**FACTORS INFLUENCING SPLIT OF EQUITY CAPITAL STRUCTURE AMONG HOSPITALITY INDUSTRY COMPANIES IN NAIROBI COUNTY KENYA**

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The Strategic JOURNAL of Business & Change MANAGEMENT
ISSN: 2312-9492 www.strategicjournals.com
Vol. 9, Iss. 4, pp 544 – 558. October 23, 2022. www.strategicjournals.com, ©Strategic Journals

# FACTORS INFLUENCING SPLIT OF EQUITY CAPITAL STRUCTURE AMONG HOSPITALITY INDUSTRY COMPANIES IN NAIROBI COUNTY KENYA

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**Accepted: October 11, 2022**

**ABSTRACT**

*The inadequacy of capital in the hospitality industry in Nairobi City County has been a challenge that has affected its operations. Thus, the study examined factors that influence the choice of split of equity capital structure in hospitality industry companies in Nairobi City County. The study adopted the explanatory research design. The target population of the study was 36 hotels and restaurants within Nairobi County with a 50/50 equity structure or 2 owners. The sampling frame was 72 directors and 144 managers. Data was collected using the questionnaires. The correlation results showed that a positive and significant association exists between shared responsibilities, capital share, business relationship, business value and split of equity capital structure. The regression results established that shared responsibilities and split of equity capital structure are positively and significantly related (β=0.155, p=0.001). Equally, the regression results established that capital share is positively and significantly related to the split of equity capital structure (β=0.144, p=0.004). Business relationship and split of equity capital structure are positively and significantly related (β=0.467, p=0.000). In addition, the business value is positively and significantly related to the split of equity capital structure (β=0.242, p=0.000). The study concluded that shared responsibilities, capital share, business relationship and business value are positively and significantly related to the split of equity capital structure. It was recommended that owners of a business may settle on a 50/50 equity sharing based on each partner's roles and responsibilities. The shared responsibilities should be based on time investing, intellectual property and industry expertise. The split of equity capital structure should be based on the capital share. Moreover, the study recommended that the split of equity capital structure should be guided by business relationships. The business value should be guided by the business's balance sheet, market share and capitalization. The organization should look for strategies that will enhance the business value since value expands visibility in the market and expands its market share. It was recommended that future studies can be done on other sectors other than hospitality industry companies. Future studies can examine whether ownership structure and type of the business can influence the split of equity capital structure. Conducting the studies in diverse firms will intensify comparison for effective decision-making.*

***Key Words:*** *Business relationship, Equity capital, Share Capital, Shared responsibilities & Business Value*

**CITATION:** Dichosa, E. I., & Weda, C. (2022). Factors influencing split of equity capital structure among hospitality industry companies in Nairobi County Kenya. *The Strategic Journal of Business & Change Management,* 9 (4), 544 - 558.

## INTRODUCTION

Equity capital structure is the capital of a company to purchase assets and fund the operations (Sualehkhattak & Hussain, 2017). The equity capital can be defined as that portion of the organization's capital, raised in exchange for share ownership in the company (Gbenga & Osotimehin, 2015). Equity financing is the process of raising capital through the sale of shares to interested investors. This represents the core funding of business in situations where debt financing is not accessible (Onyango & Ngahu, 2018). The Equity capital structure is affected by agreements between the business owners (Breugst, Patzelt & Rathgeber,2015; Gathogo & Ragui, 2014; Olugbenga &Atanda, 2014).

Partnership agreements between co-owners is essential for the sustainability and development of competitive advantage (Font & Lynes, 2018). Under a 50/50 partnership agreement, each co-owner has equal ownership in the shares in any asset with another individual or group (Arena & Julio, 2015). The 50/50 agreements stipulate that each partner has an equal voice in managing the business (Nzeki, 2017). However, on various occasions, those parties entering into a equal partnership may have contributed different resources to the business. The equity of the business is usually divided equally among the early founders, financial supporters and sometimes employees who join the startup in its earliest stage of the business (Nasir, Yusof & Faizal, 2018).

Companies in the hospitality industry are engaging in the 50/50 partnership to enhance performance and sustainability (Caravci, 2015; Mwambuli, 2016). Under a 50/50 partnership agreement, each partner expected to have equal shares in any profit or loss realized (Chege, 2015). However, in some situations, there is a risk of facing deadlock during a disagreement and the resolutions may take a lot of time and resources and stall the company (Odawa, 2017). The choice of split of equity capital structure is influenced by shared responsibilities, capital share, business relationship and business value (Mangantar & Ali, 2015; Cheung, Chung & Fung, 2015); Aquilina & Suntheim, 2017; Han & Zhou, 2016; Zeitun, Temimi & Mimouni, 2017; Belkhir, Maghyereh & Awartani, 2016).

