EFFECT OF WORKING CAPITAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF HOTELS IN NYERI COUNTY KENYA

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DECLARATION

This thesis is my original work and has not been presented for any academic awards in any other University.

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This thesis is dedicated to all my family members, my wife Jennifer Nyaruai, my children Joy Precious Mumbi, Angel Mitchell Wairimu and Brenda Lita Wamuyu,

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ABBREVIATIONS AND ACRONYMS

APP   Accounts Payable Period

ARP   Accounts Receivable Period

CA   Current Assets

CCC   Cash Conversion Cycle

CR   Current Ratio

DAR   Financial Leverage

DSI   Days Sales of Inventory

DPO   Days Payable Outstanding

FNOs   Financial Needs for Operations

ICP   Inventory Conversion Period

NWCM   Net Working Capital Management

NSE   Nairobi Stock Exchange

ROA   Return on Assets

ROE   Return on Equity

ROI   Return on Investment capital

ROS   Run of Site

SPSS   Statistical Package for Social Science

VIF   Variance Inflation Factor

WC   Working Capital

ABSTRACT

Business success is largely dependent on proper management of its working capital. To ensure a smooth running of the business, a sound working capital policy must be put in place and adhered to. In the hotel industry, inadequacies among financial managers leads to increased amounts of bad debts, high inventory costs among other effects creating a unfavorably effect on the financial performance of the firm. In Nyeri County, lack of proper working capital management has not only led to decline in financial performance but has as well led to the closing of several hotels. In this regard, the researcher sought to examine the effects of working capital management practices on the financial performance of hotels in Nyeri County Kenya. Specifically, the study aimed at achieving the following; to study the effect that cash flow management practices has on the financial performance of the hotels, to analyze account receivables management influence on financial performance, to assess the influence of inventory management on financial performance, and finally establish account payables management effect on the financial performance. The study was anchored on four theories namely:-agency theory, liquidity theory, economic order quantity model and the net trade cycle theory. The study embraced descriptive research design. All hotels in Nyeri county Kenya formed the target population of the study. A purposive sample of two respondents in the management level in each hotel was used. One general manager and one financial manager from each hotel selected. The researcher collected primary data in each of the independent variables with the use of semi structured questionnaire. A pilot study was conducted to enhance the validity and reliability of the data collection instrument. Cronbach alpha coefficient of 0.7 was used to ascertain test the reliability of the data collection instrument. Inferential statistics was also carried out to establish the nature of the relationship that exists between variables. Data was interpreted with the help of 0.05 significance P-values. Model fitness R^2, ANOVA statistics and regression coefficient were generated. Prior to running a regression model, multicollinearity test and normality test were conducted. Data that was analyzed was obtained from 65 respondents out of the targeted 72 achieving 90.3% response rate. Frequencies and percentages were generated from the data and presented using frequency distribution tables while multiple regression analysis was done to establish relationship of each parameter of the independent variables in the study. The results indicated that cash flow management practices and inventory management practices had positive and statistically significant effect on financial performance of the Hotels at the 0.05 level of significance when considered singly and when combined with other variables. Account receivable management practices and account payable management practices had positive but there effect was not statistically significant on financial performance when considered singly and when combined with other variables. The study recommends that Hotels should come up with cash management policy with a view to enhance maintain optimal level and to control cash with a view to ensure that there is smooth running of the day-to-day operations. In addition, Hotels should ensure a balance between their account receivable and account payables as too much of either may be harmful in the long run and this will ensure balance between liquidity and profitability. Future research could focus on the challenges Hotel industry face when they focus on working capital management practices.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Working capital management is critical in value addition to the shareholders wealth (Kweri, 2011).Working capital (WC) management encompasses cash management, inventory management, account receivables, account payables and marketable securities (Nyamao, 2011). Proper management of working capital is intended to ensure optimal utilization of a firm's current assets and current liabilities so as to achieve the superior objective of shareholders wealth maximization. (Ernest and Young, 2012) noted that hotels in any country seek to curtail the working capital cycle by basically quickening the accounts receivables and sometimes adjusting accounts payables. In financial theory, working capital is the difference between current assets and current liabilities. (Farounbi, 2015) defined working capital as the amount of money that is readily available to a Hotel. He pointed it out as the difference between cash possessions or resources that can be readily convertible into cash (current assets) and the commitments made by the Hotel which will soon require cash to settle them down (current liabilities). WC can be used to measure a business's liquidity or its capability to meet the short term obligations as they come due (Emery, 2014).

The concept of working capital was initially developed by Marx (1867). Marx defined the term 'variable capital' as expenditure for payrolls given to workers before completing the tasks allocated to them. The researcher further distinguished this with the phrase 'constant capital', which he considered 'dead labor', referring to expenditure incurred on raw materials and other implements of production generated by labor. The 'variable capital' remains blocked with regards to financial management, work-in-process and other operating expenses until it is released when the finished goods are sold.

1.1.1 Working Capital Management Practices

Brigham and Daves (2012) observed that Management of Working Capital involves two major steps. It entails setting a working capital policy followed by day-to-day operationalization of the set policy. According to (Emery, 2014) it also involves making suitable investments in cash, marketable securities, receivables, and inventories as well

as proper mix of short-term financing forming sound working capital management practices. Sound working capital management for businesses is an important ingredient for the profitability, survival and success as well as liquidity. Maintaining the liquidity level is important in managing working capital to ensure smooth running of the day-to-day operations and enabling the business meet its obligation. Liquidity is a prerequisite for ensuring a firm fulfills its short-term commitments and its constant stream can be assured after a gainful undertaking (Gitman, 2011).

Successfully managing the WC enables a firm to retort swiftly and properly to unforeseen changes in advertisement factors, for example, finance charges, material costs and increase upper hands over its adversaries. Hotels in the modern world have a high extent of working capital hence proper management of the component is a testing quality for the business survival. The administration of present resources (typically converted to money in a bookkeeping year) and current liabilities (mostly released annually). Unbalanced levels of present resources may affect the business in a negative way. However, declining current assets may lessen the level of liquidity and lead to stock outs making it hard to operate (Van Horne and Wachowicz, 2004). Proper Working Capital management enables prudent control of the present resources and liabilities hence maximizing a firm's output and maintaining appropriate liquidity level in the Hotels.

(Gill, 2011) observed that the main aim of working capital management is to reach an ideal equilibrium between the various elements of working capital. Large inventory and generous trade credit policy may lead to high sales. Big volumes of inventory decrease the risk of a stock-out (Raheman, 2013).According to (Charitou, 2010), WCM has been a major issue affecting many firms globally especially due to changing consumer preferences market. Managing the working capital effectively improves the profitability of a firm. The cash conversion cycle in its major components; namely, days in inventory, days sales outstanding and account payables' payment period were associated with the firm's profitability is a key contributor to all the problems. WCM problems have been experienced in the Hotel industry in African countries like Ghana. The hotels in the country have tried to maintain working capital to sufficient levels so as to keep liquidity and profitability in the industry (Eljelly, 2014). When the ratio of current assets is high, the risk of inadequate or cash non-availability is reduced. Businesses should strive to achieve such a ratio. Working capital elements including

inventory, cash, receivables and marketable securities when properly managed, plays an important role in creating value for shareholders wealth.

In Kenya, there have been difficulties in inventory management, revenue collection and payment of suppliers due to inability of managers to regulate revenues and stock levels in major Hotels (Maiywa, 2013). Overall, most hotels in the market work with about half their Working Capital. This means that they collect dues from their customers more than twice faster as they pay their creditors. Most of the hotels pay their creditors in over 10 days slower and hold less than half the required inventory. Almost half of the WCM gap denotes excess inventory being held by emblematic Hotel.

Kenya has over 65,000 hotel beds in 1,700 licensed hotels, out of which 140 (or 8.2%) are classified. This falls below the global standard requirement of at least 100,000 and could limit the country's ability to hold major conferences and conventions (The Kenya Economic Report, 2013). A positive correlation exists between the number of rooms and the performance of the destination. Of the 28 countries in the 2006 database, South Africa had the greatest number of rooms: 61,417. Tanzania was next with 30,600 rooms. Kenya was third with 24,000 rooms National Tourism Strategy, (2013.) In 2011, Kenya achieved the highest average length of stay (13.4 days) in a decade, which was a 2.3 per cent improvement over the previous year Kenya National Bureau of Statistics, (2012). The projected average length of stay (ALS) for the 2012 period is 13.0-13.8 days, a growth of around 3 per cent. Although ALS is a key determinant of per capita tourist spending, there is need to develop innovative tourism products that encourage tourists to spend more. The 1.5 million international tourists that visited Kenya in 2010 generated US$ 700 million for the country's economy. Estimated receipts from tourism in 2012 stood at Kshs. 96.02 billion, a 1.92 per cent drop from the Kshs. 97.90 billion realized in 2011The Kenya Economic Report, (2013).

Nyeri County has attracted many local and foreign tourists in the recent past due to the availability of resources, good infrastructure and hospitality. Due to these hotels is one of the businesses that have attracted quite a number of investors Maiywa(2013). The county receives foreign exchange from tourism sector. It has a number of tourist attractions such as Mt. Kenya National Park, Aberdare National Park and Borden Powel burial site (former head of Scout movement) and it has many commercial banks and microfinance institutions. The tourists enjoy classic accommodation in serene hotel

such as Green Hills, White Rhino, Out-span Hotel, Mt. Kenya Leisure Lodge, Tree Tops and Ark Lodge (Muturi, Wachira, &Lyria, 2015)

Due to the increased tourism in the county, many investors have come to tap in the opportunities. However a number of hotels do not operate for a long time due to failure in the managing working capital. This poses a challenge to this promising sector and it needs to be addressed. The focus of this study was to check the effect of working capital management on financial performance on hotels in Nyeri County Kenya.

1.1.2 Financial Performance

Financial performance is measured using financial matrices like profitability, liquidity, solvency, repayment capacity, short-term financial management, financial efficiency and firm over capacity. Profit means the wealth that a company has created from the utilization of its available resources (Stern, 2014). On one hand liquidity of a business determines its ability to maintain its liquid cash and cash equivalents to meet its debt obligation on a timely basis using the current ratio and quick ratio (Woodruff, 2014). The former describe solvency as the measure of a business ability to meet its debt obligations if all its assets are sold together with its ability to recover from financial turmoil. Hotel's financial performance can also be measured by how well it manages its short term financial goals for example working capital management and inventory management. On one hand financial efficiency measures the degree with which a business is using its assets in the generation of gross revenues and the effectiveness of production, purchasing product, pricing a financing decisions (Woodruff, 2014).

The success of any firm in terms of performance depends on its financial objectives. The firm's financial activities can be measured in monetary terms to provide an insight in the performance of an organization as a whole. This measurement can also be used to determine the firm's overall wealth over a given time horizon. The most recognized measures of financial performance are return on equity (ROE) and return on assets (ROA). The ROE measure earnings over a period of time on shareholders equity investment. It is also the measurement for the amount of income generated by the investment made by an organization's owners (equity holders). The return of asset ROA measured the return on total assets after interest and taxes. It provides the management with information on the level of efficiency with which assets are financed either by debt or equity are generating after tax profits to firm

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1.2   Statement of the Problem

Tourism Sector contributes significantly to the GDP in Kenya contributing over 120 Billion in the year 2018. This figure has been on a steady rise for over three years. One of the key players in the sector is hotels as they provide conference space, accommodation and meals to a wide range of local and international tourists. Hotels alone contribute over 9% of the jobs created in Kenya.   Failure and closure of hotels in Nyeri is alarming with over 15 hotels closed within three years (Mburu, 2015). This implies that if the trend continues, most of the hotels serving in the County might be also be at risk of closure, wiping out the jobs created, limit tourist's attraction, and loss of revenue to County Government and stifle the value chain players' economic being. Unique to hotels is that the largely deal with huge working capital. Inefficient management to of this could be drive for the hotels failure. Finance theory indicates the effective working capital management can influence financial performance and therefore financial sustainability of any business.

Maiywa, (2013) observed that, hotels usually deal with high volume of working capital and failure to effectively manage the working capital has been a great undoing to the hotels. Efficient management of working capital is therefore critical for the company's success and survival as the hotel industry needs to be strengthening in order to enhance performance and contribution to the economic growth (Padachi, 2006).

