EFFECTS OF WORKING CAPITAL MANAGEMENT PRACTICES ON
THE FINANCIAL PERFORMANCE OF TOURIST HOTELS IN
MOMBASA COUNTY, KENYA

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A Research Project Submitted in Partial Fulfilment for the Degree of
Master of Business Administration (Finance Option) of Technical
University of Mombasa

2015
DECLARATION

This Research Project is my original work and has not been presented for a degree award in any other University.

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MBA/0006/2013

This research project has been submitted for examination with our approval as University Supervisors.

Signature…………………........................Date …………………………………

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Technical University of Mombasa, Kenya

Signature ………………………………… Date …………………………

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Technical University of Mombasa, Kenya
DEDICATION

I wish to dedicate this project to my parents Mr. and Mrs. Joshua and my brothers Vincent and Austin for the support they have given me so far.
ACKNOWLEDGMENT

I am acknowledging the Almighty Lord for the far He has brought me especially in my academics. I wish also to acknowledge my sincere gratitude and appreciation to my supervisors Dr. J. Ndirangu and Dr. W. Kingi for their guidance and wise counsel throughout the preparation of this research. To my correction supervisor Dr. Anwar, the assistance was great, thank you. Special thanks goes to my Dad who has supported and encouraged me throughout my life and especially during this research. To my relatives, friends and classmates, I acknowledge the contribution you made towards the success of my research. Lastly, I am acknowledging the Technical University of Mombasa and especially the Business School and the School of Graduate Studies for facilitating the success of this research.
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<tr>
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<td>ACP</td>
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<td>EOQ</td>
<td>Economic Order Quantity</td>
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<tr>
<td>ERP</td>
<td>Enterprise Resource Planning</td>
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<tr>
<td>UNWTO</td>
<td>United Nations World Tourism Organization</td>
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<td>WT&amp;TC</td>
<td>World Travel and Tourism Council</td>
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DEFINITION OF TERMS

**Working Capital**
Funds required by the business to pay for the day-to-day operation of the business (Atrill, 2006).

**Cash Conversion Cycle**
The period between the point at which cash is first spent on the production of a product and the final collection of cash from a customer (Gitman, 2009).

**Current Assets**
Business’s assets that are in cash form like bank or can quickly be turned into cash (Pandey, 1999).

**Current Liabilities**
Money owed by a business that will need to be paid in the next 12 months (Pandey, 1999).

**Liquidity**
The ability of a business to pay what it owes – as those amounts become due (Gitman, 2009).

**Hotel**
A commercial establishment that provides lodging, meals and other services for travellers and other paying quests (Kingi, Mukulu & Oloko, 2013). For the purpose of this study, a tourist hotel refer to the star rated hotels.
ABSTRACT

The study focused on the effects of working capital management (WCM) practices on the financial performance of tourist hotels based on the tourist hotels at the Kenyan coastal region. Systematic random sampling was applied to select a sample of 22 hotels from the total 44 as listed by the Ministry of Tourism. Questionnaires were used to collect primary data from the accountants and Managers of the hotels as they were well versed with the data required. The data collected was analyzed using descriptive statistics to determine the mean, standard deviation, minimum and maximum of the various variables. Pearson correlation coefficient was also used to analyze the relationship between the dependent variable (financial performance) and the independent variable based on the inventory turnover days, number of days accounts receivable, number of days accounts payable and the cash conversion cycle. All the independent variables showed a negative correlation to the net operating profit, which meant that the days of converting inventory and receivables into cash together with paying creditors needed to be shortened for increased profits. With a correlation of \( r = -0.6 \) to \(-0.8\), the study showed that the hotels best financial performance strongly relates to the efficient management of working capital components whereby the shareholders’ value can be created through shortening of the cash conversion cycle. Therefore, the management should identify the hotel’s unique working capital drivers and relevant risks and use them to develop their unique working capital management policies and practices that are in line with their business model and the overall hotel corporate strategy.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Over the years, poor management of working capital has been one of the major reasons for business insolvency, bankruptcy and the ultimate failure. Working capital refers to the funds needed to pay for the daily operations of the business, which are the short-term drivers of an organisation (Harris, 2005). Gross working capital consists of cash, inventory, account receivables and account payables. Atrill (2006) defines net working capital as a net of the short-term assets and liabilities that continuously flow into and out of the business that are important for daily operations. Mukhopadhyay (2004) terms working capital as the life giving force of any business venture and states that for continued business operations then the current assets (bank, cash, marketable securities, payment of advance taxes, debtors and inventories) and current liabilities (short-term loans, creditors and advances) should be well managed. Performance revolves around an organization’s output in respect to its objectives and is expressed in terms of profitability and expected behavioral output. Financial performance is regarded the only worthy measure of organizational performance due to its value to the shareholders, management and the market (Fwaya, 2006). This is because it indicates an organization’s success and sustainability through its ability to operate above its costs.
Maintaining the working capital at an optimum is the main concern of working capital managers as a firm loses money in the form of interest on the blocked funds in case of holding excess working capital when there are inadequate opportunities. During periods of economic turbulence, the firms with reliable and efficient working capital management practices are able to survive (Reason, 2008). During periods of economic boom also, efficient management of working capital is important as it involves the management of both current assets and current liabilities (Emery, Finnerty & Stowe, 2004). According to Darun (2011), working capital management is not only important in cases of financial distress but can be managed in the most efficient way to increase a firm’s profitability and a competitive edge over the others.