The owners may settle on a 50/50 equity sharing based on each partner's roles and responsibilities in the success of the company (Chow, Muhammad, & Cheng, 2018). The significance of shared responsibility is that it increases team members' morale to work towards a common objective (Rank & Shen, 2019). Alipour, Mohammadi and Derakhshan (2015) revealed that the choice of 50/50 equity sharing could be determined by the time invested and the owners' experience. The hospitality industries exercise 50/50 sharing of the profits and management decision to secure intellectual property (Aggarwal & Padhan, 2017).

Moreover, the choice of 50/50 sharing of equity capital in the hospitality industry is influenced by the amount of capital an individual invested (Singal, 2015). The extent of capital contributions is significant and can influence the 50/50 sharing of the business due to the importance of each shareholder (Akbar & Tracogna, 2018). An essential way to compensate those investors who have contributed more money is by enabling an equal sharing of the retained earnings (Oskam, & Boswijk, 2016). The capital share can be one way to promote the commitment and trust of the owners of the company toward each other (Nieves & Quintana, 2018). Some of the investors command a notable shareholding in the company and thus, they need to be kept together and this can be achieved through 50/50 business sharing (Ahmad, Salman & Shamsi, 2015).

Further, the business relationship in hospitality is significant and influences the choice of 50/50 sharing of the equity capital structure (Quinton & Wilson, 2016). The business relationship entails the extent of trust upon each other in the organization (Paek, Schuckert, Kim & Lee, 2015). When there is high trust between owners of the organization, the possibility of 50/50 sharing of the business is high since there is not much self-interest. The presence of the social support and mentoring of each other in

an organization may be significant and owners of the organization may not be willing to depart because of the importance of each other, thus advocate for 50/50 sharing of the business to maintain the togetherness (Jones & Wynn, 2019). A productive business relationship intensifies more communication and interaction between entities, which fosters stronger business relationships, thus improving trusts even further (Aggarwal & Padhan, 2017).

The value of the business is also another determinant influencing the choice of 50/50 sharing of the capital (Liu, 2017). The value of the business's balance sheet determined by the difference between assets and liabilities can be a factor that might influence the 50/50 sharing of the business (Gbenga & Osotimehin, 2015). The organization's high value means that the company is competitive and owners may advocate for equal sharing of the profits and decision-making to maintain the partnership and competitive advantage (Gbenga & Osotimehin, 2015). Value in business expands its visibility in the market and expand its market share and thus owners may not be willing to ruin the reputation and any disagreement such as profits sharing may be dealt with it immediately to avoid any separation (Zaitseva, Larionova, Yumatov, Korsunova & Dmitrieva, 2016). Sualehkhattak and Hussain (2017) revealed that communication, discussion and conflict solving are essential to maintain a conducive working environment and share the dividends.

The hospitality industry is a broad category of fields within the service industry that includes lodging, event planning, theme parks, transportation, cruise line and additional fields within the tourism industry (Muigai, 2016). It includes units such as a restaurant, hotel, or even an amusement park consists of multiple groups such as facility maintenance, direct operations (servers, housekeepers, porters, kitchen workers, bartenders, etc.), management, marketing, and human resources. Most of Kenya's hotels have been facing challenges where most employees do not stay for long in the industry; hence, they move to other firms due to poor salaries and also because of collapse of the hotels due to shareholders' withdrawal (Joel 2017). Weak financial management and particularly poor working capital management and inadequate long-term financing are a primary cause of failure among hotel businesses in the country (Muriithi, 2019).

**Statement of the Problem**

The inadequacy of capital among the hospitality industry in Nairobi City County has been a challenge that has affected its operations (Njoroge, 2018). Due to poor management of equity capital, the hospitality industry is suffering financial distress resulting from changing of ownership as a measure to prevent the closure from heavy indebtedness. The inadequacy of capital to finance the operations has facilitated some of the hotels being auctioned or put under receivership (Muriithi, Kyalo & Kinyanjui, 2019). For instance, Jacaranda Hotel was auctioned for failing to pay a loan of 253 million shillings in early January 2020 (TRA, 2020). Also, Boma Hotel has been placed under receivership and Azuri Hotel is merging with the Pride Inn while Southern Sun Mayfair and Golden Spur Steak have closed down (Ministry of Tourism and wildlife, 2020). This is evidence of struggling in the hotel industry in Kenya thus forms the reason to conduct the current study.