This knowledge gap is even more serious in the Kenya economy with few empirical attempts to understand past working capital effects on hotel's financial performance. Numerous researches conducted have pointed out the influence that working capital management has on the performance of firms like retail stores in Kenya, but very little research work has been conducted on the effect on financial performance as a result of working capital management of Hotels in the county.   Many studies have been conducted on the subject of working capital. Eminent is the fact that most have been conducted in manufacturing companies, retail shops, SME's and none in an agricultural County like Nyeri creating a contextual gap; Maiywa 2013, Measurement of the working capital varies from one business model to the other and as such a study on working capital management I Hotels would fill a conceptual gap. This study analyzed how the various variables of the WCM practices could influence the financial performance of hotels in Nyeri. The past studies that have been done are not

comprehensive as they left considerable gaps. This study therefore seeks to bridge this gap and provide valuable recommendations for policy and practice.

1.3   General Objective of the Study

Overall, this research work aims at assessing the effect of working capital management practices on financial performance of the Hotels in Nyeri County Kenya. This forms the study's general objective.

1.4   Specific Objectives of the Study

This study adopted the under listed specific objectives:

i. To assess the influence of cash flow management practices on financial performance of the Hotels in Nyeri County Kenya.

ii. To evaluate the role of inventory management practices on financial performance of the Hotels in Nyeri County Kenya.

iii. To analyze the influence of account receivable management practices on financial performance of the Hotels in Nyeri County Kenya.

iv. To evaluate the effect of account payable management practices on the financial performance of the Hotels in Nyeri County Kenya.

1.5   Research Questions

The study is guided by the following research questions:

i. What nature of relationship exists between financial performance and cash flow management practices of the Nyeri County Hotels?

ii. To what extent is the financial performance of the Hotels in Nyeri County Kenya affected by inventory management practices?

iii. How is the financial performance of the Hotels in Nyeri County Kenya influenced by the management practices of account receivable?

iv. Is the financial performance of the Hotels in Nyeri County Kenya affected by the account payable management practices?

1.6   Significance of the Study

The findings of this study will assist the Hotels in Nyeri County make proper decisions regarding working capital management reform model. The findings will enhance the knowledge of the merits and demerits of good financial practices and sound working capital management techniques in the Hotels. The study revealed the current status on working capital management strategies, policies and practices in the Hotel Industry in Kenya. The findings of this study will benefit the management and directors of various Hotels as it provides acumen into the various approaches towards the management of working capital. The study is also expected to assist the management of various Hotels in Nyeri County and the Country at large make sound decisions on the cash management, debtor management and inventory management. The findings will also benefit the academia especially when conducting further research. Finally, the study will help both County and National Governments on matters of strategic planning.

1.7   Delimitation of the Study

The study focuses entirely on the effects of working capital management practices on the performance of hotels running within Nyeri County. The research examined empirical studies done both local and international in this respect. There are many factors that could influence the working capital of a hotel. This study focuses on four of the working capital variables, that is cash flows, receivables, accounts payables and investor. Similarly, there are many measures in finance and accounting used to assess the financial performance of an entity.

This study used two measures that were subsequently combined to obtain a composite measure. These variables were annual sales and annual profit after tax. The hotels used in the study were those hotels registered with the County Government of Nyeri by the December 2017. All other hotels were therefore excluded from this study.

1.8   Limitations of the Study

The study was faced with several challenges. The management of Hotels did not want to reveal all the material information required by the study for accurate results. This was mitigated by assuring confidentiality of the information. An introductory letter for research was obtained from the University to assure the respondents of confidentiality of information. There are no direct measures for working capital management practices.

Towing to this limitation, a summated likert scale, with associated weaknesses was used in the questionnaire and used to measure the working capital management practices of the various hotels.

1.9 Assumptions of the Study

The study made general assumption that the respondents would provide truthful information regarding the practices. In order to assess the validity of the dependent variable, the study also assumed that hotels adhered to local legal requirements including auditing of annual financial statements.

1.10 Operational definition of terms

The following definitions were adopted for purpose of this study:-

Account payable	The money a firm owe's to its suppliers for goods and services received (Deloof, 2003)
Account receivable	The money owed to a firm by its customers for goods or services rendered to them (Deloof, 2003).
Cash management	A measure to utilize the cash resource for is financial health (Deloof, 2003)
Inventory	A list of items used by the firm for production of the final goods, (Deloof, 2003).
Hotel	A hotel is a commercial establishment providing lodging, meals and other services for the public especially travelers and often having restaurants, meeting rooms etc. that are available to the general public, (Bader, 2005).
Performance	Increase in profitability and market share of the firms (Fazzari, 2013).
Working capital management Practices	Well established policies regarding the operating capital in a firm assisting in

	carrying out day to day management of the firm (Smith, 2007).
Working capital management	The practice of Managing receivables, inventories, cash and accounts receivable. (Peterson,2014)
Working capital	Current assets minus the current liabilities. (Peterson, 2014)

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter focused on the studies on management practices of working capital theories as well as results of the empirical on the management practices of working capital effects on the performance of hotels. It covers work that has been done on important theories of finance as well as their relevance to hotels. Discussions in this chapter try to evaluate, present and discover important information from journals, text books, as well as other researchers' and experts findings. These rational summaries seek to confine the thinking of others concerning the variables to be examined.

2.1.1 Financial Performance

A study carried out on the success determinants of financial performance of organizations within France revealed that, financial performance is still a permanent measure for organizations success, and lack of it with crucial required level make threats to their continuity and existence (Lynch, 2011).Financial performance can be defined a measure of how organizations utilizes its assets from its central business as well as generates its proceeds.

The researcher also reported that, the business of retailing industry has been in operation for a period of 100 years in globally and so the arrival of mechanization, globalization, modernization and technology advancements have reflected and are as well having a huge influence on the retailing industry. Today restaurants and hotels take part in a vital function in attending to the neighboring Community. These are the areas where better part of citizens would go shopping for grocery and food stuffs (Foss and Stone, 2011). Herein turbulent and business environment that is competitive, it becomes primal for workers in hotels to maintain developments of business as well as promote the trust of customers through maintenance of good practices in their daily activities. The relationship that exists between the strategy of a retail stores as well as its operations is a vital determinant of its capability to attain survival or even a long-term success. According to Indrian (2010), the achievement of organizations particularly hotels is probable only to effect if short-range set activities are reliable with strategic intentions of long-term.

2.2 Theoretical Review

The study was based on the following theories: Liquidity preference theory, Agency theory, Economic order model as well as credit risk management theory.

2.2.1 Agency Theory

The agent as well as principal theory came up in the year 1970s from the united guidelines of institutional hypothesis and matters of finance. Disputes exist regarding the matter of who came up with the hypothesis, with researchers Mitnick and (Ross,1973) affirming its origination. The scholar Ross is reported to have originally portrayed the dilemma to the extent that one picks a brand of yogurt that is frozen for someone whose tastes he does not have a hint. The mainly cited reference toward the hypothesis, usually is that as it can, came from Meckling and Jensen, (1976). The above hypothesis explains well past institutional investigations or financial matters to every settings of susceptibility, hazard as well as data asymmetry. Regarding the law, principals in place do not recognize adequately concerning whether or rather to what extent an accord has been satisfied, and therefore they conclude with the office costs. The institution hypothesis is a possibility that makes clear the relationship among specialists and principals within a business. Hypothesis of organization is concerned with settling matters that maybe in office relations because of unclear objectives or characteristic loathing levels to danger. The mainly extensively known office relationships in finance take place between executives of the company referred to as agents and investors referred to as principal.

According to Bastos and Pindado (2007) an agency theory viewpoint explains trade credit, as an option to liquidity, tax, costs of transaction and explanations of product quality. There searchers foot their urging on the unfavorable selection as well as moral danger phenomena, both of them paying attention on accounts receivables, and reported that a negative relationship existed between the days to pay accounts payable as well as the days of outstanding sales. In general, Bastos and Pindado (2007) wrap up that theory of agency is a superior candidate than the option traditional models to give details on the trade credit policy.

The findings in this research match with those of Niskanen and Niskanen (2006), who report that older as well as larger organization with additional inner financing, are least probable to utilize trade credit while organizations with high ratios of existing assets to whole assets and organization focus to restructurings of loan utilize additional trade credit. Blasio, (2005), noted that in circumstances in which little studies, if a few, try to separate the issues which influence hotels accounts payable, the key aim is to recognize policy of trade credit effects as deliberated by the total number of days hotels ought to disburse their payable accounts. Agency theory is relevant to the current study since managers of Hotels in the County of Nyeri are anticipated to decrease sale outstanding days particularly for individuals who perform outside catering services which might entail a resultant decrease in the days to disburse payable accounts. Preve (2003), reported that the above might decrease the probability of the financial suffering situation where a decrease in the outstanding payment sales is equivalent with a rise of payable

On contrary, when the managers of hotels expand the days of outstanding sales i.e. receivable accounts was mean an extension of the total days to disburse payable accounts . For instance, a superior execution of temporary strategy of trade credit on the receiving of receivable accounts was offer a decrease on the quantity of payable accounts well-matched with a strategy of cost decrease.

2.2.2   Liquidity Preference Theory

Liquidity inclination in the sector of finance alludes to the interests of cash, which is well thought-out as liquidity. Liquidity idea was initially formed by John Maynard Keynes in the book of his referred to as "The General Theory of Employment, Interest and Money (1936)" to make clear fee loan assurances by the open market doings in favor of cash. According to Jose (1996), the theory of liquidity as current liabilities component as well as current resources is a very important factor in making decisions regarding approaches of working capital and demonstrates organizations capacity of making trade out instance of want. Existing proportion, money proportions and analysis as conformist liquidity measures are uncivilized on the basis that these measures based on monetary record cannot give detailed as well as correct data regarding working capital administration viability.

Equations used for examining these proportions consider equally working resources and fluid in a similar way. In addition, stated customary ratios are as well not important regarding flows of cash (Richards and Laughlin, 1980).

Nyeri County hotels, ought to persist on using current measures of liquidity in management of working capital. This calls for management of a range of hotels in the county to make sure that there is a stable and steady inflows as well as outflows of cash throughout the institution through the acquisition of product, sales, production, collection and payment process which happens over a period of time. Pinches, (1992) recorded that the organizations current liquidity is a function of its cash exchange cycle, it could be extra suitable as well as precise to assess efficiency of management operational capital through cash conversion cycle, instead of measures of customary liquidity.

2.2.3 The Net Trade Cycle Theory

The cycle of net trade which was invented by Shin and Soenen (1998) is equal to the cycle of cash conversion in which the three mechanisms of the cycle of cash conversion that is receivables, payables and inventory are expressed sales percentage, making the cycle of net trading easy to do calculations as well as less difficult. The relationship that exists among the net trade as a gauge of investment and working capital returns in firms within US was investigated. The findings of chi-square test revealed that there is a negative relationship between Net Trade Cycle length and Assets return. Additionally, this contrary relationship was established different across various industries (Shin and Soenen, 1998).

A study carried out about significant relationship on part of the hotels revealed that findings may differ from one hotel to another. In addition, Shin and Soenen (1998) noted the cycle of net trading to be a superior working measure of efficiency of capital as compared to the cycle of Cash Conversion and the biased CCC since it shows the total number of sales days the organization has to fund its operational capital as well as the working capital manager can simply approximate the financial wants of working funds expressed as sales growth function expected.

One of the reasons for making use of cycle of net trading is for the reason that it might be a straightforward tool to approximate for additional financing wants considering the working capital expressed as a function of the growth sales projected. The above relationship may be studied by use of correlation as well as regression analysis by business ought to intensify working capital

Hotels within the County of Nyeri require embracing cash conversion cycle that is short for them to stay alive for a long-term. Beneath specific facts the market appears to reject lodgings for tasking smooth conduct inclining toward unpredictability of profit reflect instability of the income. The resulting effects are crucial and suggest administrators focus their actions on making smooth money streams rather than basically utilizing accumulations for smoothing income. Various different ways exists in which budgetary susceptibility makes communication with inn regard. CAPM indicated that precise hazard should be badly recognized with regard, because higher repayment rates give way a lower regard, in view of existing situations. Shin and Stulz, (2000) noted that systematic hazard sway esteem, in addition to original hazard may be assessed. Precise evidence recommends that negative connection exists between systematic hazard and organization esteem, and in addition a negative as well as a critical relationship between organization esteem and unsystematic hazard. Profit instability and income are the two sorts of hazard option and are of vital significance because unlike factors of budgetary market, they reflect the actual reliability of the inns' money associated articulations plus they are particularly influenced by managerial choices as well as the management planning lodgings' hazard.