The processes of managing working capital involve significant decisions on various aspects - investment of available cash, managing accounts receivable, maintaining an absolute level of inventories and the management of accounts payables (Darun, 2011). Gitman (2009) notes the main goal of working capital management as striving to reach and maintain an optimized balance between the various components of working capital, as the success of a business, according to Filbeck and Krueger (2005), depends heavily on the ability of financial executives to manage receivables, payables and inventory in the most efficient way.

A number of studies on working capital have been carried out around the world but mostly in the developed western countries, with very little on firms in the developing countries (Quayyum, 2012). These include firms operating in
African countries, which face unique challenges in their operations given the high political instability, insufficient financing and little or slow technological advancement among others (World Economic Forum, 2011). Numerous theories have also been developed on working capital management including the Baumol cash management model (1952), Miller-Orr cash management model (1966) and the inventory management model. However, practitioners find these financial decision making techniques difficult to put into actual application due to their unrealistic assumptions including the ignorance of uncertainty in business operations and their complexity in explaining to decision makers (Trahan & Gitman, 1995).

Studies on working capital management on Kenyan firms especially in the service sector and in particular, the tourism industry that is core to the Kenyan economy, are not explicit. It is therefore, important to study the working capital management in the tourism industry in these developing economies given their uncertain business environment.

### 1.1.1 The Tourism Industry

According to The World Tourism Organization (2013) tourism is one of the important sectors in the world economy and governments should support it in order to stimulate their economies. Woods, Perry and Steagall (1991) content that tourism is an export industry that offers domestic experiences and services to foreign visitors in a destination country in exchange for foreign currency and comprises of all the sub sectors that provide goods and services to enable business, leisure and pleasure activities in an environment away from home.
In Kenya, tourism is an important sector providing employment, contributing to the GDP and stabilising the country’s balance of payments. It accounts for 12% of the total wage employment, contributes to 13.7% of the GDP and ranks third in contributing foreign exchange after tea and horticulture (Government of Kenya, 2013). As cited by the Government of Kenya (2013), tourism in 2011 contributed 10% of the GDP (Kenya's Tourism Strategic Plan 2000-2012); 5.7% in direct contribution and 13.7% in total contribution (World Travel and Tourism Council, 2011).

The Kenyan coastal region is the main tourist destination in Kenya. The hospitality industry in this region relies heavily on tourism and especially foreign arrivals for their existence and performance (Government of Kenya, 2013). As cited by Kingi et al., (2013), the Kenyan coastal region has the highest number of hotel bed nights by international tourists at 71% in 2002, 56% in 2004 and 63% in 2006. Nairobi region had 19% in 2002, 28% in 2004 and 16% in 2008 while other regions of the country have much lower percentages (Government of Kenya, Statistical Abstract, 2008).

