how entrepreneurs creatively use limited resources to stay competitive in small and medium-sized enterprises in the tourism and hospitality industries, using both qualitative and quantitative approaches. Risk identification is a continuous, flexible process, often relying on informal methods in smaller businesses. Ghaderi et al. (2022) point out that effective resource utilization aids in recognizing emerging risks. While the literature highlights risk identification as key to financial success, strategies for doing so remain somewhat fragmented. A study by Bharwani and Mathew (2012) on luxury hotels in India revealed that proactive risk identification and mitigation greatly enhance profitability and operational efficiency. Similarly, Tajeddini et al. (2023) demonstrated that ongoing, informal risk identification, paired with creative resource use, is vital for maintaining a competitive edge in hospitality. Ephrim (2025) research on Ghana's food and beverage sector highlights that external factor like regulations and technology pose significant risks requiring identification. Although these studies underscore the importance of risk identification, they do not provide a comparative analysis of which strategies are most effective for financial growth and which are less effective. The research investigated how risk control management influences the financial performance of 3- to 5-star hotels. The researcher used variable measurement to ensure objectivity and test hypotheses, thereby improving statistical reliability, facilitating comparison, enabling generalization, and promoting consistency (Almusaed et al., 2025).

2.2 Conceptual Framework

Okoye and Hosseini (2024) emphasized that the predictor variable is manipulated and observed to assess its impact on the output variable in a research process. The independent variables examined included risk identification, assessment, training awareness, and mitigation practices in hospitality. The researcher used risk registers, SWOT analysis, interviews, expert judgment, occurrence probability, risk documentation, risk owner responsibility, risk exposure, training assessment, key performance indicators, certification, observations, risk prioritization, preventive measures, monitoring reviews, and communication to evaluate their impact on the financial outcome of star-rated hotel facilities. Data collection involved questionnaires, interviews, and document reviews to accurately measure variables, quantify concepts, test hypotheses, and develop valid conclusions. The researcher considered the financial performance of 3- to 5-star-rated hotels as dependent variables for the study, using profitability and return on investment as measurement metrics. The effectiveness of these dependent variables was evaluated by examining how well the hotels met their financial objectives, using profitability and return on investment trends. Essentially, the researcher measured financial performance by reviewing the hotel's financial records, conducting interviews with managers, and distributing questionnaires to assess the impact of risk mitigation practices and to gather reliable, evidence-based results. Andrade (2021) highlighted that the dependent variable should be operationalized and measured to support testing of study hypotheses that reflect a balanced outcome.

This study's conceptual model and theoretical foundation clarify the research problem, guide data collection and analysis, and ensure the study's validity and relevance to existing knowledge (Passey, 2020). The conceptual model represents a collection of interconnected concepts and principles derived from relevant fields of study (Kothari, 2014). According to Mugenda & Mugenda (2003), "the conceptual framework will help in understanding, analyzing, and organizing the factors and relationships between independent and dependent variables of the study.