2.2.4 Economic Order Quantity Model

Among of the oldest traditional scheduling models of production is economic order quantity model. The model was first invented by Ford W. Harris in the year 1913, although R. H. Wilson, an advisor who used it widely, as well as K. Andler are given recognition for their in detail investigation in the year 1970s. Within management of inventory, economic order quantity (EOQ) is the quantity of order that reduces the entire costs of holding as well as costs of order.

Economic order quantity applies only when products demand is stable over the year and that each novel order is delivered in complete when the inventory comes to zero. Regardless of the number of ordered units, a set cost is charged for placed every order.

According to Wasiam (2007), there is a cost of storage or a holding for every unit kept in storage space. This is occasionally expressed as a percentage of the cost of purchase of the thing.

The model of EOQ is use full in determining the maximum number of the products units to request in order to reduce the entire cost connected with the acquiring, delivery of the purchased product as well as its storage. The essential considerations to the answer are the cost of purchase per item, the whole demand for the year, storage cost for every item for each year plus the fixed cost to place the order. Heikkilä (2002) noted that the total quantity of times ordered as well affect the total cost; nevertheless this quantity may be established based on other considerations

Hotels within the County of Nyeri might utilize the EOQ in their daily operations to make sure that they function with a best level of record which decreases the cost of holding cost as wells as ordering. The model of EOQ makes the assumption that, the cost of order is constant, there is fixed lead time, the rate of demand is also constant, and the price of purchasing the item is steady explicitly no discount is offered, the replacement is made instantly, and that the entire batch is delivered at one time. According to Heikkilä (2002), EOQ model is the quantity to ask for, in order that cost of ordering and carrying is reduced. (An ordinary mistake is that the formula tries to discover when these are the same).

2.3   Empirical Literature Review

An experimental study on performance of working capital was carried out on institutions within India by use of descriptive kind of design and gave approximations via the non-financial retail stores data with a minimum of 3 years of records which are openly accessible over the time of 2001 to 2004 for every industry and company (Anand and Malhotra, 2012).

Throughout the study period, retail stores within India had attained a complex Annual Growth rate of 26.3 % in the total sales in addition to 1.6 % within the 3 year average

margin of working cash. The cycle of cash conversion and the period of operating cycle had decreased by 12.7 % and 10.2% correspondingly on compounded yearly basis.

A study carried out by Mathai (2012) about the relationship that exists between retail stores as well as WCM within Kenya, revealed that money investment in receivables accounts involves a transaction between risk and profitability. The research results are based to the reality that decreasing of standards of credit might encourage the demand that sequentially ought to add to a superior sales as well as profits. The relationship between profitability and WCM of manufacturing institutions programmed at Nairobi stock exchange was carried out and the findings revealed that the machinery of operational capital are entwined and their efficient management take part in a vital function in establishing the profitability levels of these institutions (Kweri, 2011)

Experimental studies carried out by Teruel (2013) showed that institutions that decrease their stocks, accounts receivable are capable to accelerate the conversion cycle of their cash in both small and large supermarkets. Operational capital management effects on profitability of retail stores were tested by use of 8,872 supermarkets over a period of 2003-2011. The study demonstrated that managers can make worth to shareholders as well as retail stores by decreasing the total number of days in receivable accounts and inventory. It was noted that shortening the cycle of cash conversion as well advances the profitability of Retail stores' (Teruel & Solano, 2012).

A study was carried out on the relationship that exists between accounts receivables plus profitability throughout a period of current global crisis. It was meant to investigate how public listed institutions within Netherlands run their operational capital. This study therefore, evaluated two periods; the financial crisis period of 2008–2009 and the non-financial crisis period of 2004-2006 (Baveld, 2012).The researchers' results revealed important negative relationship between gross working profit and accounts receivables throughout the period of non-financial crisis.

Conversely, during the period of financial crisis, no important relation between gross working profit and accounts receivables was observed. This study finding could propose that the relationship that exists between profitability of the firm and accounts receivables changes within a period of a crisis in search a way that a number of firms must not maintain their receivables accounts at least amount so as to exploit profitability throughout periods of crisis.

The weight of components of operational capital management on the profitability of retail stores was studied by use of 62 retail stores as samples within Nairobi from the year 1993 - 2008. The study results revealed that there exists a high important negative relationship between profitability and the period of accounts collection. Considering the relationship between the period of conversion of inventory or the average period of payment as well as profitability, the findings were positive as well as significant (Mathuva, 2011). The effects of WCM on company profitability amongst institutions listed at Nairobi Securities Exchange were studied. The findings from the study showed a negative relationship between DSI and ROS as well as ROA. Days Payable Outstanding (DPO), which is the variable that has weight on ROS has a positive association. The findings reveal that proper management of WC is significant. Furthermore, proper management of inventory in addition to CCC to a best level was given additional profit (Murega, 2013).

2.3.1 Cash Flow Management Practices and financial Performance

Keynes, (1973) opines that drivers for holding cash are merely transaction, precautionary and speculative motives. Companies may hold cash in order to zip the gap between the time of spending and receipt of cash flows following proceeds of sales. By and large, companies may hold certain amount of cash so as to meet perpetual expenses incurred at regular basis. Companies who develop the habit of scheduling cash-flows regenerate transaction motive of holding liquid cash. Weston & Copeland (2008) established that companies may need liquid cash reserves in order to strike a balance between cash inflows and outflows.

Within current experimental literatures on finance, some comprehensive studies have been done to discover as well as provide the options of explaining periods of corporate cash conversion. SMEs Spanish Corporate cash holdings were investigated and findings showed that hotels with additional liquid resources be likely to decrease their levels of cash since these resources may be utilized as cash alternatives with hotels having advanced proportion of temporary debt grasping higher levels of cash, in order that it decreases the non-renewing risks temporary debts (Teruel and Solan, 2015).

A research conducted by Kwame (2007) indicate that establishing a cash balance policy works a long way in ensuring a prudent cash budgeting and investment of the surplus cash. These findings concurs with those of Kotut (2003) who also confirms that in planning for shortage and surplus cash, cash budgeting is profoundly essential; this has a significant effect on financial performance of firms. Ross (2011)asserts that the most effective way to improve firms' profitability is and create a greater market value is to reduce cash tied up in the operating cycle. Thus according to the former, a significant efficient cash management practices improve business performance.

In his book on corporate financial management, Arnold (2008) reveals that and extended cash conversion cycle calls for a complicated investment model. However, by extending the cash conversion cycle an increase in sales which translates into profitability could be realized. The investment cost may rise due to extension of CCC to a level over and above the increment of profitability. Arnold also notes that it is paramount to just keep enough funds as working capital since an excess of it ties up capital. This creates an imbalance between constituents of working capital, thus it is prudent for companies to maintain sufficient cash flows just enough to run operations while at the same time being able to service long term needs of the company. (Arnold, 2008).The weight of management of working capital on 94 Pakistan firms productivity together with hotels for a time period of 2009-2010 was investigated. The research focused on the weight of various variables of management of operational capital together with average time of collection, average time of payment, inventory turnover in days and cash conversion cycle on the Retail stores net working profitability.

The research revealed that a significant negative relationship exists between ratios of operational capital as mentioned as well as Retail stores productivity. In addition, the study revealed that firm managers can make a helpful significance for the shareholders via decreasing the cash conversion cycle (CCC) up to an optimal level (Raheman, Qayyum, & Afza, 2011).

Dong & Tay Su (2010) in their study to examine the relationship between profitability, and cash conversion cycle components for companies quoted in Vietnam Stock Exchange; the researcher employed a crossectional design and found out that there is an existing strong negative relationship between profitability measured in terms of gross operating profit and the CCC and its constituents. This indicates that a declining

profitability is attributed to further increase in CCC. Thus financial stewards of an organization should keep every component of the cash conversion cycle at the lowest level.

2.3.2 Inventory Management Practices and Financial Performance

Keeping inventory levels at optimum decreases possible interruptions costs as well as prevents hotels loss that arises from products scarcity. In addition, it protects against fluctuations of price and reduces costs of supply. The chief goal of inventory management includes setting the right period of inventory holding. Swaminathan (2011) carried out a study to examine the optimal inventory levels wherein the study findings revealed that changing finished goods and raw materials as inventory component is faster than the entire inventory to get to the levels that are reasonable. Other findings have shown that there are other methods that can simplify management of inventory for instance quantity method order as well as just-in-time inventories (Autukaite and Molay, 2011).

Eroglu and Hofer (2011), employed a quite different inventory management tool commonly known as Empirical Leanness Indicator which established a positive relationship between firms' financial performance and inventory management. According to the former, this tool is prominent; in lean production practice, inventory is regarded as a waste which should be reduced.

Lean approach is somehow related to quality inventory management. This study found out that lean approach practiced by US manufacturing firms in the period 2003-2008 affect the profitability positively. The study also found out that lean approach yields a favorable returns from suppliers who practice the same approach thus can stand out in the industry. Eroglu and Hofer (2011) establishes a positive and a non-linear relationship grafted from inventory leanness.

However, the study by Cannon (2008) declares contradicting results. The researcher's point of sentiment contends that the overall firms' financial performance should not be quantified with the inventory performance of the firm. The study suggests that assimilation of ROA is the best key indicator to measure success as well as firms' annual percentage change in inventory turnover. Cannon further explains that a bad result on ROA could be attributed to a poor turnover putting into consideration the

effects of time. In defense, Cannon evidenced that some turnover improvement associated with increment in ROA was not always the case since some other turnover improvement in other firms was associated with decreased ROA. Further, Cannon (2008) analyzed the turnover-ROA dynamism and declares that their relationship could result into a firm into embracing capital intensity. The finding comes with other discoveries. For instance, ROA and the variables did not have a significant influence on the correlation between ROA and turnover improvement. Therefore the study settles that firms' financial performance is not associated with the firm's inventory performance.

Deloof (2003) carried out an experimental study on the influence of control of inventory on firms' performance and reported that the period of inventory conversion has a negative impact on performance of hotels. The results of the study as well noted that, shortening the period of inventory conversion might increase costs of stock out of inventory that consequences in loss of sales opportunities as well as leading to firms performing poorly. According to Lazaridis and Dimitrios (2015), hotel managers must keep their inventory to an optimal level because inventory mismanagement leads to tying up surplus capital at the cost of gainful operations.

Dimitrios (2010) noted that surplus inventory might command more physical space, increase the possibility of damage to inventories, lead to a financial distress, losses as well as deterioration. Furthermore, holding huge volume of inventory often point to incompetent as well as careless procedures and management practices. Conversely, insufficient inventories may increase the possibility of losing sales, lead to disruption of operation in hotels, and as a result lower the firms' profitability.

The relationship between management of operational capital as well as management of inventory with a focus on the significance of inventory management has been studied. The findings of the study points out those hotels with a disadvantaged inventory management can result to serious troubles which demolish profitability that is long-term as well as survival chances of hotels. In addition, firms with a good inventory management might decrease the inventory to optimal levels that has no harmful effect on sales plus production. It was as well revealed that the inventory size directly influences the operational capital as well as its management (Singh, 2010).

2.3.3 Account Receivable Management Practices and Financial Performance

Receivables management has maintained to be an important issue in the hotels where many financial officers strive to identify the major drivers for accounts receivables together with the relative acceptable levels of accounts receivables. Maiywa (2013), suggests that trade credit provisions is usually utilized in hotels as a plan of marketing to maintain or expand sales. Proficient management of receivables increased by a reduced period of collection of creditors, small bad debts levels as well as a good credit policy frequently progresses the capability of hotels to draw new clientele and consequently boost financial performance thus the call for a good credit policy.