1.2 Statement of the Problem

The tourism industry operates on seasons (peak, shoulder and low) and is very sensitive to the environment especially on security concerns (Kuto & Groves, 2004). In Kenya, the tourism industry operates in a highly uncertain environment due to the increased political instability and terrorism incidences that have led to negative international press and travel advisories resulting in dwindling demands (Okumu, 2007). The tourism industry is highly capital
intensive hence, the low demand has led to most tourist hotels cutting down on their services and eventually closing down due to the inability to manage their working capital optimally.

Much of the previous studies on working capital management has concentrated on the manufacturing industries in the trade sector (Filbeck, Krueger & Preece, 2007; García-Teruel & Martínez-Solano, 2007; Lazaridis & Tryfonidis, 2006; Azam & Haider, 2011; Quayyum, 2012). To date, little focus has been given to the management of working capital in the service sector and in particular, the tourism industry. Consequently, working capital management advice to the service sector has been monotonous in its prescription of trade sector solutions. To further compound the issue, many of these studies assume that trade sector praxis can be applied to the service sector though contemporary academic opinion suggests that this assumption is fundamentally flawed as it is now widely accepted that the service sector is subject to different operational dynamics to the trade sector (Kato, 2010).

Even with such uncertainty, the tourism industry players continue employing the same working capital management practices used in the other more certain and stable industries. This has led to overtrading and the subsequent poor performance of the tourist subsectors. To maintain a competitive edge or even sustain operations in such an uncertain economic environment, the working capital should be managed in the most prudent manner. This study therefore, sought to gain an empirical insight into the various working capital management practices used in the tourism industry, with special reference to
tourist hotels in Mombasa County with the aim of determining best practices in uncertain business environments.

1.3 Objectives of the Study

1.3.1 General Objective

The overall objective of the study was to determine the effects of working capital management practices on the financial performance of tourist hotels in Mombasa County.

1.3.2 Specific Objectives

The specific objectives of this study were:

1. To determine the effect of cash on the financial performance of tourist hotels in Mombasa County.
2. To determine the effect of inventory on the financial performance of tourist hotels in Mombasa County.
3. To determine the effect of accounts receivable on the financial performance of tourist hotels in Mombasa County.
4. To determine the effect of accounts payable on the financial performance of tourist hotels in Mombasa County.

1.4 Research Questions

1. To what extent does cash have an effect on the financial performance of tourist hotels in Mombasa County?
2. To what extent does inventory have an effect on the financial performance of tourist hotels in Mombasa County?
3. To what extent do accounts receivable have an effect on the financial performance of tourist hotels in Mombasa County?

4. To what extent do accounts payable have an effect on the financial performance of tourist hotels in Mombasa County?

1.5 Significance of the Study

The findings of this research helped the various stakeholders including the investors and managers in the tourism industry to realize the mistakes and shortcomings that have been affecting the WCM practices and the growth and success of their businesses especially during uncertain economic changes. This research also contributed to the existing knowledge on working capital especially on businesses operating on highly uncertain economic environments like the tourism industry in the developing world. This will be useful to researchers and managers in guiding future research and a basis for developing new policies on WCM in various sectors and environments.

1.6 Scope

The study was carried out in the coastal region of Kenya, particularly in Mombasa County. This region ranks first in tourism activities compared to other regions in the country. The study focused on the tourist hotels in the county and especially the higher ranked hotels due to their higher dependence on foreign tourism. The study involved financial managers and accountants responsible for managing the working capital of those hotels. Proposal writing, collecting and analyzing data as well as presentation of the findings took twenty weeks.
CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction
This chapter contains a review of literature as presented by various authors and scholars based on the objectives of the study. The literature review provides an explanation of theoretical rationale of the problem being studied as well as what research has already been done and how the findings relate to the problem at hand.

2.2 Theoretical Review
There are several theories that relate to the management of working capital especially in firms operating in highly volatile business environments like the Kenyan tourism sector. These include the pecking order theory, agency theory, configuration theory and the risk management control theory as explained below.