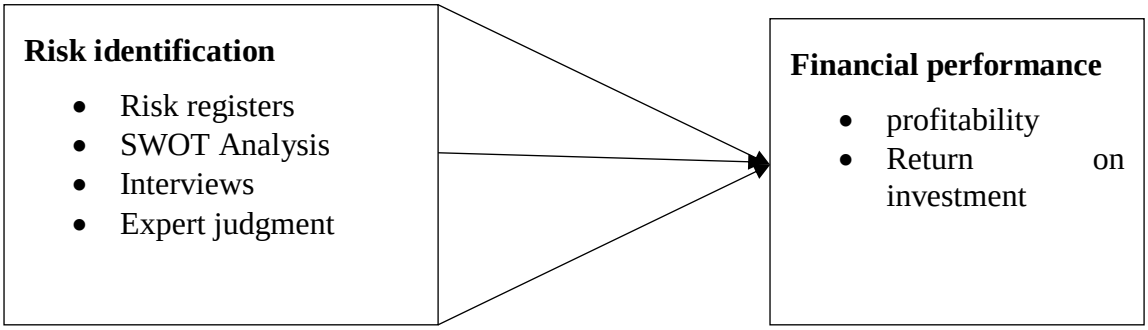

Figure 1: Conceptual Framework

3.0 Research Methodology

The study adopted a mixed-methods research design combining qualitative and quantitative approaches, using a descriptive cross-sectional framework suited to assessing risk management variables and their relationship with financial performance in a natural setting. Data were collected from 3–5-star hotels in Nairobi City County, where over 75% of establishments are star-rated, targeting managers, departmental heads, supervisors, staff, guests, and suppliers, yielding 396 respondents directly involved in hotel operations and decision-making. Stratified random sampling with proportional allocation, supported by simple random selection within strata, ensured representativeness across departments. Primary data were gathered through structured questionnaires based on a 5-point Likert scale and interview schedules, complemented by observation and document reviews. SPSS (version 26) was used for descriptive and inferential analysis, including Pearson correlations and regression models. Quantitative data mainly came from employees, while managers and suppliers contributed qualitative insights through interviews, and financial reports and risk registers formed the secondary dataset. All data were edited, coded, triangulated, and tabulated, with ethical safeguards ensuring confidentiality, proper data handling, and adherence to institutional research standards.

4.0 Findings and Discussion

The study objective aimed to examine the relationship between risk identification and financial performance in 3- to 5-star hotels within Nairobi City County, Kenya. A multiple regression model was employed using SPSS to assess the strength and nature of this relationship. A computed R value of 0.538 was obtained, indicating a strong, positive relationship between risk identification and financial performance. Risk identification ($\beta = 0.4080$, $p < 0.05$) indicated that hotels can anticipate financial uncertainties, thereby reducing their exposure to unforeseen losses. Moreover, the analysis yielded an adjusted R-squared of 0.278, indicating that 27.8% of the variance in financial performance is explained by risk identification factors, namely risk registers, SWOT analysis, and interviews. The remaining 72.2 % of the variation is likely due to factors beyond the scope of this study. These findings are consistent with those

of Ephrim (2025), who reported a similarly significant and positive relationship between risk identification and financial performance in 5-star rated hotels in Nairobi City County, Kenya.

4.1 Risk Identification and Financial Performance

Table 1: Descriptive Statistics for Risk Identification

	Strongly D	Disagree	Neutral	Agree	Strongly Agree	Mean	Std Dev
The hotel's risk identification process effectively determines the sources and root causes of risks related to guests, suppliers, and employee health and safety, supporting financial performance.	0.00%	7.10%	17.00%	44.00%	31.90%	4.01	0.88
Compliance with hotel regulations and operational standards has a positive impact on the hotel's financial results.	0.00%	7.80%	19.90%	35.50%	36.90%	4.01	0.94
The hotel implements effective technological measures to protect guest data, minimizing reputational damage and supporting financial performance.	0.00%	10.60%	12.10%	38.30%	39.00%	4.06	0.97
The risk identification process enables the timely mitigation of operational risks, contributing to the hotel's financial stability.	0.00%	11.30%	15.60%	36.90%	36.20%	3.98	0.99
Risk identification supports informed decision-making by highlighting the hotel's strengths, weaknesses, opportunities, and threats (SWOT), which enhances risk management and stakeholder confidence.	0.00%	7.80%	19.90%	43.30%	29.10%	3.94	0.9
Recognizing identified risks enables the application of effective risk control measures, which in turn improve financial performance.	0.00%	5.70%	21.30%	48.90%	24.10%	3.91	0.82
Effective risk identification enables timely mitigation actions, increasing stakeholder confidence in the hotel's financial stability and long-term success.	0.00%	8.50%	22.70%	42.60%	26.20%	3.87	0.9
Early identification of risks allows the hotel to propose solutions that support financial growth.	0.00%	10.60%	18.40%	42.60%	28.40%	3.89	0.94
The hotel maintains a risk register to track risk accountability, mitigation actions, and progress.	0.00%	8.68%	18.36%	41.51%	31.48%	3.958	0.92

The study aimed to examine how risk identification affects the financial performance of 3- to 5-star-rated hotels in Nairobi City County. The analysis examined various risk identification concepts to see how they support operational stability, stakeholder trust, and financial health.

Respondents rated each on a five-point Likert scale from 1 "strongly disagree" to 5 "strongly agree. "The construct that the hotel implements effective technological measures to protect guest data, minimizing reputational damage, and supporting financial performance recorded the highest mean of 4.06 with a standard deviation (σ) of 0.97. This indicates that most hotels have adopted technology-driven risk mitigation strategies, which are crucial for maintaining brand integrity and guest trust, a vital factor in sustaining financial performance in a competitive hospitality market. Similarly, two other constructs were tied at a mean score of 4.01. The interviewee agreed that the hotel's risk identification process effectively prompts the identification of sources and root causes of risks related to guests, suppliers, and employee health and safety. They also concurred that compliance with hotel regulations and operational standards has a positive impact on financial results, both of which exhibit relatively low standard deviations (σ = 0.88 and 0.94, respectively). This suggests strong agreement among hotel managers on the importance of adhering to both internal risk assessment mechanisms and external compliance mandates to safeguard financial performance.