The carrying costs linked with credit Costs of granting includes; losses of bad debts, managing credit cash discounts costs, credit collections as well as cash discounts costs and they have shown to increase as the total quantity of receivables approved goes up. Misplaced sales that results from refusing to grant credit to clientele comprise the opportunity cost that reduces when the total receivables amount goes up.

Ross et al. (2013) reported that hotels that are competent in management of receivables generally establish their optimal credit level which reduces the granting credit total costs. Lazaridis &Tryfonidis, (2006) established that there is a statistically supported relationship between profitability and cash conversion cycle. In their study to investigate the effect of accounts receivables management and corporate profitability among a sample of 131 listed firms in Anthens Stock Exchange, the research suggests that in order to create a sustainable value out for the shareholders, optimization of the cash conversion cycle was essential. In the same wavelength Raheman and Nasr, (2007) denotes a negative sentiment; in their study to investigate the relationship between CCC and its constituents with a sample of 94 firms listed in Karachi stock Exchange for the period falling between 1999-2004. The research found out that cash conversion cycle relates negatively with firm profitability.

Michalski (2014) observed that an increase in the accounts receivables level in an institution increases equally holding costs and accounts receivables management as well as net working capital and both can lead to a reduction in the firm value. According to Lazaridis and Dimitrios (2015) institutions that practice increased receivables accounts levels to an optimal level boost their productivity which results from increase share of market as well as sales. Juan and Martinez (2012) conducted a study which

gave emphasis to that hotels might make value by decreasing their accounts receivable number of days, as too established by the results of Deloof (2003) who recognized that the span period of collection of receivables have a negative influence on the performance of an institution. Sushma and Bhupesh (2014) as well confirmed that setting up a good credit policy makes sure that suitable collection of debts measures and is essential in improving effectiveness in management of receivables thus the firms' performance. Managers can make value by decreasing the days of accounts receivable of their firms as well as inventories (Teruel and Solano, 2010).

Afza and Nazir (2009) in their thesis to inspect the relationship between receivables management policies and firms profitability using a sample of 204 non financial firms listed on Karachi Stock Exchange for the period lying between 1998-2005; the study gave a plausible variations among their receivables expectations and financing policies across different sectors.

Furthermore, regression outcome plots a negative relationship between the profitability of firms and the degree of aggressiveness of receivables investment and financing policies.

Finally, a study conducted by Waweru, (2011) on the relationship between receivables management and the value of the companies listed in NSE; indicate that to some extent, there is a positive relationship between receivables management policies and the firms performance. The Pearson correlation suggests that there is a negative relationship between average cash collection period, cash conversion cycle, and the firms' performance.

2.3.4 Account Payable Management Practices and Financial Performance

A study on the trade credit demand by small retail stores in UK revealed an important confirmation of a demand of funding for trade credit. The findings showed that small institutions that disburse liabilities of trade credit overdue emerge to do that after they get to their limit on short-term finance of banks. These firms of rationed credit were usually export oriented as well as growing (Wilson et al., 2011). As a result, if the obligation of constitutional interest considerably decreases the trade credit accessible to smaller firms, this can cause harsh liquidity problems as well as increased rates of failure unless finance alternative is readily accessible. Several other resolutions to the

crisis of delayed payment have been suggested. For instance, it has been disputed that management of credit is a deserted task in a lot of problems as well as enlarged rates of failure unless finance option is readily accessible.

According to Wilson et al., (2014), poor management of credit practices is one of the fundamental reasons of delayed payment. A total of 1009 huge Belgian Retail stores of non-financial nature were examined for a period of 1992-1996. The findings revealed that managers can raise Retail stores profitability by decreasing the days in inventories and accounts receivable. Based on the research, Retail stores that are less profitable strain their payable accounts (Deloof, 2003). In Japan, 2,123 Retail stores of non-financial nature listed in the Tokyo Stock Exchange were studied for the time of 1990-2004.

The findings showed that managers of companies can raise productivity by shortening the cycle of cash conversion, the period of receivables collection plus the period of inventory conversion. The results as well as recommended that lengthening the period of payables deferral might increase productivity (Nobanee and Alhajjar, 2013). Nevertheless, managers ought to be cautious since lengthening the period of payables deferral might spoil the credit reputation of the company and hurt its productivity in the over a period of time.

According to Falope&Ajilore (2014), delaying suppliers' payments allows companies to evaluate the products quality that were bought also it can be cheap as well as flexible financing source. Nevertheless, we ought to remember that late payment might have a very high implied cost when payment discounts are made early. While money is as well confined in operational capital, the bigger the investment in existing resources, the lesser the risk but as well the lesser the productivity gained. Nobanee&Alhajjar (2013) in their study sampled 2, 123 non-financial companies quoted in Tokyo Stock Exchange for the period 1990-2004. The study found out that companies can increase profitability by deferring payable period to the extent that this deferral could not damage the credit reputation of the company and may consequently harm the profit making in the long term.

In their study conducted by Abor, (2007) to investigate the relationship between debt policy and financial performance, of Small and Medium –Sized enterprises in Ghana and South Africa; employing and a panel data and using varied measures of

performance to measure debt policy and its effect on financial performance, the results maintains that debt policy installed in an organization influences financial performance though not in exclusive terms. Significant to note is that debt policy especially total debt ratios negatively affect the firms' financial performance of SMEs. This goes with the suggestion that agency issues may lead to organizations pursuing very high debt policy thus hampering performance. This study was conducted in Ghana and South Africa thus suffer contextual gap. The variables under Abor's study are also different from those of our study hence a conceptual gap.

2.4 Conceptual framework

The conceptual framework gives details on the association that exists between dependent variables and independent variables. The dependent variables include hotels performance while independent variables include management of inventory, cash management, management of account receivables plus management of account payables. The arrows direction indicates the direction of impact provoked by the independent variables on the dependent variable. The similar figure is used to formulate the aims of the study, coming up with the operational framework as well as research questions. Consequently, the study conceptualizes that hotels performance is influenced by management of cash flow, management of inventory, account receivables management, as well as management of account payables.

Figure 2.1: Conceptual Framework

Independent Variables   **Dependent Variable**

Cash flow management Practices

Inventory Management Practices

Account Payable Management Practices

Financial Performance

Account Receivable Management Practices
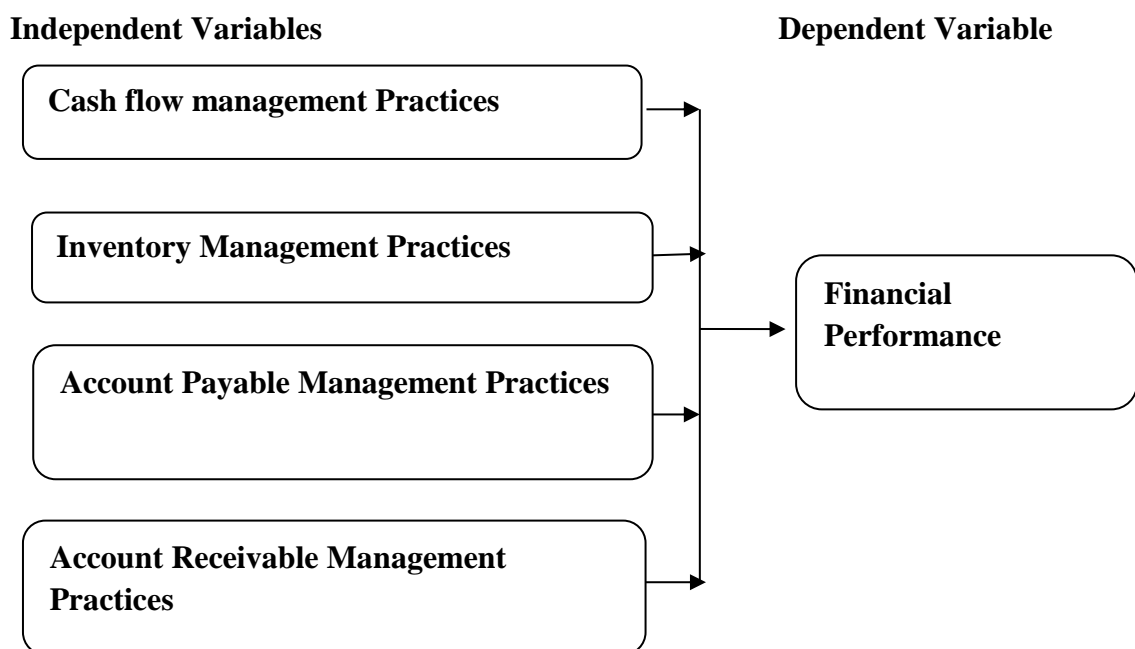
2.5 Operational framework

The parameters studied are indicated below and they were shown in the instrument of data collection issued in the study area. The parameters used in the measurement of the variables were obtained from the finance theory.

Independent variables   **Dependent Variables**

Cash Flow Management Practices
- Transaction motive
- Speculative motive
- Precautionary motive
- Mode of payments
- Cash collected control

Inventory Management Practices
- Re-order level
- Stock Taking
- Quantity Discount
- Sales forecast
- Consumption level

Account Receivable Management Practices
- Credit sales
- Collection Period of Account Receivables
- Credit limits of customers
- Account receivable policy
- Account receivable reconciliation

Account Payable Management Practices
- Credit Purchases
- Credit limits of Suppliers
- Payment Period of Account Payables
- Account payable policy
- Account payable reconciliation

Financial Performance
- Sales
- Net Profit after Tax

Figure 2.2:   Operational Framework

2.6 Critique Empirical Literature

Evidence from existing literature reviewed for purposes of this critique reveals both positive and negative relationship between the components of the working capital management and the performance benchmarks namely; profitability, return on assets, return on equity, growth in sales, and firm size.

For instance, a review on researches done on effects of working capital management on profitability, return on assets (ROA), growth in sales, firm size and return on Equity (ROE) of firms in Belgium, Athens, United States of America, Pakistan and India respectively as asserted by Deloof (2003) cited in the work of Kulkanya (2012), Christopher and Kamallavi (2009), Azam and Haider (2011) Shin and Soenen (1998); shows a positive relationship. However, Researches conducted by Raheman and Nasr (2007), Azam and Haider (2011, Falope and Ajilore (2009), Nwidobie and James (2011), on Pakistan, India and Nigerian firms all revealed negative relationship between working capital management and indicators of corporate performance.

From the reviewed literature and their findings however, it was noticed that most of there searches were conducted using the variables which were tested severally against single dependent variable at different times and results were inferred to the general performance of SMEs. A point in spotlight here are the research conducted by Raheman and Nasr (2007) Deloof (2003) in Kulkanya (2012) effects of WCM on profitability, effects of WCM on Sale, effects of WCM on ROA, Azam and Haider (2011) effects of inventory turnover days on ROA and ROE. Besides, most of these researches were conducted in the developed economies while only few of such researches have so far been carried out in the developing economies particularly the African countries.

The Small and Medium Enterprises abysmal performance in Nigeria observed by James (2012) has also shown lack of government support and commitment to encourage the SMEs. The managers themselves appears to lack the proper training and skill to efficiently and effectively manage their resource as observed by Emery *et al.,* (2004)that some managers use poorly constructed model for financial decision which consequently affect their performance negatively. This study therefore, addressed this gap by looking at the effects of all the components of working capital management namely; - cash, accounts payable, accounts receivable and inventory (independent variables) at the same time and testing them with multiple (dependent variables)

including profitability, growth in sales, return on assets and return on equity which are some of the performance indicator unlike most previous research which treated these variables in isolated cases.

2.7 Research Gaps

In Nigeria, most of the studies carried out revealed that working capital has affected the SMEs negatively. This is evidenced in the studies of Egbide (2009), Falope and Ajilore (2009), Nwidobie (2012), Kehinde (2011) and Onugu (2005) who revealed that, all components of working capital affect profitability at varying level of significance, and that cost of capital exceeds return on investment, SMEs perform below expectation, and that most fail within 2 years after start while strongest fail within 6 years living few survivors all due to problems related businesses to finance especially working capital.

There is therefore the need for SMEs to properly manage their resources especially working capital so as to enhance their performance and growth. These problems as mentioned above coupled with the fact that there has not been any prior research on the effects of working capital management on the performance of hotels in Nyeri County is the reason why this research is a modest contribution to bridge the gaps presented among these critical pillars of economy; hotels.