Besides, there is scanty information on factors that influence the choice of split of equity capital structure in private limited companies in the hospitality industry in the country. For instance, Onyango and Ngahu (2018) revealed that cash conversion cycle, inventory level, accounts receivables and current liabilities were insignificant to financial distress management in hospitality industries. This study presents a conceptual gap since it mainly focused factors of financial distress management while the current study will focus on the influence choice of split of equity capital structure. Also, Nzioka and Njuguna (2017) revealed that market power, organizational structure, strategic orientation and market

orientation had a positive effect on the performance of hotels in this county. This study presents a conceptual gap since it did not focus on the split of equity capital structure.

Moreover, Rotich and Wanjau (2017) established that risk-sharing, relationship lending, relationship monitoring, the bundle of products positively influences the financial performance of manufacturing SME. However, the study presents a contextual gap because it concentrated on the manufacturing firms while the current will focus on the hospitality industry. Besides, Nzeki (2017) found that debt and equity are the major components of capital structure for the finance corporation subsidiaries in Kenya. The study majored on finance corporation subsidiaries in Kenya thus forms a contextual gap. Therefore, it is evidenced that a knowledge gap exists that need to be ascertained by examining factors that influence the choice of equal split of equity capital structure in companies in the hospitality industry in the Nairobi City County.

### Objective of the Study

The general objective of the study was to examine the factors that influence choice of split of equity capital structure in hospitality industry companies in Nairobi City County. The study was guided by the following specific objectives;

- The influence of shared responsibilities on split of equity capital structure in hospitality industry companies in Nairobi City County.
- The influence of capital share on split of equity capital structure hospitality industry companies in Nairobi City County.
- The influence of business relationship on split of equity capital structure hospitality industry companies in Nairobi City County.
- The influence of business value on split of equity capital structure in hospitality industry companies in Nairobi City County.

## LITERATURE REVIEW

### Theoretical Review

#### Capital structure theory

Capital structure theory was developed by Franco Modigliani and Merton Miller in 1958. The theory establishes that capital structure indicates a combination of equity and debts. It includes equity share capital, reserves and surplus, preference share capital, loan, debentures, and other long-term financial sources. The business proprietors choose the most commendatory financing options based on their self-interest (Strebulaev, 2007). The owners of the company have the liberty to maximize their returns and thus may prefer using equity to finance activities since they anticipate to earn more income. However, over-reliance on equity is costly because of the expected returns to the shareholder and thus, the best option is relying on the debts (Pinegar & Wilbricht, 2003).

Based on the capital structure theory, there are mainly two types of capital; Equity and Debt. The owners may decide to distribute the capital and finance the activities using the debts (Dabrowska, 2009). Using debts is a cheaper source of finance because the interest rate will be less than the cost of equity, and the interest payments are a tax-deductible expense. The capital structure provides flexibility in raising funds (Brounen & Eichholtz, 2001). The theory establishes that there is a challenge of information asymmetry in the process of financing. In some circumstances, equity financing is readily available, making it significant compared to debt financing. Therefore, the theory informed the equity capital structure in the current study.

#### Profit Maximization Theory

Alfred Marshall founded the profit maximization theory in 1890. The theory is based on the argument that the critical goal of enterprises is the maximization of profits. According to the theory, every person who is part of the organization acts in his or her self-interest to make sure that the earnings of the business are maximized (Young &

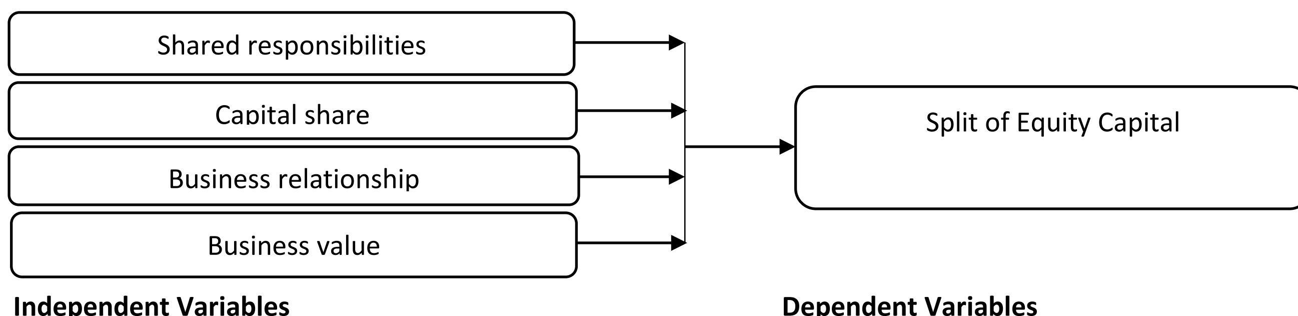
Makhija, 2014). The theory reveals that organizations ensure their profits are maximized by equating marginal revenue to marginal costs. The survival of any firm is dependent on the profits gained from its sources of revenue. The shareholders expect profits and thus, the management has no choice but to conduct business in a way that maximizes the profits (Day, Aigner & Smith, 2001).