Constructing on the risk identification process enables timely mitigation of operational risks, with a mean of 3.98 (σ = 0.99). Based on the interview data, managers acknowledged its effectiveness in maintaining financial stability through proactive management. The perception that risk identification supports informed decision-making by highlighting SWOT elements also received a favorable mean of 3.94 (σ = 0.90), indicating its contribution to long-term strategic alignment and stakeholders' confidence. Recognizing identified risks leads to effective control measures that improve financial performance, with a mean score of 3.91 (σ = 0.82). This indicates a consistent understanding of the link between accurate risk detection and targeted hotel risk mitigation. Similarly, statements that early risk identification allows for solution-oriented actions (Mean = 3.89; σ = 0.94) and that timely mitigation boosts stakeholder confidence in financial stability (Mean = 3.87; σ = 0.90) highlight the practical importance of early intervention in risk management. Additionally, the aspect of maintaining a risk register to monitor accountability and mitigation progress scored an average of 3.96 (σ = 0.92), emphasizing operational discipline among most hotels in ongoing risk management. These insights align with Bharwani & Mathews (2012), who noted that hotels with proactive risk detection mechanisms tend to achieve better financial results and higher operational efficiency. Similarly, Tajuddin et al. (2023) found a "significant positive relationship between risk identification and the financial performance of star-rated hotels in Nairobi City County, Kenya," emphasizing that regular tracking of operational risks facilitates early detection of uncertainties crucial for maintaining financial stability.

4.2 Total Variance for Risk Identification Explained

Based on the results from the principal component analysis, only three components had eigenvalues greater than one: 4.064, 1.845, and 1.028. They were retained for further analysis following Kaiser's normalization criterion for component extraction. The three components accounted for 77.067% of the total variance in the dataset, indicating that these three components primarily explained the data collected. Thus, the remaining 22.933% of the variance was distributed across the six components with eigenvalues less than one and was therefore not considered significant for retention. The extracted components were therefore grouped and interpreted as risk registers, SWOT analyses, and interview responses. Thus, expert judgement was dropped following the principal component analysis and Kaiser normalization, which explained three variables. These components were subsequently used in further statistical analysis to examine underlying patterns and relationships within the data, thus enhancing the robustness and validity of the research findings.

Table 2: Total Variance for Risk Identification Explained

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings		
	Total	% Of Variance	Cumulative %	Total	% Of Variance	Cumulative %	Total	% Of Variance	Cumulative %
1	4.064	45.153	45.153	4.064	45.153	45.153	3.663	40.704	40.704
2	1.845	20.496	65.649	1.845	20.496	65.649	2.183	24.257	64.962
3	1.028	11.417	77.067	1.028	11.417	77.067	1.089	12.105	77.067
4	.724	8.044	85.111						
5	.523	5.807	90.917						
6	.336	3.730	94.648						
7	.245	2.723	97.371						
8	.147	1.634	99.005						
9	.090	.995	100.000						

Extraction Method: Principal Component Analysis.

4.3 Regression Analysis

Table 3: Analysis of Variance for Risk Identification and Financial Performance

ANOVA for Risk Identification

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	11.276	3	3.759	25.600	.000[b]
	Residual	27.750	189	0.147		
	Total	39.026	192			

The analysis showed a p-value of 0.000, far below the 0.05 threshold, confirming a statistically significant link between risk identification and financial performance in 3- to 5-star hotels in Nairobi City County, Kenya (ANOVA). This significance was supported by an F-statistic of 25.60, surpassing the critical value of 2.65, indicating a positive relationship. The results demonstrated that risk identification methods such as risk registers, SWOT analysis, and interviews are vital for improving financial performance in these hotels. These findings are consistent with Tajuddin et al. (2023), who reported a similar significant and positive connection between risk identification and financial performance in 5-star hotels in Nairobi. Consequently, the null hypothesis was rejected, confirming a meaningful positive association,

aimed at assessing the link between risk identification and financial success in the studied hotels.

