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EFFECT OF ACCESS TO FINANCE ON PROFITABILITY OF REGISTERED HOTELS IN PLATEAU STATE

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Abstract

Access to finance is widely recognised as an important determinant of business performance, particularly for service-based industries such as hospitality. In Nigeria, the hotel industry operates within a challenging economic environment characterised by high operating costs, infrastructural deficits and limited funding opportunities. This study examines the effect of access to finance on the profitability of registered hotels in Plateau State. The study employs survey design, that is, cross-sectional to permit for the collection of quantitative data. The simple random sampling method was employed and 70 respondents were sampled. The data for the independent variables and the dependent variables were collected through the administration of questionnaire in line with the method which was used by the World Bank study (Batra, et al, 2003). Drawing insights from empirical and theoretical literature, as well as contextual data from the Plateau State tourism sector, the finding of the study revealed that access to finance has a significant positive effect on profitability of registered hotels in Plateau state. This indicates that poor access to finance increases cost of capital, limits investment in human resources and infrastructure, and reduces the capacity of hotels to adapt to dynamic market demands. Given the tourism potential of Plateau State, improving financing conditions for hotels can significantly enhance revenue generation, job creation, and economic development. The study recommends credit guarantee schemes, and targeted government intervention to strengthen hotel profitability.

Keywords: access to finance, profitability, registered hotels, plateau state, hospitality industry

1. Introduction

Access to finance remains one of the most significant determinants of business survival and expansion, particularly in developing economies where capital markets are weak and institutional structures are evolving. The hotel industry, a critical component of the tourism sector, is capital-intensive and heavily dependent on the availability of stable financial resources to support infrastructure development, operational activities, staff training, marketing, and technological upgrades.

In Nigeria, the hospitality sector contributes meaningfully to employment and GDP, yet it continues to be constrained by unfavourable investment climate conditions such as erratic electricity supply, insecurity, taxation burden, and limited funding opportunities. Plateau State—popularly known as the "Home of Peace and Tourism"—

possesses significant comparative advantages ranging from pleasant weather, scenic beauty, and cultural heritage to an array of natural attractions. These advantages should ordinarily translate into rapid hospitality industry growth. However, studies indicate that hotels in Plateau State struggle with profitability challenges driven by operational inefficiencies due to insufficient financial capital.

Access to finance is particularly important because hotel businesses require continuous investment to maintain the quality of facilities, adopt technological innovation, diversify services, and meet international standards. Financial constraints reduce the ability of hotels to operate efficiently, respond to emerging market demands, and achieve sustainable profitability.

According to Muhammad (2009), finance is the art and science of managing funds, affects the lives of every individual and organization. Businesses sources for fund to promote survive and growth, preservation of liquidity, prevention of bankruptcy and liquidation. Due to the dynamic nature of the environment, the study of finance continues to develop in order to face the problems, posed by the continuous changes in the environment. Businesses have several ways to source for finances, depending on the short term and long-term financial needs and these may come with conditions.

Lack of access to finance and credit opportunities affect payment for transactions and investment. Access to finance was ranked as major obstacles to firm's productivity rated 33.1% in the overall environmental constraints. 53.1% of firms and 33.1% of firms identified access/cost of finance as a major constraint to business in 2007 and 2014. The banks facilities used by business to finance investment increased from 1.3% in 2007 to 3.4% in 2014. 65% of businesses depend on internal source of finance to invest and expand their output.

High collateral factor may affect investment opportunities (Igwe, Ogundana, Egere & Anigbo, 2018). Factors). High collateral value of the loan amount and interest rates bench mark set by the financial institutions has deprived SMEs access to finance. Due to the unfavorable situation, the SMEs rely on their personal savings and informal financing to finance investments in the Algeria economy. In 2012, 3.3 % of aggregate SMEs benefited from bank loans (Bouazza et al., 2015).

Lack of finance is a major challenge to enterprises growth. Enterprises relied on their own funds for ninety percent of working capital requirements and almost two-thirds of their investment needs. 8% of investors had bank overdrafts, while 18% reported having bank loans. Almost all investors declared that collateral were a requirement for their most recent overdraft or bank loan. The amount required as collateral was quite high, averaging almost 140 percent of the credit amount.

Most firms that do not have bank loans had never applied for one and enterprises lack interest in bank loan because of the high interest rates (Bakare, 2013). Micro enterprises and small enterprises find it difficulty accessing credit facilities in Kenya. 90% of microenterprises and 60% of small firms in Kenya declare they need loans, compared with 40 % of medium and large firms. Collateral requirements; 43% of micro firms and 12% of small firms, compared with only 7% of medium and large firms, report shows that collateral requirements discouraged loan applications.