The theory establishes that the relationship between inputs and outputs should be examined critically since the organization's objective is to minimize inputs while maximizing output (Keen & Standish, 2006). The theory assumes that the business aims to maximize profits and that all firms have perfect knowledge about their costs, revenues, and other firms (Haron & Ahmad, 2000). The theory is significant to the current study. Owners, shareholders and management in the hospitality have to adopt various strategies to improve their performance. One of these ways is the wise use of the capital structure. The capital structure to be used should be the most effective one that increases the organization's returns. Therefore, the theory informed the variable of the value of the business and capital share in the current study.

**Agency theory**

Agency theory was developed by Stephen Ross and Barry Mitnick in 1976. The theory reports that management is an essential organ in an organization and determines the relationship between the company's shareholders/ owners (Shi, Connelly & Hoskisson, 2017). The theory reports that the presence of the information asymmetry between the owners and the management may lead to the owners withdrawing their shares from the company (Donaldson & Davis, 1991). Consequently, when the owners and other investors withdraw their capital in the organization, it no longer becomes sustainable. Thus, the relationship between the management and owners of the company need to be enhanced. This can be achieved when the managers are regularly monitored to minimize any attempt of working toward person interest (McColgan, 2001) The top shareholders and boards should always keep the management on the check and they should regularly report on how the organization is doing financially so to minimize them from working toward self-interest (Bonazzi, & Islam, 2007). As a result, profit maximization is achieved when the agent and principal are working toward a particular purpose. Therefore, the sustainability of the organization depends on the relationship between shareholders and management. Therefore, this agency theory informed the variable of the business relationship and shared responsibilities in the current study.

**Conceptual Framework**




**Independent Variables** **Dependent Variables**

**Figure 1: Conceptual Framework**

**Shared responsibilities**

The shared responsibility is an essential factor that may determine the capital sharing specifications (Gbenga & Osotimehin, 2015). The importance of shared responsibility is that it increases team members' morale to work towards a common

objective (Rank & Shen, 2019). Alipour, Mohammadi and Derakhshan (2015) revealed that the choice of equal equity sharing could be determined by the time invested and the owners' experience. The hospitality industries exercise 50/50 sharing of the profits and management decision to secure intellectual property (Aggarwal & Padhan, 2017). The number of total shares can significantly influence the sharing of the business capital, retained meaning and decision making (Akbar & Tracogna, 2018). An essential way to compensate those investors who have contributed more money is by enabling an equal sharing of the retained earnings (Oskam, & Boswijk, 2016).

**Capital share**

The business relationship in hospitality is significant and influences the choice of 50/50 sharing of the equity capital structure (Singal, 2015). The business relationship entails the extent of trust upon each other in the organization (Paek, Schuckert, Kim & Lee, 2015). The presence of the social support and mentoring of each other in an organization may be significant and owners of the organization may not be willing to depart because of the importance of each other, thus advocate for equal sharing of the business assets to maintain the togetherness (Jones & Wynn, 2019). A productive business relationship intensifies more communication and interaction between entities, which fosters stronger business relationships, thus improving trusts even further (Aggarwal & Padhan, 2017). The organization's high value means that the company is competitive, and owners may advocate for equal sharing of the profits and decision-making to maintain the partnership and competitive advantage (Gbenga & Osotimehin, 2015).

**Business relationship**

According to Mwangi and Bwisa (2013), access to loans entails restrictions placed on households' convenience and suitability criteria of loans. Credit access is mostly a source related issue related to the potential financier's choice of the highest credit ceiling and how business relates to one another becomes the vital part of financial accessibility. According to Kimuyu and Omiti (2000), accessibility of loans from both formal and informal avenues requires a particular level of business relationship. Most of the time, the collateral necessary is too expensive but good business relationship makes it easy to access finances from other business.