2.2.1 Pecking Order Theory
The Pecking Order Theory is based on information asymmetry where the firm’s managers are seen to possess more knowledge on the firm’s value than the potential investors are. It states that firms prefer internal financing and the use of debt to common stock in case of the need for external funds (Myers & Majluf, 1984). Internally generated funds are assumed to have no transaction
costs and the use of debt signals positive information while the use of ordinary shares signals negative firm information (Correa, Basso & Nakamura, 2007). The pecking order theory explains the maintenance of high levels of cash reserves and most liquid assets that ensure obligations are met as they arise and avoid the use of external funds (Chen, 2004).

By using a conservative financing strategy, a firm gets easy access to credit and is seen as safe by potential investors. According to the pecking order theory, firms should use an aggressive working capital policy by maintaining a lower level of current assets and higher supplier financing. This ensures a high level of internal funds to finance the firm’s operations without the issuing of debt or equity. The pecking order theory is relevant in the management of working capital of firms operating in highly uncertain environments, as the managers responsible should be able to trade-off between the conservative and aggressive financing strategies to optimize a firm’s performance.

**2.2.2 Agency Theory**

Jensen and Meckling (1976) advanced the agency theory, which explains the relationships and contracts that exist in a firm among the various stakeholders like shareholders (principals) and the managers (agents). Despite the stipulated shareholder objectives that managers are supposed to meet, they are not able to achieve them due to non-rational opportunistic behavior of the managers leads to agency conflicts or problems (Jensen, 1994). To minimize agency problems the principals incur agency cost that is defined as the monitoring expenses
incurred by the principal, bonding expenses and the resultant loss due to the separation of control and ownership (Jensen & Meckling, 1976).

The agency theory is important in the management of firms’ finances as it depends on the ability and ethics of the managers responsible for running the organization. It is crucial in the management of working capital especially in firms operating in highly unstable and uncertain environments like the Kenyan tourism sector as high agency costs are incurred in ensuring the success and sustainability of the hotels.

### 2.2.3 Configurational Theory

The Configurational theory is an advancement of the contingency theory that proposes that the performance of a firm depends on the fit of organizational design and environment (Shortell, 1977). The contingency theory advances that various aspects of technologies, environments and structures interact to determine the performance level of an organization (Vorhies & Morgan, 2003). However, the configurational theory goes further on to state that the environment and organizational fit should not be limited to structural perceptions like centralization but should extend to abstract situational aspects like technological uncertainty and firm size (Meyer, Tsui & Hinings, 1993).

According to the contingency theory, the effectiveness or ineffectiveness of a firm depends on the match of mismatch of an organizational structure against its external contingency factors (Donaldson, 1982). These external factors include demographic trends, economic conditions, legal/ political factors, industry structure variables and demographic trends (Hofer, 1975). External
factors are prone to rapid changes hence managers should align the firm to the arising situations to maximize their output (Hofer, 1975).

In managing working capital, the configurational theory states that an organization’s aspects should be aligned to its contextual variables like the industry structure, economic situation, demand behavior and supplier variables (Faden, 2014). To achieve organizational performance then the various internal variables of working capital should be matched with arising contextual variables, as an optimization of these aspects will lead to the attainment of maximum firm performance as the configurational theory postulates (Faden, 2014). With working capital being a major driver of organizational performance, it is important for the firms’ managers to be able to align the various internal working capital variables to the changing environmental aspects especially in firms operating in highly volatile environments like the Kenyan tourism sector if a firm is to survive during the low demand periods.

2.2.4 Risk Management Control Theory

Risk management revolves around the logical development and implementation of a plan to deal with potential losses in an organisation and it is crucial for firms to put in place risk management programmes to help in management of its exposure to risks and guard its assets (Dorfman, 2007). Risk management is a strategy of pre-loss planning for pre-loss resources whose main essence is to prepare ahead of time on how to control and finance losses before they occur (Dorfman, 2007). According to Power (2007), there has been an explosion of risk discourse and related practices and organizations
have re-envisioned their process around the idea of risk. Internal control and governance have been re-invented in terms of capability for effective risk management embodied in a combination of standards and guidelines that provide legitimized templates for organizations to represent and account for themselves as well as control and govern (Power, 2007).

