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

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ABSTRACT

This research was aimed at examining the effects of working capital management practices on the financial performance. The study sought to establish, the influence of cash management practices on financial performance of the Hotels in Nyeri County Kenya. The study was anchored liquidity 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 independent variable with the use of semi structured questionnaire..Cronbach alpha coefficient of 0.7 was used to ascertain test of the reliability of the data collection instrument. Inferential statistics was also carried out to establish the nature of the relationship that exists between variable and performance. Data was interpreted with the help of 0.05 significance P-values. Model fitness R2, 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. The results indicated that cash flow management practices had positive and statistically significant effect on financial performance of the Hotels at the 0.05 level of significance 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. Future research could focus on the challenges Hotel industry face when they focus on working capital management practices.

Keywords: Capital management practices, Cash management practices, Hotels in Nyeri County

1. INTRODUCTION

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).

According to (Charitou,Elfani& Lois2010), 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.

(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).

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.

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

Statement of the Problem

Several hotels in Nyeri County have closed in the past few years while some have been struggling with reduced sales. Such cases include the Outs-pan Hotel, Westwood Hotel, Maru B Court Hotel, Naromoru River lodge, Eland Safari Hotel and the Davis Court (Mburu, 2015). 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. He further noted that due to poor working capital management, some hotels pay their employees poorly while some are never able to increase the salaries of their employees which results to poor performance of the hotels. Poor working capital management has seen big number of entrepreneurs in the Hotel industry failing appallingly in the past few years. This failure is mostly attributed to inability of the managers in charge of finances to regulate the working capital of the hotels they work for (Maiywa, 2013).

Working capital management is not only improving financial performance of the hotels, but it is the question of meeting Hotels day to day operation .Failure of these hotels is a major setback to the investors and to the economy in general due to the lost jobs, supplies and other economic activities within 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 (Pandachi, 2012). 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 impact on financial performance as a result of working capital management of Hotels in the county. The little evidence available for the Kenyan Context and the need for advanced knowledge of working capital management prompted for a research in this area. 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.

Purpose 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.

Specific Objectives of the Study

This study aimed at establishing the connection between cash management practices and the financial performance of the Hotels in Nyeri County Kenya.

2. LITERATURE REVIEW

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.

Theoretical Review
The study was founded on 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.

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).

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.

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 networking 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 cross-sectional 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.

Conceptual Framework

The dependent variables include hotels performance while independent variable is cash management. The arrows direction indicates the direction of impact provoked by the independent variable on the dependent variable. Consequently, the study conceptualizes that hotels performance is influenced by management of cash.

Independent Variable   **Dependent Variable**

Cash flow management   financial performance

3. RESEARCH METHODOLOGY

In this study descriptive design was used. In this study, the population of target was hotels in Nyeri 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 Thus the population of the study was 72 managers of the 36 selected hotels in Nyeri County. This study therefore used census and no sampling was done. Both secondary as well as primary data was utilized in this study. The collected data was coded, and fed into the computer for its analysis by use of SPSS.

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.

4. RESEARCH RESULTS AND DISCUSSIONS.
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 1 there is no VIF with a value of 5 or greater than 5 and therefore no presence of multicollinearity.

Table 1: Multicollinearity Test Results

Model	Collinearity Statistics	
	Tolerance	VIF
Cashflow Management Practices	.805	1.242

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 4:5 indicated that all the independent variables had a positive correlation with the dependent variable. Cashflow 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 2: Correlation Results

Independent variables		Financial performance
Cashflow Management Practices	Pearson Correlation	.274[*]
	Sig. (2-tailed)	.027

Cashflow 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 3 below;

Table 3: 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 0.63926. 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 0.67332.

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: 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), Cashflow management practices				

Table 4. 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 cashflow 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 5: 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), Cashflow management practices						

An ANOVA was carried out which as from Table 5 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 cashflow management had significant effect on financial performance of Hotels.

Table 6: Coefficients for Cash Flow Management Practices

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	2.676	.400		6.696	.000
1	CashflowManagement	.253	.112	.274	2.258	.027
a. Dependent Variable: Financial performance						

5. DISCUSSION AND CONCLUSION

The results of coefficients to the model $Y = 2.676 + 0.253 X_1$ indicates   that cashflow management is statistically significant at the 0.05 level of significance as shown on Table 6. This was because the p value of 0.027 was less than 0.05. The constant term implied that at zero

consideration of cashflow management, financial performance would be at 2.676, increasing the cashflow management would increase the financial performance by 0.253. The finding of the study support Amold (2016), 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.

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 cashflow 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 cashflow management practices had positive and statistically significant effect

Recommendations of the Study

Based on the research study, a number of recommendations can be made to improve the financial performance of Hotels. First, the Hotels should come up with cash management policy with a view of maintaining of optimal level and to control cash for smooth running of the day-to-day operations. Secondly, Management of hotels in the Kenyan 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.

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