**Business value**

Nzeki (2017) examined the relationship between capital structure and financial performance of tourism finance corporation subsidiaries in Kenya. The study employed a descriptive research design to explore the study purpose and the existing associations between the independent and the dependent variables considered. The study used secondary data, which was extracted from the audited financial reports and management accounts. Data was analyzed by the use of time series and regression analysis approaches. The study found that debt and equity are the significant components of capital structure for the finance corporation subsidiaries in Kenya. The study also found that there is a statistically significant effect of asset turnover on the financial performance of financial performance. The study recommended comparative research to establish different capital structure components to support an optimal capital structure.

**Split of Equity Capital**

Equity financing its where business individuals invest their personal funds into their businesses (Githire & Muturi, 2015). Njeru (2013) defined equity financing as the difference between assets and liabilities of the business. Funds from personal savings or even the sale of personal assets is the main source of equity financing. Due to moral hazard and problem with information asymmetry then Hotels at the startup stage tend to use personal savings. In later stages in order to grow and develop the Hotels tend to seek for alternative sources of finance (Abdulaziz & Andrew, 2013). Angel investors are usually described as wealthy individuals or friends of the business owners or group of individuals who financially support small businesses because they have high believe that the

business will have high growth and returns (Njagiet al., 2017). Mostly the amount invested is not more than $ 500, 000, the terms of investments are favorable and the investor is not in one way or the other in the management of the business. Venture capitalist financing involves professional investors who provide financial support to highly chosen businesses. Venture capitalist are risk averters and are very sensitive and choosy about investing only in businesses that are well managed and have high level of competitive advantage in their particular industry.

## METHODOLOGY

The explanatory research design was deemed appropriate for the study since the researcher aimed at explaining the casual relationship of the variables. The target population of the study was 36 hotels and restaurants within Nairobi County with a 50/50 equity structure or 2 owners as depicted with the unit of observation being directors and managers. The sampling frame was 72 directors and 144 managers. A total of 216 directors and managers from 36 hotels and restaurants with a 50/50 equity structure or 2 owners formed the sampling frame. The researcher purposively picked 2 directors and 4 managers from each of the star rated hotel in Nairobi City County with a 50/50 equity structure or 2 owners. The researcher collected the data for analysis using the questionnaires. A pilot study was carried out in Sarova Stanley, Silver Springs Hotel and Boma Inn Nairobi on 22 (10% of 216) respondents to check the validity and reliability of the questionnaires in collecting the data required for purposes of the study. The Statistical Package for the Social Sciences (SPSS) was used to organize, code and analyze information and generate the quantitative report. The data was analyzed using descriptive and inferential statistics. The descriptive statistics was presented in mean, standard deviation and percentages, while the inferential statistics included the Pearson correlation and regression analysis. The regression analysis entailed the analysis of variance (ANOVA), model fitness and regression coefficients. The ANOVA was used to measure the best fit and determine whether the overall model is statistically significant. The multiple regression model was; $Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon$. The diagnostic tests were included in the normality tests, multicollinearity tests and heteroscedasticity test.

## RESULTS AND DISCUSSION

### Response Rate

The researcher distributed 216 questionnaires to the sampled respondents with a response rate of 93.98%.

**Table 1: Construct Validity**

| Variable | KMO Value | Sphericity |
|---|---|---|
| Shared responsibilities | 0.681 | 0.000 |
| Capital share | 0.678 | 0.000 |
| Business relationship | 0.721 | 0.000 |
| Business value | 0.716 | 0.000 |
| Split of equity capital structure | 0.644 | 0.000 |

**Source: Field Data, 2022**

Results in table 1 showed that shared responsibilities had a KMO value of 0.681 and Barlette's test of sphericity of 0.000<0.05 and thus, the statements are valid/it measures what its purports to measure. The capital share had a KMO value of 0.678 and Barlette's test of sphericity of 0.000<0.05 and thus, the statements are valid/it measures what its purports to measure. The business relationship had a KMO value of 0.721 and Barlette's test of sphericity of 0.000<0.05 and thus, the statements are valid/it measures what its purports to measure. Business value had a KMO value of 0.716 and Barlette's test of sphericity of 0.000<0.05 and thus, the statements are valid/it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measures what its purports to measure. Split of equity capital structure had a KMO value of 0.644 and Barlette's test of sphericity of 0.000<0.05 and thus, the statements are valid/it measures what its purports to measure. In conclusion, all the variables met the minimum KMO value of 0.4 and Barlette's test of sphericity of <0.05 and thus, they were valid.