With the proliferation of literature, our focus was to zip the gaps among researches on the same subject at Kenyan sphere. The local researchers conducted on the working capital had geographic and methodological gaps. The research by Nyamao et al. (2012) was on the small scale enterprises leaving a geographical gap, the research also focused on Kisii South District, leaving locational gap thus the findings of the study also required validation in other areas of the country and among companies listed in the NSE. Nyamao used a cross sectional survey leaving a subjective and bias methodology gap.

 In the same wavelength Mathuva (2009) in his study examining the influence of working capital management on the profitability of firms listed on the Nairobi Stock Exchange, the contextual gap has been left which needed to be addressed, other than that; the number of firms he examined were 30 thus there was need to increase the number to achieve more representative results. In view of this our research increased the number of hotels under the study to 36 and targeting 72 managers.

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Mathuva applied the Pearson and Spearman's correlations, the pooled ordinary least squares, and the fixed effects regression models in data analysis. The study found a highly significant negative relationship between profitability and the time it takes for firms to collect cash from their customers. The study also found a highly significant positive relationship between profitability and the period taken to convert inventories to sales and the time it takes for firms to pay creditors. These results, however needed a validation with a different analysis process.

A significant aspect of financial management in the industry of hotel is management of working capital. A lot of what has been documented regarding management of working capital practice relates to things that actively deal with the retail stores and manufacturing sector. The majority of the earlier studies insisted on paying attention on study of bigger firms, but the current assets management as well as liabilities is a significant issue in hotels cases (Teruel & Solano, 2008).

A majority of these institutions have current liabilities and current assets as well as their chief external finance sources as hotels have problems in accessing capital markets of long-term and getting funds. A contradictory argument on diverse management of working capital practices as well as their influence on financial performance exists. For example, even as the majority of studies maintain that shorter cycles of cash conversion increases productivity, other studies have different approval. Occasionally shorter cycles of cash conversion are connected with elevated opportunity costs with longer cycles of cash conversion being connected with elevated costs of carrying and therefore, longer cycles of cash conversion may increase productivity (Nobanee, 2009). For that reason, the current study intends to find out the effects of management of operational capital practices on hotels financial performance.

There are more other researches on working capital that left literature gaps. Different scholars based their studies on different theoretical assumptions, there was need to use liquidity preference theory because hotel industry alludes more to the cash management and operation of imprest system

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter explains the method of research that was used in conducting the study. The chapter describes the methods as well as procedures that were used during data collection, processing and analysis. It thus, explains the design of the research, study population, procedure of sampling and size of the sample, instrument of data collection, techniques of analysis and procedures that was used in the study.

3.2 Research Design

In this study descriptive design was used. Descriptive research reveals relationships through samples assessment at one point without making of causal statements or inferences (Mugenda &Mugenda, 2003). The research design gives a detailed study on the significance of management of operational capital on Hotels financial performance. The research design was therefore the most appropriate to enble the research achieve the objectives.

3.3 Target Population

In this study, the population of target was hotels in Nyeri County. Nyeri County was selected due to the increased investment in hotels in the County. The study focused on hotels having a bed capability of 20 and above. The justification is that these hotels have practically conventional financial management process as well as practices. The total number of hotels within Nyeri County with bed capacity of 20 and above is 36 (County Government of Nyeri, 2017). In hotel structure up to two managers are likely to be most informed regarding the variables of this study. These are General manager and the Finance manager. Thus the population of the study was 72 managers of the 36 selected hotels in Nyeri County.

3.4 Accessible Population

The study accessible population was all the 72 managers working in the 36 hotels. The population of 72 managers is regarded as a small population. Where a population is

fairly small and accessible a census is recommended instead of sample. This study therefore used census and no sampling was done.

Sampling as described by Schinder, (2008, Bryam 2012) is the process of choosing the units of the target population which are to be included in the study in such a way that the sample of selected elements represent the population.

3.5   Data Collection Instruments

Both secondary as well as primary data was utilized in this study. In the case of secondary date, a secondary data sheet was used to collect information on the annual sales and also the net profit after tax (NPAT) amounts for the five years (2012-2016) from each of the 36 hotels in Nyeri County. One the other hand, a semi-structured questionnaire was utilized to gather primary data. According to Mugenda &Mugenda (2003), a questionnaire is an instrument of research that consists of a series of questions as well as other prompts in order to gather information from respondents. The semi structured questionnaire was used to collect data for each of the independent variable and dependent variable.

3.6   Data Collection Procedure

During data collection, questionnaire was administered personally and thus, the questionnaire was self administrated in the collection of the primary data. In thecae of secondary data, the annual financial statements of the five years (2012-2016) of each of the hotels were obtained from the manager of the hotel. The relevant information of the annual sales and the net profit after tax was picked and transferred to the data collection sheet ready for analysis. The procedures of collecting primary and secondary date are widely supported in literature (Bryman 2012).

3.6.1   Validity of Data Collection Instrument

The term validity can be described as the meaningfulness as well as accurateness of inferences that are based on the findings of the research (Kathuri, 2013, Bryman 2012). A pilot study was conducted by a researcher using the questionnaire to pre-test the dependability as well as the validity of the instrument. The pilot study was done on five hotels in Embu County of the same class with Nyeri hotels. The pilot study was done in the month of December. The pilot data was used in the real study. Also the content

of the questionnaire was examined and read by the professionals who were made up of the academic staff as well as supervisors to assess items clarity.

The exercise ensured that the use of suitable sentence structure, vocabulary as well as questions is appropriate to the deliberate respondents. Legitimacy was determined through looking for judgment of specialist from the supervisor by making appropriate remarks, holding discussions, making propositions that help in developing and revising the instrument of research.

3.6.2 Reliability of Data Collection Instrument

According to Moskal and Leydens (2010), Bryman (2012) the term reliability may be described as the degree to which an evaluation tool gives dependable as well as constant results. Reliability is the extent to which findings are stable in due course and produces accurate depiction of the whole population; if the findings of the study are repeated using the same method and gives similar findings; in that case the instrument of research is considered to be a reliable instrument. This research has established consistent stable results in harmony of the work of Joppe, (2010). For reliability to be certified, similar questions within the questionnaire was given to every respondent engaged. Reliability was assessed using Cronbach's alpha coefficient (α). A threshold of 0.7 coefficients was used for acceptable variable item. The findings are shown in Table 3.1.

Table 3.1: Pilot Study Results

Variable	No. of Items	Cronbach Alpha (α)
Cash flow Management Practices	6	0.824
Inventory Management Practices	4	0.763
Account Receivable Management Practices	4	0.798
Account Payable Management of Practices	4	0.814

From the findings, Cash flow Management practices had Cronbach Alpha (α) of 0.824, Inventory management practices had Cronbach Alpha (α) of 0.763, Account receivable

Management practices had Cronbach Alpha (α) of 0.798 and Account Payable Management practices had Cronbach Alpha (α) of 0.814.

Since all the Cronbach Alpha (α) coefficients are above 0.7, these shows the research instrument was reliable and hence was used in this study. These statistics are acceptable in research (Bryman 2012).

3.7 Data Analysis and Presentation

The collected data was coded, and fed into the computer for its analysis by use of SPSS. The data was then presented in form of charts, figures and tables. A model of multiple linear regression was utilized.

The direction as well as the degree of relationships was provided by the correlation coefficients. The correlation coefficient measures the co-variation or association of two or more dependent variables. Before inferential analysis the data was accessed for regression assumption of Gaussian distribution using a histogram with a curve. In addition variance inflation fitness (VIF) was used to test the IV'S for multicollineality. Correlation coefficient (v) was used to test the uncertainty of the independent variables. A bivariate regression was first constituted to access the relationship between both the independent variables and dependent variables. The model fitness (R^2) was used to access the relationship of financial performance that could be explained by variations in each of the study variables. ANOVA statistics (F-ratio and associated P-value) were generated and interpreted as 5% level of significance. Finally regression coefficient were generated and interpreted.

Below is the model;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$
Where:
Y= Hotels Financial Performance
β_0= Constant
$\beta_{1 \text{ to }} \beta_4$ = Regressions Coefficients
X_1 = Management of Cash flow Practices
$X_{2=}$ Management of Inventory Practices
X3 = Management of Account Receivable Practices
X4 = Management of Account Payable Practices
ε = Models Error term

3.8   Ethical Issues

The code of ethics of the University guided the researcher before data collection and got authority from appropriate authorities and offices. The same entailed obtaining a written introductory letters from the School of Business Management and Economics of Dedan Kimathi University. The questionnaire used in the study comprised a section showing confidentially of data, safe custody, and security keeping. In addition, participants did not write their names on the questionnaire to evade respondents' exposure.

CHAPTER FOUR

RESEARCH FINDINGS AND DISCUSSIONS

4.1   Introduction

This chapter presents the research findings and discussion of the study guided by the four specific objectives; to establish the influence of cash flow management on financial performance of the hotels in Nyeri County Kenya, to assess the inventory management role on financial performance of the hotels in Nyeri County Kenya, to analyze the influence on financial performance resulting from account receivable management by hotels in Nyeri County Kenya and to determine account payable management effects on the financial performance of the hotels in Nyeri County Kenya. The analysis was guided by the specific objectives and research questions of the study as highlighted in chapter one which were conceptualized in chapter two. Data interpretation was done in line with the research objectives and research questions. The techniques proposed in chapter three for data analysis and presentations were used to do the analysis and presentation.

4.2   Response Rate

The study targeted 72 respondents who are the managers of the Hotels in Nyeri County. Out of the 72 questionnaires that were issued 65 were dully filled and returned to the researcher for analysis. This gave a response rate of 90.3%. This response rate is within recommendation of Mugenda and Mugenda (2003) who stipulated that a response rate of 70% and above is excellent.

Table 4.1: Results for Response Rate

	Targeted	Returned
Numbers	72	65
Percentage (%)	**100**	**90.3**

4.2.1   Level of Education

The study sought to establish the level of education of various managers of the hotels in Nyeri County. As shown in Table 4.2 below, 20% of the respondents had academic

certificate, 4.6% professional certificate, 67.7% were diploma holders while 7.7% were degree holders. This indicates the respondents had an understanding on how working capital management could influence financial performance of the hotels.

Table 4.2: Level of Education

Level of Education	Frequency (n)	Percent (%)
Certificate level	13	20.0
Professional certificate	3	4.6
Diploma holder	44	67.7
Degree Holder	5	7.7
Total	65	100.0

4.2.2 Working Experience

The study sought to determine working experience of the managers under study. From the findings in Table 4.3 below, it indicates that majority of the managers (44.6%) had a working experience of more than 10 years. It is worth noting that a minority of the respondents (20.0%) had a working experience of less than 5 years. This is an indication that the data gathered was from the reliable target populace with readily available information and that the information was reliable for research.

Table 4.3: Working Experience

Working Experience	Frequency (n)	Percent (%)
Less than 5 years	13	20.0
5 - 10 years	23	35.4
More than 10 years	29	44.6
Total	**65**	**100.0**

4.3   Financial Performance of Hotels

The study sought to establish the performance of Hotels in Nyeri County in terms of sales turnover and net profit after meeting all the operational costs for the year 2012 to 2016. In order to establish the performance the study sales and net profit data was

weighted to determine the mean and standard deviation. The findings were summarised in the Table 4.4 and Table 4.5.

Table 4.4: Average Annual Turnover (Kshs in Million)

Year	N	Minimum	Maximum	Mean	Std. Dev.
2012	65	8.90	56.30	28.1169	7.2458
2013	65	15.40	56.50	31.7554	10.0361
2014	65	16.70	45.80	26.6846	3.1689
2015	65	11.20	39.60	25.9277	4.6194
2016	65	17.20	50.30	30.8554	5.0559

As shown in Table 4.4, year 2013 had the highest average annual turnover with a mean of 31.75554 Million and standard deviation of 10.0361 followed by year 2016 with a mean of 30.8554 Million and standard deviation of 5.0559. Year 2012 had a mean of 28.1169 Million and standard deviation of 7.2458. Year 2014 had a mean of 26.6846 Million and standard deviation of 3.1689 while year 2015 had a mean of 25.9277 Million and standard deviation of 4.6194. High turnover in year 2012, 2013 and 2016 could be attributed to the election period where various seminars and workshops are held in various Hotels across the county leading to increased sales.