In a highly risky and uncertain business environment like the Kenyan tourism industry then the risk management control theory is crucial as it ensures that the board of directors, managers and other personnel are able to identify potential risky events that may affect the firm hence come up with strategies that manage the same for an organisation’s performance. The level of working capital maintained by the hotels is important in mitigating arising obligations and liquidity shortfalls hence as the risk management control theory postulates clear guidelines should be developed to deal with any rapid changes in demand and supply.

2.3 The Conceptual Framework

A conceptual framework assists the reader easily to connect the relationship of the various variables in as study (Mugenda & Mugenda, 2003). This section discussed the conceptual framework on the effects of WCM on the financial performance of tourist hotels. It consists of independent variables (cash, inventory, accounts receivable and accounts payable) and the dependent variable (Financial Performance). The variables are the building blocks of theory in a research. This is represented in the figure below.
Independent Variables

Cash

Inventories

Accounts Receivable

Accounts Payable

Dependent Variable

Financial Performance

2.3.1 Cash

Cash refers to the proportion of currency that a firm has in hand and that in its bank accounts that enables the operations of a firm by acting as a medium of exchange (Olowe, 1998). Cash is the most liquid asset of the various components of working capital and it reflects on the ability of a firm to settle bills as they fall due especially the short term obligations (Moyer, McGuigan & Kretlo, 1992).

Firms hold cash to cater for the duration of incurring trade costs and receiving proceeds from trade hence helps in paying for the day-to-day expenses. Despite the importance of holding cash, excess liquidity is not beneficial to the firm, as it does not generate any returns. Gill and Shah (2012) note that an optimal level of cash based on firm’s needs is important for a firm’s survival.
and prosperity hence a positive cash flow situation should be developed through proper timing of cash movements. Holding cash also allow for optimal timing of an investment and helps in avoiding any underpricing problem (Cossin & Hricko, 2004). Cash is also very vulnerable to misappropriations and embezzlement (Isshaq, Bokpin & Onumah, 2009) hence proper cash management is inevitable.

To control the risk associated with cash, all issues of its management should be documented in a procedural manual (Teigen, 2001). For a firm to remain liquid enough to pay for its bills then the control of cash flow is important and can only be achieved through efficient management of cash receipts and payments, cash balances and cash transfers of the firm (Olowe, 1998). This is normally a challenge thus a firm should employ the best cash budgeting and forecasting practices to ensure smooth inflow and outflow of cash (Ekwere, 1993). The significance of cash management to the firms’ performance and profitability has been proved through several studies (Shin & Soenen, 1998).

To maintain an optimal level of cash, models have been developed to provide the best balance between costs and benefits. Baumol’s Cash Model Trades off between opportunity cost or carrying cost or holding cost and the transaction cost (Jarrad, 2000). As such firms attempt to minimize the sum of the holding cash and the cost of converting marketable securities in to cash (Ross, Westerfield & Jordan, 1991). This model however is based on certainty assumptions that are not the case in the practical business environment.

The Miller-Orr model determines the desired firm cash level and the other extreme limits at which it takes action to correct any deficit (Jarrad, 2000).
When the cash balance reaches the upper limit, it implies an excess cash in the firm and hence the firm buys securities so as to bring the cash balance back to the desired level (Marsh, 2009). When the firm cash balance reaches the lower level, it implies a shortage in the available cash hence the firm sells securities so as to bring back the balance to the desired level (Marsh, 2009). The Miller-Orr model incorporates uncertainty hence is more practical given the volatility of the actual business environment.

With the advancement in technology, electronic cash management has become a common feature in most organisations. This has enabled the interlinking of several functions like the cash collection point, the point of cash transfer and the point of destination for the payments made (Bragg, 2004). Virtual Banking is another recent development in cash management whereby firms use Banks to perform some crucial cash management functions. This has been enabled through some developments like the use of Electronic Fund Transfers (EFTs) and Real Time Gross Settlement System (RTGS) (Van-Horne, 2002). This has led to time saving, accuracy, centralized cash management, interbank balancing of funds and faster electronic reconciliation.