**Table 2: Reliability Results**

| Variable | Number of items | Cronbach alpha | Comments |
|---|---|---|---|
| Shared responsibilities | 5 | 0.847 | Reliable |
| Capital share | 5 | 0.836 | Reliable |
| Business relationship | 5 | 0.884 | Reliable |
| Business value | 5 | 0.787 | Reliable |
| Split of equity capital structure | 5 | 0.814 | Reliable |

**Source: Field Data, 2022**

The results in table 2 showed Cronbach's alpha coefficients for shared responsibilities, capital share, business relationship, business value and split of equity capital structure are above 0.7, indicating that they are reliable. Creswell (2014) notes that if the alpha values are greater than 0.7, then the data collection instruments are considered reliable. Taber (2018) suggests that Cronbach's alpha values of items included in the study should not be lower than 0.7. Besides, Golafshani (2003) established that a Cronbach alpha should not be lower than 0.7. Thus, the variables of the study were considered reliable.

**Table 3: Descriptive Statistics of Shared Responsibilities**

| Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| The time invested is crucial in the split of equity capital in the hotel | 2.50% | 13.80% | 3.00% | 56.70 % | 24.10% | 3.88 | 0.97 |
| The intellectual property defines the split of equity capital in the hotel. | 6.40% | 7.90% | 8.40% | 31.50 % | 45.80% | 4.02 | 1.20 |
| The expertise of an individual influences the split of equity capital in the hotel | 3.40% | 5.90% | 7.90% | 42.40 % | 40.40% | 4.10 | 1.01 |
| The shared responsibilities are fundamental in the hotel's split of equity capital. | 3.40% | 8.90% | 5.40% | 54.70 % | 27.60% | 3.95 | 0.98 |
| The roles of an individual influence the split of equity capital in the hotel | 7.90% | 11.30% | 1.50% | 25.60 % | 53.70% | 4.06 | 1.31 |
| **Average** | | | | | | **4.00** | **1.10** |

The average mean score of the survey questions on shared responsibilities was 4.00, with a standard


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deviation of 1.01. This signified that most of the respondents agreed with most of the survey questions.

**Table 4: Descriptive Statistics of Capital Share**

| Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| The capital invested is crucial in the hotel's split of equity capital. | 1.50% | 16.30% | 5.40% | 34.50% | 42.40% | 4.00 | 1.13 |
| The owner capital contributions illustrate the split of equity capital in the hotel. | 5.90% | 10.80% | 2.50% | 51.70% | 29.10% | 3.87 | 1.13 |
| The total shares bought by individual influences the split of equity capital in the hotel | 2.00% | 10.30% | 7.90% | 48.80% | 31.00% | 3.97 | 0.99 |
| The capital share is a priority in the hotel's split of equity capital. | 3.90% | 6.40% | 1.00% | 42.40% | 46.30% | 4.21 | 1.02 |
| The future share expectations to be owned can influence the split of equity capital in the hotel. | 8.40% | 16.30% | 3.40% | 20.70% | 51.20% | 3.90 | 1.40 |
| **Average** | | | | | | **3.99** | **1.13** |

The average mean score of survey questions on capital share was 3.99, with a standard deviation of 1.13. This signified that most respondents agreed with most of the survey questions.

**Table 5: Descriptive Statistics of Business Relationship**

| Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| The owners' trust can influence the split of equity capital in the hotel. | 3.40% | 5.90% | 3.90% | 46.40% | 40.40% | 4.10 | 1.01 |
| Social support exercises influence the split of equity capital in the hotel. | 1.40% | 9.90% | 6.40% | 54.70% | 27.60% | 3.95 | 0.98 |
| The mentoring activities influence the split of equity capital in the hotel. | 7.90% | 11.30% | 1.50% | 33.00% | 46.30% | 3.99 | 1.28 |
| The separation of ownership can influence the hotel's equity capital split. | 5.90% | 10.80% | 2.50% | 51.70% | 29.10% | 3.87 | 1.13 |
| The business relationship with outsiders on accounting information influence the split of equity capital in the hotel. | 1.50% | 16.30% | 5.40% | 34.50% | 42.40% | 4.00 | 1.13 |
| **Average** | | | | | | **3.98** | **1.11** |

The average mean score of the survey questions on business relationships was 3.98, with a standard deviation of 1.11. This signified that most respondents agreed with most of the survey questions.