Table 4.5: Average Net Profit After Tax (Kshs in Million)

Year	N	Minimum	Maximum	Mean	Std. Dev.
2012	65	4.70	12.30	8.7615	1.8682
2013	65	3.90	12.30	9.8385	1.8773
2014	65	5.30	9.20	7.8492	1.3644
2015	65	5.00	10.20	7.7800	1.7012
2016	65	4.50	10.50	9.5323	1.6309

From Table 4.5, the study revealed that year 2013 had the highest net profit after tax with a mean of 9.8385 Million and standard deviation of 1.8773 followed by year 2016 with a mean of 9.5323 Million and standard deviation of 1.6309. Year 2012 had a mean of 8.7615 Million and standard deviation of 1.8682. Year 2014 had a mean of 7.8492

Million and standard deviation of 1.3644 while year 2015 had a mean of 7.7800 Million and standard deviation of 1.7012. Critical review establishes that as the annual turnover increases, net profit after tax also increases though not in the same proportion. This implies that as more workshop and seminars are held in Hotels the performance of hotels increases significantly.

4.4   Test of Regression Assumption

Prior to running a regression model, pre-estimation and post estimation tests were conducted. The pre-estimation tests conducted in this case were the multicollinearity test while the post estimation tests were normality test. This is usually performed to avoid spurious regression results from being obtained.

4.4.1   Test of Normality of Data

An assessment of the normality of data is a prerequisite for many statistical tests because normal data is an underlying assumption in parametric testing. Graphical method is used to establish whether data is approximately normally distributed. The results from the graphical method are presented in the Figure 4.1 below, indicating that the data are normally distributed.
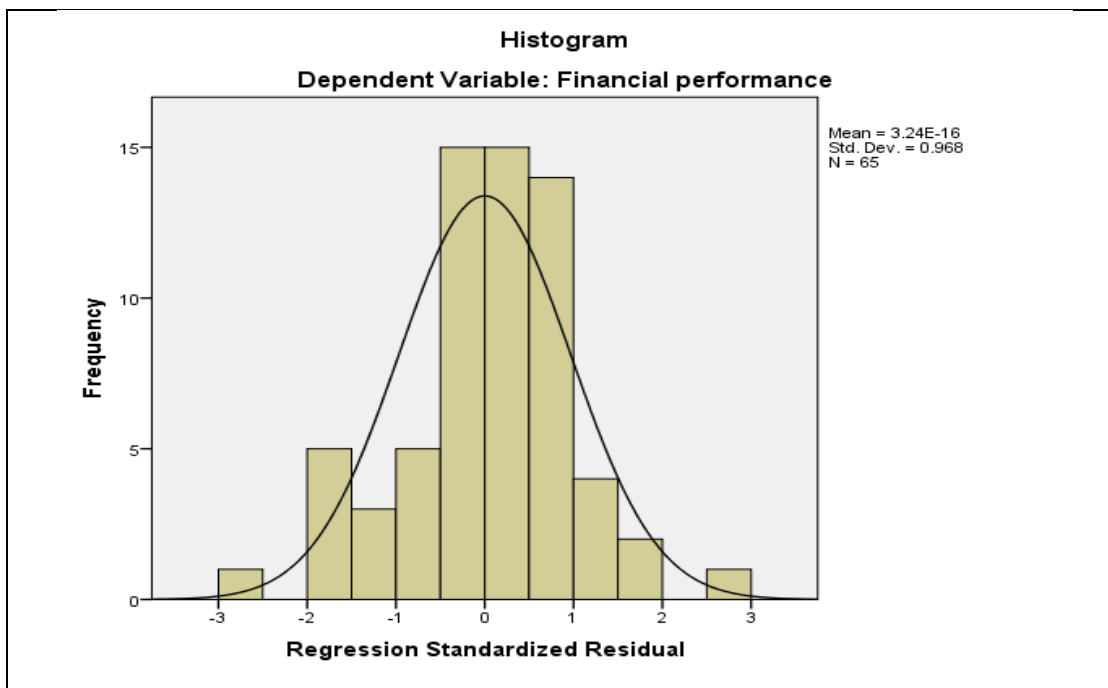
Figure 4.1: **Histogram for Normality Test**

4.4.2 Test of Multicollinearity

Multicollinearity occurs when more than two predictor variables are inter-correlated, Kothari (2004). This is an undesirable situation where the correlations among the independent variables are strong as it increases the standard errors of the coefficients.

To test for multicollinearity, Variance Inflation Variable (VIF) or tolerance, a diagnostic method was used to detect how severe the problem of multicollinearity is in a multiple regression model. VIF statistic of a predictor in a model indicates how much larger the error variance for the unique effect of a predictor (Baguley, 2012). Using the VIF method, a tolerance of less than 0.20 and a VIF of more than 5 indicates a presence of multicollinearity. If two or more variables have a Variance Inflation Factor (VIF) of 5 or greater than 5, one of these variables must be removed from the regression analysis as this indicates presence of multicollinearity (Runkle et al., 2013). From Table 4.6 there is no VIF with a value of 5 or greater than 5 and therefore no presence of multicollinearity.

Table 4.6: Multi-collinearity Test Results

	Collinearity Statistics	
Model	**Tolerance**	**VIF**
Cash flow Management Practices	.805	1.242
Inventory Management Practices	.606	1.651
Account Receivable Management Practices	.681	1.468
Account Payable Management Practices	.828	1.208

4.4.3 Linearity Test

To establish the nature and magnitude of the relationships between working capital management factors and financial performance, the researcher used Pearson's Product Moment Coefficient Correlation (r) to establish any linear associations among the variables in the study, as well as their nature and strength. This measure, usually symbolized by the letter (r), varies from ranging from -1 to +1, with 0 indicating no

linear association. In order to conduct correlation analysis the set of items that measured each variable were aggregated by computing the average. The findings of the correlation analysis as shown in Table 4:7 indicated that all the independent variables had a positive correlation with the dependent variable. Cash flow management was positively and significantly related to financial performance of Hotels r = 0.274, p value 0.027 < 0.05 at 0.05 significance level.

Inventory management was positively and significantly related to financial performance of Hotels r = 0.368, p value 0.003 < 0.05 at 0.05 significance level. Account receivable management was positively but not statistically significant related to financial performance of Hotels r = 0.090, p value 0.474 > 0.05 at 0.05 significance level. Account payable management was positively but not statistically significant related to financial performance of Hotels r = 0.128, p value 0.308 > 0.05 at 0.05 significance level.

Table 4.7: Correlation Results

Independent variables		Financial performance
Cash flow Management Practices	Pearson Correlation	.274[*]
	Sig. (2-tailed)	.027
Inventory Management Practices	Pearson Correlation	.368[**]
	Sig. (2-tailed)	.003
Account Receivable Management Practices	Pearson Correlation	.090
	Sig. (2-tailed)	.474
Account Payable Management Practices	Pearson Correlation	.128
	Sig. (2-tailed)	.308

*One tailed significant , **Two tailed significance

4.5   Cash flow Management Practices and Financial Performance

The study sought to establish the influence of cash flow management on financial performance of hotels in Nyeri County. Various indicators on cash flow management were considered and the findings were summarised in the Table 4.8 below;

Table 4.8: Descriptive Statistics of Cash Flow Management Practices

Cash Flow Management Practices	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev.
The hotel hold cash for transaction motive	53.8	38.5	7.7	0	0	4.4615	.63926
The hotel hold cash for speculative motive	4.6	6.2	69.2	10.8	9.2	2.8615	.84552
The hotel hold cash for precautionary motive	10.8	6.2	63.1	10.8	9.2	2.9846	.99204
All payments in hotel are made through petty cash	21.5	4.6	61.5	7.7	4.6	3.3077	1.04468
The hotel practice is to bank all cash collected before spending	23.1	50.8	26.2	0	0	3.9692	.70643
Hotel reconcile cash sales receipts at the end of every shift	40.0	47.7	12.3	0	0	4.2769	.67332

A high percentage of 92.3% agreed that hotel hold cash for transaction motive with a mean of 4.4615 and standard deviation of 0.6393. A low percentage 10.8% and 17.0% indicated that hotel hold cash for speculative and precautionary motive with a mean of 2.8615 and 2.9846 respectively. 26% of the respondents agreed that all payments are made through petty cash with a mean of 3.3077 and standard deviation of 1.04468. A high percentage 73.9% agreed that hotel practice is to bank all cash collected before spending with a mean of 3.9692 and standard deviation of 0.70643 while 87.7% agreed that reconciliation of cash sales receipts is done at the end of every shift with a mean of 4.2769 and standard deviation of 0.6733.

The finding of the study that hotels hold cash for transaction motive and bank substantial amount of money before spending support Gitman (2011), who stated that maintaining the liquidity level is important in managing working capital to ensure smooth running of the day-to-day operations and enabling the business meet its obligation. He noted that liquidity is a prerequisite for ensuring a firm fulfills its short-term commitments and its constant stream can be assured after a gainful undertaking.

Table 4.9: Model Summary for Cash Flow Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.274[a]	.075	.060	1.11205

a. Predictors: (Constant), Cash flow management practices

Table 4.9 showed the values of R and R^2 for the model fitted of 0.274 and 0.075 respectively. The R value of 0.274 portrayed a positive linear relationship between the cash flow management and financial performance of hotels.

The R^2 value of 0.075 implied that 7.5% of the variation in financial performance was explained by the model $Y = \beta_0 + \beta_1 X_1$.

Table 4.10: ANOVA for Cash Flow Management Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	6.306	1	6.306	5.100	.027[b]
1	Residual	77.909	63	1.237		
	Total	84.215	64			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Cash flow management practices

An ANOVA was carried out which as from Table 4.10 showed the F statistic p value of 0.027. Since the p value of the F- statistic was less than 0.05, it implied that considering the simple regression model fitted above cash flow management had significant effect on financial performance of Hotels.

Table 4.11: Coefficients for Cash Flow Management Practices

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
	(Constant)	2.676	.400		6.696	.000
1	Cash flowManagement	.253	.112	.274	2.258	.027

a. Dependent Variable: Financial performance

The results of coefficients to the model Y= 2.676 + 0.253X_1 indicates that cash flow management is statistically significant at the 0.05 level of significance as shown on Table 4.11. This was because the p value of 0.027 was less than 0.05. The constant term implied that at zero consideration of cash flow management, financial performance would be at 2.676, increasing the cash flow management would increase the financial performance by 0.253. The finding of the study support Arnold, (2008), who noted that working capital management is not only improving financial performance of the hotels, but it is the question of meeting Hotels day to day operation. This implies that cash management is paramount for the daily running of organization as well as enhancing financial performance.

4.6 Inventory Management Practices and Financial Performance

The study sought to establish the influence of inventory management on financial performance of hotels in Nyeri County. Various parameters on inventory management were considered and the findings were summarised in the Table 4.12 below

Table 4.12: Descriptive Statistics of Inventory Management Practices

Inventory Management Practices	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev.
Hotel do stock taking on daily basis	43.1	24.6	32.3	0	0	4.1077	.86824
Goods are purchased when need arises (JIT)	9.2	10.8	44.6	18.5	16.9	2.7692	1.14249
The hotel has re-order level policy	0	64.6	32.3	3.1	0	3.6154	.55035
Hotel use sales forecast approach to place order	26.2	38.5	35.4	0	0	3.9077	.78508
The quantity bought per product depends on its consumption level	0	50.8	24.6	21.5	3.1	3.2308	.89738
Hotels buy goods in large quantities to enjoy trade discount.	13.8	35.4	29.2	18.5	3.1	3.3846	1.04122

On average 67.7% agreed that Hotel do stock taking on daily basis with a mean of 4.1077 and standard deviation of 0.86824. A low percentage 20.0% indicated that goods are purchased when need arises with a mean of 2.7692 and standard deviation of 1.14249. A high percentage 64.6% agreed that Hotel has re-order level policy with a mean of 3.6154 and standard deviation of 0.55035 while 64.7% agreed that Hotel use sales forecast approach to place order with a mean of 3.9077 and standard deviation of 0.78508. Half of the respondents agreed that the quantity bought per product depends on its consumption level with a mean of 3.2308 and standard deviation of 0.89738. Slightly below average 49.2% agreed that Hotels buy goods in large quantities to enjoy trade discount with a mean of 3.3846 and standard deviation of 1.04122.