### 2.3.2 Inventory

Ballou (2004) refers to inventories as stocks of raw materials, components, supplies, work in process, and finished goods that existing a firm’s production and logistics channels. Chase, Jacob and Aquilano (2004) define inventory as the stock of any item or resource used in an organisation.
Inventory determines the level of production, purchasing and marketing in a firm and as Hill and Sartoris (1992) state, managing inventory strategically contributes to profitability of the firm as it determines the level of activities. Inventory may be needed to take advantage of the economic feature of a certain technology; to coordinate human tasks or regulate production process to meet rising demand in a perfectly predictable economy but in an environment of uncertainty then inventory protects the firm against the risk of stock being out (Moyer, McGuigan, & Kretlow, 2009). To enable firms deal with uncertainties of consumer demand then proper considerations should be put in supplier selection process and inventory management. This is because; the efficiency of inventory management and the commitment of suppliers to a firm’s production lines determine the ability of a firm to respond to demand changes (Bowersox, Closs & Stank, 2003).

Hugo, Badenhorst-Weiss and Rooyen (2002) stated that holding inventories at the lowest possible costs is the main aim of inventory management. According to Joshi (2000), reducing the cost of holding stock to ensure smooth operations and reducing the level of stock are the main objectives of inventory management. Inventory management therefore involves a compromise between the cost of supplying inventory, cost of holding inventory and the opportunity cost because of insufficient stock.

The inventory in the hotels is normally in form of perishables and disposables. These highly perishable products may lead to very high losses if there were abrupt changes in their demand. To achieve the profitability and maximize the
value of the hotel in an environment of economic uncertainty, then the management should consider cost returns and risk factors in establishing inventory policies and strategies. This study focused on the hotels’ inventory stocktaking intervals and the reorder level policies in place. The inventory management approaches adopted were considered including just in time (JIT) technique, sales forecasting, enterprise resource planning (ERP) technique and the economic order quantity (EOQ) model. The factors considered in purchasing inventory for the hotels were also considered. These include inflation, availability, price discounts, storage costs and shortage costs.

2.3.3 Accounts Receivable

Accounts receivable refers to the unpaid claims from a firm’s customers at a given time, usually due within a relatively short period (up to one year), and indicates the firm’s supply of trade credit (Joshi, 2000). Accounts receivable consist of the credit a business grants its customers when selling goods or services as per the trade policy and volume supplied (Moyer et al., 1992).

The main objective of offering trade credits is the increase of profitability because of attracting more customers and more sales (Joshi, 2000). A firm also dominates over its competitors in that it constantly increases sales hence an increase in its value.

According to Emery et al. (2004), accounts receivables are large investments in firm's asset, which are, like capital budgeting projects, measured in terms of their net present values. Sales are stimulated in case of credit sales, as the
customer is able to assess the product before paying for it though they also have opportunity costs. The debtors’ risk, economic value and futurity are important characteristic that explain the need for a proper receivables management. Berry and Jarvi (2006) state that in setting up a policy for determining optimal amount of accounts receivable the various costs of maintaining receivables are of importance. A trade-off between the securing of sales and profits and the amount of opportunity cost and administrative costs of the increasing account receivables; and the level of risk the firm is prepared to take when extending credit to a customer, is important because this customer could default when payment is due.

The management of receivables revolves around three aspects namely credit policy, credit analysis and the control of receivables (Hill & Sartoris, 1992). Credit policy is a trade-off between the increased sales due to the credit terms extended and the cost of maintaining the debtors and bad debts. This involves the determination of the credit period and any discounts therein. Credit analysis is the process of determining the risks involved in advancing credit to a given party by analyzing their credit worth. Controlling of receivables on the other hand involves following up debtors, formulation of the best credit collection policy and its execution.

The efficient management of accounts receivable depends to a greater extend on the credit policy and collection procedure. A credit policy specifies requirements to value the worthiness of customers and a collection procedure
provides guidelines to collect unpaid invoices that will reduce delays in outstanding receivables (Hill et al., 1992).