The complexity of the application process loan is another challenge for micro and small firms (Iarossi, 2009). Increase Interest rates have negative relationship with investment. High interest rate makes borrowing cost unbearable such that it discourages investment (Duruechi & Ojiegbe, 2015). Finance is an operational process of the business which enable firm to meet it targeted goals, acquiring the right type of funds for the business used, managing and planning for the funds.

The Bank of Industry (BOI) is the development finance institution in Nigeria saddled with the responsibility of providing medium and long-term financing by way of loan, lease financing, equity funding, guarantees, investment in corporate bounds, business development support services, co- financing, working capital finance and promotion of small project. They are in collaboration with federal ministry of industry, trade and investment, ministry of finance, central bank of Nigeria (BOI, 2018). Government introduced some reforms in the tax law and regulatory framework, aiming at foster economic growth, enhance fiscal stability and promote sustainable development (Finance Act, 2025).

This study explores the relationship between access to finance and the profitability of hotels in Plateau State. It evaluates how access to bank loans, credit conditions, bank paper works/bureaucracy and corruption of bank officials affects return on investment. It further identifies the challenges faced by hotels in accessing financial capital and proffers policy-level and managerial strategies to enhance profitability.

The researcher formulated the following question which is as follow:
To what extent does access to finance affect profitability of registered hotels in Plateau State? The Objective of the study is: to examine the effect of access to finance on profitability of registered hotels in Plateau State. The hypothesis is as follows:
Ho: There is no significant effect of access to finance on profitability of registered hotels in Plateau State.
Hi: There is significant effect of access to finance on profitability of registered hotels in Plateau State.

2. Literature Review

Conceptual Review

Access to Finance

Access to finance refers to the ease with which firms obtain funds for operational or investment purposes. Financing may take the form of bank loans, equity participation, government grants, retained earnings, or informal credit. Okwoli (2008) describes finance as the availability of funds, both short-term and long-term, used to acquire assets that generate income.

In the hotel industry, finance is required for acquiring buildings, furnishing rooms, operating utilities, staff development, and implementing marketing strategies. However, access to external finance is often constrained such as unfavorable banking policies, high collateral requirements, high interest rates, information asymmetry, and perceived industry risks. Hotels in Nigeria typically rely on internal financing, which is limited because bank loans are expensive and credit conditions are stringent.

Profitability

Profitability refers to the ability of a business to generate returns from its operations. Nimalathasan and Nimalathasan (2013) defines profitability as the relative measure of a firm's earning capacity. In hotel businesses, profitability is often measured through indicators such as Return on Investment (ROI), Return on Assets (ROA), and Net Profit Margin. ROI is especially relevant for hotels as it reflects the efficiency of investment in physical facilities and service delivery.

Profitability is essential for business survival, growth, expansion, and long-term sustainability. When hotels experience profitability challenges, their ability to meet operating costs, attract investors, maintain assets, and fulfill tax obligations is significantly weakened.

Theoretical Review

Profit Theory of Investment

The profit theory of investment developed by Edward Shapiro in 1970. The Profit Theory of Investment asserts that profitability is a major driver of investment. Firms reinvest profits rather than relying heavily on external borrowing. This theory is relevant because many hotels in Plateau State depend on retained earnings but often generate insufficient profits to support expansion.

Transaction Cost Theory

The transaction theory developed by Ronald Coase in 1937, this theory states that firms incur costs when conducting transactions. High transaction costs—such as banking charges, collateral fees, and interest payments—reduce profitability. Hotels operating in unstable environments incur high transaction costs, making external finance expensive and inaccessible.

System Theory

The theory was proposed by biologist Ludwig Von Bertalanffy in 1950. The system theory views the business as an open system dependent on its environment. Access to finance is an external factor that determines operational performance. A favorable financial environment enhances profitability, while an unfavorable one limits business success.

Empirical Review

Several empirical studies support the relationship between access to finance and profitability. Mbuva (2019) examined the "Effect of access to finance on financial performance of processing SMES in kitui county, kenya". Descriptive research design was applied to conduct the study. The target population was the 25 processing SMEs in Kitui County where for each firm; the Chief Executive Officer, the finance manager and the Chief accountant were considered as respondents giving rise to a total of 75 respondents. An interview and Semi- structured questionnaires were used to collect primary data from the respondents. The data was inspected for completeness, accuracy, reliability and consistency then analysed using SPSS Version 20 Software. Descriptive statistics such as mean, and the standard deviation were computed to describe the data collected. Moreover, inferential statistics at 95% confidence level were used. Results: The findings of the study indicated that financial performance positively correlated with the access to finance. The findings were supported by the literature reviewed by the study. With reference to the findings, various recommendations were made.