The finding of the study that hotels use sales forecast approach to place order and undertake stock taking on daily basis concurs with Raheman (2013), who noted that large inventory and generous trade credit policy may lead to high sales and effective inventory management decrease the risk of a stock-out. Dimitrios (2010) noted that surplus inventory might command more physical space, increase the possibility of damage to inventories, lead to a financial distress, losses as well as deterioration. Furthermore, holding huge volume of inventory often point to incompetent as well as careless procedures and management practices.

Table 4.13: Model Summary for Inventory Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.368[a]	.136	.122	1.07494

a. Predictors: (Constant), Inventory management influence financial performance of hotels to a high extent.

Table 4.13 showed the values of R and R^2 for the model fitted of 0.368 and 0.136 respectively. The R value of 0.368 portrayed a positive linear relationship between the inventory management and financial performance of hotels. The R^2 value of 0.136 implied that 13.6% of the variation in financial performance was explained by the model $Y = \beta_0 + \beta_2 X_2$.

Table 4.14: ANOVA for Inventory Management Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	11.419	1	11.419	9.882	.003[b]
1	Residual	72.797	63	1.156		
	Total	84.215	64			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Inventory management practices

An ANOVA was carried out which as from Table 4.14 showed the F statistic p value of 0.003. Since the p value of the F- statistic was less than 0.05, it implied that considering the simple regression model fitted above inventory management had significant effect on financial performance of Hotels.

Table 4.15: Coefficients for Inventory Management Practices

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	t	Sig.
	(Constant)	2.125	.464	0	4.579	.000
1	Inventory Management	.375	.119	.368	3.144	.003

a. Dependent Variable: Financial performance

The results of coeficients to the model $Y= 2.125 + 0.375X_2$ indicates that inventory management is statistically significant at the 0.05 level of significance as shown on Table 4.15. This was because the p value of 0.003 was less than 0.05. The constant term implied that at zero consideration of inventory management, financial performance would be at 2.125, increasing the inventory management would increase the financial performance by 0.375. The finding of the study assert earlier finding by Lazaridis and Dimitrios (2015), who opined that hotel managers must keep their inventory to an optimal level because inventory mismanagement leads to tying up surplus capital at the cost of gainful operations. Singh (2010), found out that inventory size directly influences the operational capital as well as its management.

4.7   Account Receivable Management Practices on Financial Performance

The study sought to establish the influence of account receivable management on financial performance of hotels in Nyeri County. Various parameters on account receivable management were considered and the findings were summarised in the Table 4.16 below.

Table 4.16: Descriptive Statistics of Account Receivable Management Practices

Account Receivable Management Practices	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev.
Hotel Sells Goods on Credit	0	6.2	73.8	10.8	9.2	2.7692	.70199
Hotel has Account Receivable Payment Policy	0	60.0	32.3	7.7	0	3.5231	.64001
It takes less than a month to Collect Debts	58.5	23.1	18.5	0	0	4.4000	.78661
There is Credit Limits to Our Customers	0	52.3	32.3	6.2	9.2	3.2769	.94386
There is maintenance of account receivable records and reconciliation	26.2	49.2	24.6	0	0	4.0154	.71790
Some Hotels debts are not recoverable	0	32.6	24.6	36.9	6.2	2.8308	.96127

Very few respondents 6.2% agreed that Hotel sells goods on credit with a mean of 2.7692 and standard deviation of 0.70199. A high percentage 60.0% agreed that Hotel has account receivable payment policy with a mean of 3.5231 and standard deviation of 0.64001. A substantial percentage 81.6% agreed that it takes less than a month to collect debts with a mean of 4.4000 and standard deviation of 0.78661. Slightly more than half of the respondents 52.3% agreed that there is credit limits to the customers with a mean of 3.2769 and standard deviation of 0.94386. A high percentage 75.4% agreed that there is maintenance of account receivable records and reconciliation with a mean of 4.0154 and standard deviation of 0.71790. About a third of the respondents 32.6% indicated that some Hotels debts are not recoverable.

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The finding supports earlier finding by Maiywa (2013), who noted that proficient management of receivables increased by a reduced period of collection of debts, small bad debts levels as well as a good credit policy frequently progresses the capability of hotels to draw new clientele and consequently boost financial performance thus the call for a good credit policy. According to Lazaridis and Dimitrios (2015) institutions that practice increased receivables accounts levels to an optimal level boost their productivity which results from increase share of market as well as sales. Sushma and Bhupesh (2014) as well confirmed that setting up a good credit policy makes sure that there is suitable collection of debts

Table 4.17: Model Summary for Account Receivable Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.090[a]	.008	-.008	1.15145

a. Predictors: (Constant), Account receivable management

Table 4.17 showed the values of R and R^2 for the model fitted of 0.090 and 0.008 respectively. The R value of 0.090 portrayed a positive linear relationship between the account receivable management and financial performance of hotels. The R^2 value of 0.008 implied that 0.8% of the variation in financial performance was explained by the model $Y= \beta_0 + \beta_3 X_3$.

Table 4.18: ANOVA for Account Receivable Management Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	.687	1	.687	.518	.474[b]
1	Residual	83.528	63	1.326		
	Total	84.215	64			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Account receivable management

An ANOVA was carried out which as from Table 4.18 showed the F statistic p value of 0.474. Since the p value of the F- statistic was greater than 0.05, it implied that considering the simple regression model fitted above account receivable management had insignificant effect on financial performance of Hotels.

Table 4.19: Coefficients for Account Receivable Management Practices

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.316	.321	0	10.338	.000
	Account Receivable Management	.087	.120	.090	.720	.474

a. Dependent Variable: Financial performance

The results of coefficients to the model $Y = 3.316 + 0.087X_3$ indicates that account receivable management is statistically insignificant at the 0.05 level of significance as shown on Table 4.19. This was because the p value of 0.474 was greater than 0.05. The constant term implied that at zero consideration of cash flow management, financial performance would be at 3.316, increasing the account receivable management would increase the financial performance by 0.087.

The finding of the study supports Michalski (2014) who observed that an increase in the accounts receivables level in an institution increases equally holding costs and accounts receivables management as well as net working capital and both can lead to a reduction in the firm value. Juan and Martinez (2012) conducted a study which gave emphasis that hotels might make value by decreasing their accounts receivable number of days, as too established by the results of Deloof (2003) who recognized that the span period of collection of receivables have a negative influence on the performance of an institution.

4.8   Account Payable Management Practices on Financial Performance

The study sought to establish the influence of account payable management on financial performance of hotels in Nyeri County. Various parameters on account payable management were considered and the findings were summarised in the Table 4.20 below

Table 4.20: Descriptive Statistics for Account Payable Management Practices

Account Payable Management Practices	SA (%)	A (%)	N (%)	D (%)	SD (%)	Mean	Std. Dev.
Hotel Purchase Goods on Credit	0	56.9	43.1	0	0	3.5692	.49904
There is Timely Payment of Account Payables	30.8	40.0	29.2	0	0	4.0154	.78047
Hotel has Account Payable Policy	0	43.1	53.8	3.1	0	3.4000	.55340
There is Maintenance of Account Payable Records and Reconciliation	55.4	24.6	20.0	0	0	4.3538	.79904
Credit limit to Hotels is based on performance	0	50.8	24.6	21.5	3.1	3.2308	.89738
Failure to pay creditors on time inhibits future credit purchases	32.3	40.0	26.2	1.5	0	4.0308	.80950

Slightly above half of the respondents 56.9% agreed that Hotels purchase goods on credit influence financial performance of hotelswith a mean of 3.5692 and standard deviation of 0.49904. A high percentage 70.8% agreed that there is timely payment of account payables with a mean of 4.0154 and standard deviation of 0.78047. Slightly below average 43.1% agreed that Hotel has account payable policy with a mean of 3.4000 and standard deviation of 0.55340.

A substantial percentage 80% agreed that there is maintenance of account payable records and reconciliation with a mean of 4.3538 and standard deviation of 0.79904.About half of the respondents 50.8% agreed that credit limit to Hotels is based on performance with a mean of 3.2308 and standard deviation of 0.89738. a substantial 72.3% agreed that failure to pay creditors on time inhibits future credit purchases with a mean of 4.0308 and standard deviation of 0.80950. The finding revealed that suppliers are paid on time and hotels had credit policy. Nevertheless, we ought to remember that late payment might have a very high implied cost when payment discounts are made early. Falope&Ajilore (2014), noted that delaying suppliers'

payments allows companies to evaluate the products quality that were bought also it can be cheap as well as flexible financing source.

Table 4.21: Model Summary for Account Payable Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.128[a]	.017	.001	1.14660

a. Predictors: (Constant), Account payable management

Table 4.21 showed the values of R and R^2 for the model fitted of 0.128 and 0.017 respectively. The R value of 0.128 portrayed a positive linear relationship between the account payable management and financial performance of hotels. The R^2 value of 0.017 implied that 1.7% of the variation in financial performance was explained by the model $Y = \beta_0 + \beta_4 X_4$.

Table 4.22: ANOVA for Account Payable Management Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	1.390	1	1.390	1.057	.308[b]
1	Residual	82.826	63	1.315		
	Total	84.215	64			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Account payable management

An ANOVA was carried out which as from Table 4.22 showed the F statistic p value of 0.308. Since the p value of the F- statistic was greater than 0.05, it implied that considering the simple regression model fitted above account payable management had insignificant effect on financial performance of Hotels.

Table 4.23: Coefficients for Account Payable Management Practices

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	2.915	.608	0	4.791	.000
	Account Payable Management	.159	.154	.128	1.028	.308

a. Dependent Variable: Financial performance

The results of coefficients to the model $Y = 2.915 + 0.159X_4$ indicates that account payable management is statistically insignificant at the 0.05 level of significance as shown on Table 4.23. This was because the p value of 0.308 was greater than 0.05. The constant term implied that at zero consideration of cash flow management, financial performance would be at 2.915, increasing the account payable management would increase the financial performance by 0.159. According to Wilson et al., (2014), poor management of credit practices is one of the fundamental reasons of delayed payment. A total of 1009 huge Belgian Retail stores of non-financial nature were examined for a period of 1992-1996. The findings revealed that managers can raise Retail stores profitability by decreasing the days in inventories and accounts receivable. Based on the research, Retail stores that are less profitable strain their payable accounts (Deloof, 2003).

4.9   Working Capital Management Practices on Financial Performance

A multiple linear regression analysis between the predictor and the weighted scores of the dependent variable measures, that is; average net profit after tax and average annual sales of each of the respondent hotel. The composite value of the response variable was used in the rest of the analysis of the study variables. In order to conduct multiple regression analysis the set of items that measured each independent variable were weighted. Multiple linear regression analysis was then used to test whether there existed interdependency between independent variables (Account payable management, Account receivable management, Cash flow management, Inventory management) and dependent variable (Financial performance). The findings of the multiple regression

analysis for each of the four independent variables are discussed in Table 4.24 to Table 4.26.

Table 4.24: Model Summary for Working Capital Management Practices

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.448[a]	.201	.148	1.05896

a. Predictors: (Constant), Account payable management, Account receivable management, Cash flow management, Inventory management

b. Dependent Variable: Financial performance

Table 4.24 showed the values of R and R^2 for the model fitted of 0.448 and 0.201 respectively. The R value of 0.448 portrayed a positive linear relationship between the cash flow management and financial performance of hotels. The R^2 value of 0.201 implied that 20.1% of the variation in financial performance was explained by the model $Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e$

Table 4.25: ANOVA for Working Capital Management Practices

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	16.931	4	4.233	3.775	.008[b]
1	Residual	67.284	60	1.121		
	Total	84.215	64			

a. Dependent Variable: Financial performance
b. Predictors: (Constant), Account payable management, Account receivable management, Cash flow management, Inventory management

An ANOVA was carried out which as from Table 4.25 showed the F statistic p value of .008. Since the p value of the F- statistic was less than 0.05, it implied that considering the multiple regression model fitted above working capital management factors under consideration had significant effect on financial performance of Hotels.