Table 4: Regression Coefficient of Risk Identification and Financial Performance

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.292	0.157		14.596	0.000
	Risk registers	0.155	0.045	0.260	3.447	0.001
	Interviews	0.056	0.034	0.131	1.642	0.102
	SWOT analysis	0.153	0.053	0.246	2.892	0.004

a. Dependent Variable: Financial performance

Regression coefficients indicated that risk registers and SWOT analysis are significantly associated with financial performance in 3- to 5-star hotels in Nairobi, with p-values of 0.001 and 0.004. These associations were supported by calculated t-statistics of 3.447 and 2.892, which exceeded the critical t-value of 1.96, confirming statistical significance. In contrast, interviews showed a negligible and inverse relationship with financial performance, with a p-value of 0.102 and a t-statistic of 1.642, both below the 95% confidence threshold of 1.96. The regression model produced the following equation: Financial Performance = 2.292 + 0.155 (Risk Registers) + 0.056 (Interviews) + 0.153 (SWOT Analysis), indicating that a one-unit increase in risk registers leads to a 0.155-unit rise in financial performance. Similarly, a one-unit increase in the study's SWOT analysis results in a 0.153-unit increase in financial performance.

4.4 Hypothesis Testing Between Risk Identification and Financial Performance

There was no significant relationship between risk identification and the financial performance of 3–5-star hotels in Nairobi City County, Kenya. The objective aimed to examine the relationship between risk identification and financial performance in 3- to 5-star hotels within Nairobi City County, Kenya. “A multiple regression model was employed using SPSS to assess the strength and nature of this relationship. A computed R value of 0.538 was obtained, indicating a strong, positive relationship between risk identification and financial performance. Moreover, the analysis yielded an adjusted R-squared of 0.278, indicating that 27.8% of the variance in financial performance is explained by risk identification factors, namely risk registers, SWOT analysis, and interviews. The remaining 72.2 % of the variation is likely due to factors beyond the scope of this study.” These findings are consistent with those of Ephrim (2025), who reported a similarly significant and positive relationship between risk identification and financial performance in 5-star rated hotels in Nairobi City County, Kenya (Ephrim, 2025).”

Table 5: Summary of Hypothesis

Research objective.	Hypothesis	Rule	p-value	f-value	Annotation
Objective 1: Importance of risk identification on the financial performance of 3-5-star hotels in Nairobi City County, Kenya.	H_{01}: There is no significant relationship between risk identification and the financial performance of 3–5-star hotels in Nairobi City County, Kenya.	Reject H_{01} if p value <0.05	P=0.000	-Supported by the computed F-statistic of 25.60, which is higher than the critical F-value of 2.65. -Indicating a positive relationship.	-Statistically confirms a significant relationship between risk identification and financial performance in 3-5-star hotels.

The study confirmed that risk identification is a key factor in the financial performance of star-rated hotels. Hotels that focus on structured risk identification strategies are more likely to achieve economic stability, avoid unexpected losses, and ensure long-term profitability (Tajeddini & Kallmuenzer, 2023). The results also implied that practical risk assessment has a significant influence on the financial performance of 3- to 5-star-rated hotels. Although most hotels have developed structured frameworks for risk assessment, ongoing improvement is necessary, especially in managing external risks and applying prompt risk mitigation strategies. Despite the positive link, some hotels may still have gaps in risk assessment implementation, particularly in connecting risk assessment with strategic financial planning. This supports the arguments of Pipyros & Liasidou (2025), who noted that many hotels acknowledge the importance of risk assessment but struggle to incorporate it into their decision-making processes fully.

4.5 Determinant of Risk Identification in Star-Rated Hotels

The study identified risk registers, SWOT analysis, interviews, and expert judgment as justifiable predictors for risk identification. The study findings suggested that identifying risks is crucial for improving financial outcomes. Participants highlighted that systematically identifying potential risks enables hotels to prepare, minimizing losses and operational issues proactively. The analysis established a significant positive relationship between risk identification effectiveness and financial stability.

4.5.1 Regression Coefficient for Risk Identification

The researcher used risk identification model for the coefficient summary which indicated a p-value of 0.000, well below the 0.05 threshold at the 95% confidence level, indicating a statistically significant impact on financial performance. This was supported by a t-statistic of 15.565, which exceeds the critical value of 1.96, reinforcing the relationship's significance. The regression equation is: Financial Performance = 0.575 + 0.833 × (risk control management practices). These findings suggested that each additional unit of risk control practices improves financial performance by 0.833 units in 3- to 5-star hotels in Nairobi City County, Kenya. Regression coefficients indicated that risk registers and SWOT analysis are significantly associated with financial performance in 3- to 5-star hotels in Nairobi, with p-values of 0.001 and 0.004. These associations were supported by calculated t-statistics of 3.447 and 2.892,

which exceeded the critical t-value of 1.96, confirming statistical significance. In contrast, interviews showed a negligible and inverse relationship with financial performance, with a p-value of 0.102 and a t-statistic of 1.642, both below the 95% confidence threshold of 1.96. The regression model produced the following equation: Financial Performance = 2.292 + 0.155 (Risk Registers) + 0.056 (Interviews) + 0.153 (SWOT Analysis), indicating that a one-unit increase in risk registers leads to a 0.155-unit rise in financial performance. Similarly, a one-unit increase in the study's SWOT analysis results in a 0.153-unit increase in financial performance.