**Table 6: Descriptive Statistics of Business Value**

| Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| The business's balance sheet influences the split of equity capital in the hotel. | 3.40% | 5.90% | 1.00% | 41.40 % | 48.30% | 4.25 | 0.99 |
| The liquidation value influences the split of equity capital in the hotel. | 7.40% | 15.30% | 3.90% | 20.20 % | 53.20% | 3.97 | 1.36 |
| The market value influences the split of equity capital in the hotel. | 2.00% | 8.90% | 7.40% | 43.30 % | 38.40% | 4.07 | 1.00 |
| Market capitalization influences the split of equity capital in the hotel. | 3.40% | 14.90% | 6.40% | 54.70 % | 20.60% | 3.93 | 0.97 |
| The investment value influences the split of equity capital in the hotel. | 7.90% | 11.80% | 1.50% | 31.00 % | 47.80% | 3.99 | 1.30 |
| **Average** | | | | | | **4.04** | **1.12** |

The average mean score of the survey questions on business value was 4.04, with a standard deviation of 1.12. This signified that most respondents agreed with most of the survey questions.

**Table 7: Descriptive Statistics of Split of Equity Capital Structure**

| Statements | Strongly Disagree | Disagree | Neutral | Agree | Strongly Agree | Mean | Std. Dev. |
|---|---|---|---|---|---|---|---|
| Agreements between hotel owners influence the split of equity capital | 2.00% | 10.30% | 7.40% | 44.30% | 36.00% | 4.02 | 1.02 |
| The split of equity capital in the hotel has taken place regularly | 7.90% | 11.80% | 2.00% | 30.50% | 47.80% | 3.99 | 1.30 |
| The hotel is keen on the factors that could lead to the split of equity capital | 4.90% | 18.90% | 6.40% | 56.60% | 13.20% | 3.87 | 1.00 |
| The split of equity capital in the hotel is accomplished without considerable disputes | 7.90% | 13.80% | 1.00% | 27.60% | 49.80% | 4.00 | 1.32 |
| The equity capital split in the hotel is usually divided among the early founders and financial supporters based on total shares | 3.40% | 8.40% | 5.40% | 56.70% | 26.10% | 3.94 | 0.98 |
| **Average** | | | | | | **3.96** | **1.12** |

The average mean score of the survey questions on the split of equity capital structure was 3.96, with a standard deviation of 1.12. This signified that most respondents agreed with most of the survey questions.

**Table 8: Correlation Analysis**

| | | Split of Equity Capital Structure | Shared Responsibilities | Capital Share | Business Relationship | Business Value |
|---|---|---|---|---|---|---|
| Split of Equity Capital Structure | Pearson Correlation | 1.000 | | | | |
| | Sig. (2-tailed) | | | | | |
| Shared Responsibilities | Pearson Correlation | .567** | 1.000 | | | |
| | Sig. (2-tailed) | 0.000 | | | | |
| Capital Share | Pearson Correlation | .580** | .291** | 1.000 | | |
| | Sig. (2-tailed) | 0.000 | 0.000 | | | |
| Business Relationship | Pearson Correlation | .757** | .557** | .625** | 1.000 | |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | | |
| Business Value | Pearson Correlation | .575** | .392** | .370** | .446** | 1.000 |
| | Sig. (2-tailed) | 0.000 | 0.000 | 0.000 | 0.000 | |

** Correlation is significant at the 0.01 level (2-tailed).

The study results indicates that a positive and significant association exists between shared responsibilities and split of equity capital structure (r=.567, p=0.000). Similarly, results revealed a positive and significant association between capital share and split of equity capital structure (r=.580, p=0.000). The results also indicated a positive and significant association between business relationship and split of equity capital structure (r=.757, p=0.000). Further, results showed a positive and significant relationship between business value and split of equity capital structure (r=0.575, p=0.000).

**Table 9: Regression Model Fitness**

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .820a | 0.673 | 0.666 | 0.1990829 |

**Source: Field Data, 2022**

The results indicates that shared responsibilities, capital share, business relationship and business value are adequate variables in explaining the split of equity capital structure in hospitality industry companies in Nairobi City County.