Table 4.26: Coefficients for Working Capital Management Practices

Model	Unstandardized Coefficients		Standardized Coefficients		
	B	Std. Error	Beta	t	Sig.
(Constant)	.674	.885	0	.762	.449
Cash flow Management	.258	.123	.269	2.090	.041
Inventory Management	.379	.151	.372	2.506	.015
Account Receivable Management	.086	.129	.093	.664	.509
Account Payable Management	.140	.157	.113	.893	.375

The results of coefficients can be represented in the model $Y= 0.674 + 0.258X_1 + 0.379X_2 + 0.086X_3 + 0.140X_4$. The result indicates that cash flow management and inventory management had positive and statistically significant effect on financial performance of Hotels at the 0.05 level of significance because their p value of 0.041 and 0.15 was less than 0.05.

Account receivable management and account payable management are statistically insignificant at the 0.05 level of significance because their p value of 0.509 and 0.375 was greater than 0.05. The constant term implied that at zero consideration of working capital management on financial performance would be at 0.674. The optimal regression model for this study was $Y= 0.674 + 0.258X_1 + 0.379X_2 + e$. Account receivable and account payable were removed from the optimal model since their effect on financial performance of hotels was found not statistically significant. The finding of the study supports Weston & Copeland (2008), who established that companies may need liquid cash reserves in order to strike a balance between cash inflows and outflows.

A research conducted by Kwame (2007), indicated that establishing a cash balance policy works a long way in ensuring a prudent cash budgeting and investment of the surplus cash. These findings concurs with those of Kotut (2003), who confirmed that in planning for shortage and surplus cash, cash budgeting is profoundly essential as it has a significant effect on financial performance of firms. According to Lazaridis and

Dimitrios (2015), hotel managers must keep their inventory to an optimal level because inventory mismanagement leads to tying up surplus capital at the cost of gainful operations.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1   Introduction

This chapter presents the summary of the research work undertaken, discusses the research findings, the conclusions that were drawn, recommendations made, knowledge gained and the suggested areas of further research based on the analyzed data related to the general and specific objectives of the study.

5.2   Summary of the Finding

This section presents a summary of the main findings of the study based on the four core objectives that the researcher sought to accomplish. The general objective of the study was to assess the effect of working capital management practices on financial performance of the Hotels in Nyeri County Kenya. The study specifically sought to assess the effect of cash management practices, inventory management practices, account receivable management practices and account payable management practices on the financial performance of the Hotels in Nyeri County Kenya.

5.2.1   Cash Management Practices and Financial Performance.

The first objective of the study was to examine the influence of cash management practices on financial performance of the Hotels in Nyeri County Kenya. Descriptive results revealed that majority of the hotel hold cash for transaction motive and their practice is to bank all cash collected before spending. In addition, hotels do reconciliation of cash sales receipts at the end of every shift to ensure smooth running of the day-to-day operations. The study further revealed that some payments are made through petty cash and this was an indication that there were some payments through cheques. The bivariate regression results indicated that cash flow management had positive and statistically significant effect on financial performance of the Hotels at the 0.05 level of significance. Multiple regression further revealed that cash flow management practices had positive and statistically significant effect.

5.2.3 Account Receivable Management Practices and Financial Performance.

The third objective of the study was to analyze the influence of account receivable management practices on financial performance of the Hotels in Nyeri County Kenya.

Descriptive results revealed that most of the Hotel do not sells goods on credit however they have account receivable payment policy for the few credit sales. The study further revealed that there is credit limits to the customers and normally takes less than a month to collect debts. The bivariate regression results indicated that account receivable management practices had positive but not statistically significant effect on financial performance of the Hotels at the 0.05 level of significance. Multiple regression further revealed that account payable management practices had positive but not statistically significant effect.

5.2.2 Inventory Management Practices and Financial Performance

The second objective of the study was to evaluate the role of inventory management practices on financial performance of the Hotels in Nyeri County Kenya. Descriptive results revealed that majority of the Hotel undertake stock taking on daily basis and they mainly use sales forecast approach to place order. Hotels were found to have re-order level policy although some goods are purchased when need arises. The bivariate regression results indicated that inventory management practices had positive and statistically significant effect on financial performance of the Hotels at the 0.05 level of significance. Multiple regression further revealed that inventory management practices had positive and statistically significant effect

5.2.4 Account Payable Management Practices and Financial Performance

The fourth objective of the study was to determine the effect of account payable management practices on the financial performance of the Hotels in Nyeri County Kenya. Descriptive results revealed that about half of the goods are purchase goods on credit but there is timely payment of account payables. The study further revealed that there is maintenance of account payable records and reconciliation and the Hotels do have account payable policy. The bivariate regression results indicated that account payable management practices had positive but not statistically significant effect on financial performance of the Hotels at the 0.05 level of significance. Multiple regression

further revealed that account payable management practices had positive but not statistically significant effect.

5.3   Conclusions of the Study

The studies revealed that majority of the respondents had worked with hotel industry for more than 5 years. This indicates that respondents can articulate issues relating to effect of working capital on financial performance of the Hotels. The results of study revealed that cash flow management had positive and statistically significant effect on financial performance of the Hotels. Therefore the study concludes that hotels develop cash flow management policy that will ensure cash is maintained at the optimal level in order to ensure smooth running of the day-to-day operations and ultimately enhance financial performance.

Inventory management practices had positive and statistically significant effect on financial performance of the Hotels. The study conclude that hotels should adopt several approaches such as just in time, sales forecast among other in order to maintain optimal inventory level to avoid overstocking or running out of stock.

Account receivable management practices had positive but their effect was not statistically significant on financial performance of the Hotels. This could be attributed by the fact that most of the hotels sales were done on cash basis. This study therefore conclude that hotels should continue embarking on selling its products on cash basis as since adopting credit sales does not have major effect on financial performance

Account payable management practices had positive but their effect was not statistically significant on financial performance of the Hotels. The study therefore concludes that hotels can opt to pay on cash basis since credit purchases and its management does not have a major effect on financial performance of the Hotels

Hotels which focus on ensuring that there is consistency and efficiency in the employment of current assets and current liabilities during their day to day activities stand a better chance of realizing growth in sales but may suffer reduced profitability as more money is tied into the working capital.

5.4   Recommendations of the Study

Based on the research study, a number of recommendations can be made to improve the financial performance of Hotels.

i.   The Hotels should come up with cash flow management policy with a view of maintaining of optimal level and to control cash for smooth running of the day-to-day operations.

ii.   The managers should adopt appropriate approaches of managing inventory in order to maintain optimal level and avoid shortages of food products or stock-outs.

iii. Hotels should ensure a balance between their account receivable and account payables as too much of either may be harmful in the long run and this will ensure balance between liquidity and profitability.

iv.   Management of hotels in Nyeri County market should develop working capital policies that will effectively and efficiently manage their working capital to ensure that maximum returns are derived for their respective firms.

5.5   Areas of Further Studies

The study confined itself to Hotels in Nyeri County, Kenya while there is need to undertake comparative studies covering Hotels in other Counties in order to validate whether the findings can be generalized. Future researchers should also focus on challenges Hotel industry face when they focus on working capital management practices.

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APPENDICIES

Appendix I: Specimen Letter to Respondents

Dear sir/ madam,

REF: PERMISSION TO COLLECT DATA

I am a student at Dedan Kimathi University of Technology, pursuing a Masters of Business Administration in finance. I am doing a research on the effect of working capital management on performance of hotels in Nyeri County Kenya. I request that you kindly answer to the questionnaire as truthfully as possible. The information gathered will be for academic purposes only and confidentiality will be maintained.

Your response will be highly appreciated.

Thank you.

 Yours Faithfully,

James Murigu Riri

APPENDIX II: QUESTIONNAIRE

Kindly take a few minutes of your busy time to respond to the questions/statements presented in this questionnaire.

SECTION A: GENERAL AND PERSONAL INFORMATION

1) Kindly indicate your education level

    a) Secondary school Graduate   (   )

    b) Certificate level   (   )

    c) Professional certificate (CPA)   (   )

    d) Diploma Holder   (   )

    e) Degree Holder   (   )

    f) Any other (specify) ……………………………..

2) How long have you worked in this hotel?

    a) Less than 5years   (   )

    b) 5- 10years   (   )

    c) More than 10years   (   )

SECTION B: CASH FLOW MANAGEMENT

To what extent do you agreed with the following cash flow management factors affect financial performance in your hotel? The equivalences are; SA- Strongly Agree; **A** – Agree**; N**- Neutral; D- Disagree and **SD-** Strongly Disagree.

Cash flow Management Practices	SA	A	N	D	SD
The hotel hold cash for transaction motive					
The hotel hold cash for speculative motive					
The hotel hold cash for precautionary motive					
All payments are made through petty cash					
The hotel practice is to bank all cash collected before spending					
We reconcile cash sales receipts at the end of every shift					

SECTION C: INVENTORY MANAGEMENT

To what extent do you agree with the following Inventory management factors affect financial performance in your hotel? The equivalences are; **SA-** Strongly Agree; **A** – Agree; **N**- Neutral; **D**- Disagree and **SD-** Strongly Disagree.

Inventory management Practices	SA	A	N	D	SD
Hotel do stock taking on daily basis					
Goods are purchased when need arises					
The hotel has re-order level policy					
Hotel use sales forecast approach to place order					
The quantity bought per product depends on its consumption level					
Hotels buy goods in large quantities to enjoy trade discount.					

SECTION C: RECEIVABLE MANAGEMENT

To what extent do you agree with the following account receivable management factors affect financial performance? The equivalences are; **SA-** Strongly Agree; **A** – Agree; **N**- Neutral; **D**- Disagree and **SD-** Strongly Disagree.

Account receivable management Practices	SA	A	N	D	SD
Hotel sells goods on credit					
Hotel has account receivable policy					
It takes less than a month to collect debts					
There is credit limits to our customers					
There is maintenance of account receivable records and reconciliation					
Some Hotels debts are not recoverable					

SECTION D: ACCOUNTS PAYABLE MANAGEMENT

To what extent do you agree with the following account payable management factors affect financial performance? The equivalences are; **SA-** Strongly Agree; **A** – Agree; **N**- Neutral; **D**- Disagree and **SD-** Strongly Disagree.

Account payable management factors	SA	A	N	D	SD
Hotel purchase goods on credit					
There is timely payment of account payables					
Hotel has account payable policy					
There is maintenance of account payable records and reconciliation					
Credit limit to Hotels is based on performance					
Failure to pay creditors on time inhibits future credit purchases					

SECTION E: FINANCIAL PERFORMANCE

Kindly provide an estimate of the following financial details;

Financial Year	2012	2013	2014	2015	2016
Annual Sales Turnover					
Net Profit after Tax (NPAT)					

Appendix III: List of Hotels in Nyeri County with Over 20 Bed Capacity

1. Treetop Hotel
2. Out span Hotel
3. Silent Lodge Hotel
4. Mounting Lodge
5. Fairmount Kenya safari lodge
6. Golden Gates Hotel
7. Eland Safari Hotel Limited
8. Sangare Gardens
9. The Ark lodge
10. Rhino Watch Safari Lodge
11. Tickles Hotel
12. Aberdare county club
13. Express hotel Nyeri
14. Afrique Paradise Hotel
15. Ivory Resort Hotel
16. Omega Hotel Karatina
17. Coconut Palm Hotel
18. Central Hotel Nyeri
19. White Gates Country Home
20. Queens Park guest House
21. Davis Court
22. Giraffe Ark Hotel
23. Mount Kenya Leisure Lodge
24. Maru B Court Hotel
25. OldoiyoLengai
26. Whiterhino Hotel
27. Naromoru River Lodge
28. Ibis Hotel Karatina
29. Westwood Hotel
30. County Inn Karatina
31. Maru A Court
32. Ibis Hotel Nyeri
33. Nyeri Star
34. Shabeen Hotel
35. Starbucks hotel
36. Batian Grand Hotel

(County Government Nyeri , 2017)