Unique Contribution to Theory, Practice and Policy: To start with, the study recommended financial institutions to create favourable policies to enable SMEs access loans easily. Secondly, the study recommended government to offer incentives and funding to SMEs at a lower cost to boost their financial performance. Finally, the study recommended more studies to identify other factors that influenced the financial performance of SMEs in Kenya. Though this study has contributed significantly to our understanding of how identify factors affect access to finance and profitability.

Claude (2020) examined access to finance and performance of Small and Medium Enterprises in Rwanda. Small and Medium Enterprises play an important role in development of many countries. They have lifted hundreds of millions of people out of poverty in developed countries. Using internal finance, it is not easy to acquire enough resources in business, and financial institutions provide loan as external sources to increase the capital. This helps to use the fixed cost at maximum level to increase profit.

Unfortunately, the great number of SMEs are facing the problem of lack of finance due to several challenges and lead to poor performance which finally, influence

negatively job creation and some of them failure. To overcome these challenges, the research was conducted to assess the effect of access to finance on the performance of SMEs in Rwanda. Deeply, the researcher analyzed the determinants of access to finance and the factors of SMEs performance, then the relationship between them was drawn to assess their significance level. To achieve the research objective, the researcher used the explanatory research design and the sample size of 152 respondents was selected from 246 registered SMEs in Muhanga District as target population, by using Yamane's formula. The researcher also used multistage sampling method for selecting sample size. This study was conducted using quantitative methods. The data were collected using a self-administered questionnaire, analyzed using Statistical Package for Social Sciences and presented in form of tables. Multiple regression used to determine the p-value and the level of significance for this test was 5%. The statistical Pearson correlation coefficient of 0.891 confirmed that access to finance impact positively the relationship between two variables under study.

Azzuwut et al. (2023) examined assessing the impact of financial accessibility on small and medium enterprises' profitability**.** In a developing nation like Nigeria, small and medium-sized businesses (SMEs) have had a difficult time in accessing banking services especially when trying to acquire external financing, they encounter several difficulties. This is due to low level of financial literacy among SMEs owners and Managers. SMEs in Nigeria
's Plateau State make up the study population. According to SMEDAN 's estimates from 2021 there were 14558 registered SMEs in Nigeria's Plateau State. The study employed a survey research approach, in which 316 questionnaires were utilized to collect primary data using the convenient sampling technique. The study particularly used a multivariate regression model. The results of the research on assessing the impact of financial accessibility on small and medium enterprises profitability showed a strong positive correlation between profitability of SMEs and loan, overdraft, collateral requirement, and size. As a result, the study suggests that owner's managers of SMEs in developing economies with limited finances should consider recapitalizing their businesses through more finances from existing financial service providers such as banks and should have more capacity building to have better access to finance.

Akanbi & Adekunle (2025) investigates the effect of access to finance on the financial performance of SMEs in pharmaceutical business in Kwara State, Nigeria. Using a survey research approach, data were collected from 140 registered SMEs in pharmaceutical business through structured questionnaires. Descriptive statistics and ordered logistic regression were employed to analyze the data. The findings revealed that microfinance lending (P=0.000) and informal microcredit (P=0.021) significantly enhanced financial performance indicators such as revenue growth and return on investment. In contrast, government support programs through the Central Bank of Nigeria (CBN) (P=0.294) showed no significant impact. The research findings indicate that the financial performance of small and medium-sized pharmaceutical businesses in Kwara State, Nigeria, is considerably enhanced by timely and reasonably priced financing from microfinance institutions, and unofficial microcredit sources. However, persistent macroeconomic and institutional issues continue to be significant barriers. The study recommends that pharmaceutical SMEs should implement cost-saving measures, explore local sourcing options, and adopt pricing strategies to maintain competitiveness in the market. It also advocates for enhanced financial literacy, the adoption of digital lending platforms, and strengthened security measures to address systemic barriers and improve financial performance across the State and Nigeria at

large. These studies collectively affirm that access to affordable and sufficient capital is vital for business profitability.

3. Methodology

The study employs survey design that is cross-sectional to permit for the collection of quantitative data. The study population comprises of all the eight five (85) business units, comprises of listed hotels, motels, resorts and suites collected from registered hotels in the Plateau state tourism corporation. This study draws it sample form the hotels listed in Plateau state tourism corporation. Simple random Sampling method was employed. The study employs sampling method using Taro Yamane Method (1967) and got the sample size of 70.