**Table 10: ANOVA**

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 16.14 | 4 | 4.035 | 101.805 | .000b |
| | Residual | 7.848 | 198 | 0.04 | | |
| | Total | 23.987 | 202 | | | |

**Source: Field Data, 2022**

The results indicate that the overall model is statistically significant where shared responsibilities, capital share, business relationship and business value are good predictors of the split of equity capital structure in hospitality industry companies in Nairobi City County.

**Table 11: Regression Coefficients**

| Model | | Unstandardized Coefficients | | Standardized Coefficients | t | Sig. |
|---|---|---|---|---|---|---|
| | | B | Std. Error | Beta | | |
| 1 | (Constant) | 0.001 | 0.209 | | 0.003 | 0.998 |
| | Shared responsibilities | 0.155 | 0.045 | 0.171 | 3.408 | 0.001 |
| | Capital share | 0.144 | 0.049 | 0.154 | 2.919 | 0.004 |
| | Business relationship | 0.467 | 0.063 | 0.454 | 7.436 | 0.000 |
| | Business value | 0.242 | 0.046 | 0.248 | 5.299 | 0.000 |

**Source: Field Data, 2022**

Based on the study results, the regression model specification was; $Y = 0.001 + 0.155X_1 + 0.144X_2 + 0.467X_3 + 0.242X_4$ Where: Y = Equity capital structure; $X_1$ = Shared responsibilities; $X_2$ = Capital share; $X_3$ = Business relationship; $X_4$ = Business value

The regression of coefficients results shows that shared responsibilities and split of equity capital structure are positively and significantly related (β=0.155, p=0.001). This signifies that an increase in the shared responsibilities by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.155 units, holding other factors constant. Equally, capital share was found to be positively and significantly related to split of equity capital structure (β=0.144, p=0.004). This implies that an increase in the capital share by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.144 units, holding other factors constant. The study results showed that business relationship and split of equity capital structure are positively and significantly related (β=0.467, p=0.000). This means that an increase in the business relationship by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.467 units, holding other factors constant. Finally, business value was found to be positively and significantly related to split of equity capital structure (β=0.242, p=0.000). This signifies that an increase in the business value by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.242 units, holding other factors constant

**Summary of Findings**

The general objective of the study was to examine the factors that influence the choice of split of equity capital structure in hospitality industry companies in Nairobi City County. The study found that shared responsibilities, capital share, business relationship and business value can explain 67.3% of the variations in the split of equity capital structure in hospitality industry companies in Nairobi City County. The results indicated that the overall model is statistically significant.

## CONCLUSIONS AND RECOMMENDATIONS

Based on the study findings, it was concluded that shared responsibilities and split of equity capital structure are positively and significantly related. The study showed that an increase in the shared responsibilities by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.155 units, holding other factors constant.

Capital share is positively and significantly related to the split of equity capital structure. The study established that an increase in the capital share by

one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.144 units, holding other factors constant.

Business relationships and split of equity capital structure are positively and significantly related. It was found that an increase in the business relationship by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.467 units, holding other factors constant.

The study showed that business value is positively and significantly related to the split of equity capital structure where an increase in the business value by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.242 units, holding other factors constant.

Based on the study's findings, it was recommended that owners of a business may settle on a 50/50 equity sharing based on each partner's roles and responsibilities. The study showed that an increase in the shared responsibilities by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.155 units, holding other factors constant. The shared responsibilities should be based on time investing, intellectual property and industry expertise. The hospitality industries should exercise 50/50 sharing of the profits and management decisions to secure intellectual property.

Besides, it was recommended that the split of equity capital structure should be based on the capital share. The study revealed that an increase in the capital share by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.144 units, holding other factors constant. The capital share should be based on the capital invested, owner capital contributions and total shares bought. An essential way to compensate investors who have contributed more money should be by enabling an equal sharing of retained earnings.

Moreover, the study recommended that the split of equity capital structure should be guided by business relationships. The study indicated that an increase in the business relationship by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.467 units, holding other factors constant. The business relationship should be determined by trust, social support and mentoring. The hospitality industry companies should advocate for a productive business relationship since it intensifies more communication and interaction between entities.

In addition, it was recommended that the split of equity capital structure should be based on business value. The study findings indicated that an increase in the business value by one unit would increase the split of equity capital structure in hospitality industry companies in Nairobi City County by 0.242 units, holding other factors constant. The business value should be guided by the business's balance sheet, market share and capitalization. The organization should look for strategies that will enhance the business value since value expands visibility in the market and expands its market share. The study recommended that management consider involving the other staff in drafting strategies and designing acceptable work procedures for effective and efficient quality service and this could increase the business value.

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