Table 6: Regression Coefficient for Risk Identification

Coefficients for Risk Identification

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	2.292	0.157		14.596	0.000
	Risk registers	0.155	0.045	0.260	3.447	0.001
	Interviews	0.056	0.034	0.131	1.642	0.102
	SWOT analysis	0.153	0.053	0.246	2.892	0.004

a. Dependent Variable: Financial performance

5.0 Conclusion

The study primarily aimed to evaluate the regression model. Results indicated that risk control management practices have a strong positive effect. In contrast, the impact of risk identification on the financial performance of 3- to 5-star hotels in Nairobi City County, Kenya, was examined through regression analysis. This analysis confirmed a positive link between risk identification and financial performance, leading to the rejection of the null hypothesis that no significant relationship exists between these variables. The study also found that risk registers and SWOT analysis are significantly associated with better financial outcomes in these hotels. Conversely, the use of interviews for risk identification was inversely related to financial performance. Research findings confirmed that risk mitigation practices are a key determinant of financial performance in 3- to 5-star hotels. The study supports previous research highlighting the importance of risk identification in maintaining a competitive edge in the hospitality sector. The research findings suggest that most hotels have substantial industry experience, which may positively influence their ability to implement effective risk control management practices to drive revenue. However, the lower hotel star ratings highlight the need for robust risk management frameworks to support sustainable financial performance and growth in the hospitality sector. While most hotels recognize the importance of risk identification management practices for achieving financial sustainability, the regulatory risk identification process requires substantial attention. The study confirmed that risk identification is a key factor in the financial performance of star-rated hotels. Hotels that focus on structured risk identification strategies are more likely to achieve economic stability, avoid unexpected losses, and ensure long-term profitability.

6.0 Recommendations

Regulatory authorities in the hospitality sector should mandate that five-star hotels adopt a uniform reporting and accountability framework for all aspects of risk mitigation. Hotels failing to meet risk management standards should face fines, while those that excel should be rewarded, thereby promoting financial stability among star-rated hotels. Additionally, all hotel communities should establish a centralized control board to oversee risk management efforts. Such a measure would facilitate the sharing of risk-control strategies among hotels through strategic alliances focused on risk management and mitigation. The hotel industry faces future uncertainties that affect profitability, making it hard for hotels to achieve their financial goals and remain competitive. Hotel stakeholders should have an oversight budget to monitor and address potential issues that could harm income and the effective use of financial resources in hotel investments. Hotels face both internal and external risks that need to be monitored for early detection and mitigation, as they can lead to budgetary costs. According to the research findings, star-rated hotels should implement operational strategies that enhance risk mitigation to promote financial gains.

The hospitality industry should establish systems for effectively identifying potential threats across all financial operating points. All relevant stakeholders of star-rated hotels that contribute to the investment's financial objectives should receive regular training to stay updated on emerging trends that pose risks to the hotels' financial performance. Effective risk management strategies can help hotel practitioners identify risks promptly with the support of a knowledgeable operations team that understands the risk mitigation process. The hospitality industry's growing reliance on new technologies for effective control, efficiency, security, and timely service delivery also contributes to cybersecurity-related risks in hotel operations. Guest information and financial data are common targets for hacking, which can result in financial losses through fraud or the misuse of guest data. This may also result in legal issues with hefty penalties. Hotels should conduct regular technology checks to monitor the safety of all technological systems and prevent any threats that could cause financial damage. The forthcoming analysis should broaden its scope beyond Nairobi City County to include all categories of star-rated hotels and institutional hospitality setups for both commercial and welfare purposes. This will help encompass a broader range of hospitality establishments across different regions in future findings. Conducting a comparative study of hotels in urban and rural areas may also yield more profound insights into how geographic location affects risk control and management practices and financial performance. There is a need to research hotel audits to evaluate their effectiveness in managing risk and understanding their financial impact. Additionally, future studies should investigate how emerging technologies influence risk management in the hospitality industry, including commercial, welfare, and institutional investments. The roles of emerging technologies, such as artificial intelligence (AI), in enhancing risk identification, assessment, and mitigation should be explored to improve performance. Another primary focus for the impending study is the role of regulatory frameworks on risk management practices within the hospitality industry sector.

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