Primary method of data collection in line with World business environment survey questions, developed by World Bank (Batra, et al, 2003) was adapted and modified to suit the context of the hotel industry in Plateau State. The study adopted the use of regressions to test the relationship between the independent variables and the dependent variable. In this study, the dependent variable is profitability (Return on Investment) while the independent variable used is access to finance.

Model Specification

The regression model specified for the study is represented as follows: $PRO_i = \beta_1 + \beta_2 x_i + u_i$; Where: PRO_i= Profitability; x_i = Access to finance; β_1, = Constant term; β_2, = coefficient of independent; u_i = error term.

4. Result and Discussion

Table 1

Computation of Regression result: Access to finance and Profitability

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	1.773	.188		9.426	.000
	AFIN	.398	.063	.611	6.358	.000

a. Dependent Variable: PRO

Source: SPSS 23.0

As shown in the table, the standardized regression result for Access to Finance (AFIN) on Profitability (PRO) is 0.398. This means that Access to Finance (AFIN) has a positive and significant influence on Profitability (PRO). Access to Finance (AFIN), will lead to increases in the level of Profitability (PRO), by 39.8% when Access to Finance (AFIN) was by 1%.

Decision

Since the p-value of Access to Finance (AFIN) 0.000 is less than the significance level of 0.05, we fail to accept the null hypothesis and fail to reject the alternate hypothesis, which states that Access To Finance (AFIN) has significant effect on the profitability of hotels in Plateau state. In this hypothesis, the study fails to accept the null hypothesis and the alternate hypothesis which states that access to finance has significant effect on the profitability of hotels in Plateau state was accepted. This means you ought to have finance by your sight before thinking of venturing into any viable business that can yield profit. This is consistent with the result of Azzuwut et al. (2023) who found that financial accessibility on small and medium enterprises profitability showed a strong positive correlation between profitability of SMEs. Again, the result

of the study did agree with the study of Claude (2020) who confirmed that access to finance impact positively on the performance of firms.

Transaction cost theory explains that firm exist because they reduced the transaction cost that emerged during production. Firms choose the most cost-effective strategy that offers the best option for investments. According to transaction cost theory, firms seek to expand in a cost-effective manner to ensure profitability. The transaction theory assumes that humans always behave opportunistically, with self-interest and unconstrained morality. Therefore, transactions are governed by harshly specific contracts, because trading partners will always be out to harm each other or discovering avenues of harm in other to survive after the fact will always be extremely costly. Since the business exit in environment with uncertainty it may increases transaction cost due to the changes in exogenous factor like access to financing and these changes effect the profitability of the business.

The Consequence is that finance is one of the major aspects of the business required for its survival. Finances capture the source of finance as liability and equity and businesses sources for funds to invest in assets that generate revenue. Lack of finance is a major challenge to enterprises growth such that, it affects businesses to raise fund for investment and met obligations, which reduces profitability. Such as inability to expand hotel facilities or renovate outdated structures that is, it limits infrastructure, it affects the acquiring modern technology (POS systems, reservations software, energy-efficient equipment), funding for staff training is inadequate, it reduces marketing and promotional activities and affects the hotel ability to respond to tourism trends. Also, poor access to finance increases cost of capital and reduces the capacity of hotels to adapt to dynamic market demands. Collateral requirements of the bank, high interest rate, bank paper works/bureaucracy and corruption of bank officials affect the process of accessing finance.

5. Conclusion and Recommendations

Access to finance has a significant effect on the profitability of hotels in Plateau state. This satisfies the objective of the study which seeks to examine the effect of access to finance on profitability of hotels in Plateau state. The main objective of this study is to examine the effect of access to finance on the profitability of hotels in Plateau state. The research concludes that access to finance in Plateau State has a significant effect on the profitability of hotel businesses.

Based on the findings of this study, the following recommendations are made: Lack of access to finance and credit opportunities affect payment for transactions and investment. Access to finance was ranked as major obstacles to firm's productivity. The result from this study revealed that access to finance has significant effect on the profitability of hotels in Plateau state. Thus, it is recommended that, the Nigerian Federal Government through the Bank of Industry (BOI) make funds readily available to hotels actors without little or no stringent conditions.

The stringent conditions which cause delay in investment should be reduced especially in the deposit money bank such as high interest rate, bureaucracy problem, limit credit, documentation hurdles and revenue fluctuation make loan and it repayment tough and inaccessible. The central bank of Nigeria's SME restructuring and rescuing fund should be made available for distressed hotel businesses and tourism specific grant should be accessible. Hotels may source for alternative financing such as Angel investor / venture capital, crowd funding, peer- to peer lending, supplier credit, grant and award.

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