During global financial crisis, characterized by high liquidity risk faced by the banks, trade credits may increase, operating as a substitute for bank credits, or decrease - acting as their complement. Bastos and Pindado (2012) for example, suggest that credit constraints during a financial crisis cause firms holding high levels of accounts receivable to postpone payments to suppliers, which act in the same manner with their suppliers. This gives rise to a trade credit contagion in the supply chain characterized by a cascading effect. The current financial crisis provides economists a unique opportunity to study the role of alternative financial sources during periods of breakdown of institutional financing.

This study sought to find out if the hotels provided trade credits to their customers and establish the practises put in place to optimise the receivables in a developing economy especially in periods of economic uncertainty. Asselbergh (1999) suggest that firms prefer using account receivables rather than cash for a number of motives including operating, financial, transaction, price and tax. The study examined the motives of the use of accounts receivable instead of cash, the bad debt level and the procedures of determining credit worthiness.

2.3.4 Accounts Payable

Accounts payable refers to a firm’s obligation arising from trade credit or short-term unsecured borrowing that has to be settled within one year (Gitman,
Pandey (1999) identifies trade credit and bank borrowing (bank overdrafts) as two major sources of financing for working capital. Trade credit is usually easy to obtain, varies with the amount granted, and is an informal source of finance without any negations or formal agreements.

Hill et al. (1992) compare the importance of a relationship with payee being a sound objective as that of an optimal inventory level. A strong relation between a firm and its suppliers improves production strategically and strengthens the credit record for future expansion.

Firms normally try to tie up as little cash as possible in disbursement so as not to have more than the minimum amount required settling bills. An increasing net working capital leads to firms utilizing and tying up more money that decrease the flow of cash. However, the build-up of unnecessary working capital backfires and is harmful to the firm as it has a negative impact on the shareholders’ wealth maximization objective. Delaying the payment of the accounts payable is also detrimental as it leads to high penalties charged by the suppliers and hurts any future relations (Michalski, 2008).

The management influences the settlement of accounts payables and is able to defer the average payment though for a limited period as the suppliers can take legal actions and worse stop providing credit to the firm. Therefore, firms must have policies on those who authorize purchasing and how purchasing is geared to demand which leads to proper accounts payable management (Belt, 1979).

Hotels in the tourism industry face financing challenges and are offered trade credits by their suppliers. In perfect business environment, they are able to settle the bills as they fall due but in case of crisis or uncertain economic
environment, then this may be a challenge. This study sought to establish the practices employed by these hotels in managing accounts payables. This involved a focus on the working capital financing preferences of the hotels and the factors considered in debt financing, merits and limitations.

2.3.5 Financial Performance

Financial Performance for this research was measured using net operating profit margin in respect to the various components of working capital. The operating profit margin provides a lot of important information about a firm’s profitability, particularly with regard to cost control as it shows how much cash is thrown off after most of the expenses are met. A high operating profit margin means that the company has good cost control and/or that sales are increasing faster than costs, which is the optimal situation for the company. Operating profit is a lot lower than the gross profit since selling, administrative, and other expenses are included along with cost of goods sold.

2.4 Empirical Review of Literature

This study has been based on the existing relevant literature on working capital management. Darun (2011) sought to examine the working capital management practices at an organizational perspective focusing on the determinants of the various practices employed in managing working capital. The research was based on multiple case studies of five Malaysian companies that were listed on the main board of Bursa Malaysia. Semi structured interviews were used to collect data from key informants that represented the managers of the various components of working capital.
The research found out that the working capital management practices employed in various firms depended on various determinants including perceived environmental uncertainty, budgetary control, organizational structure, interdependency and information technology, and organizational culture.

Apuoyo (2010) embarked on a study to find the relationship between the policies that companies used and their effect on profitability. The study was based on fifty-five companies quoted at the Nairobi Stock Exchange (NSE) in Kenya as at 31st December, 2009. The companies were classified based on the NSE sector categorization proportionate random stratified sampling was used. Relevant data was collected from the sampled companies’ audited financial reports for the five years since 2005 to 2009. The data was analyzed to find out the annual working capital policy for each firm that were then classified into aggressive, conservative and moderate policies. The relationship between the working capital policies and return on total assets (ROTA), which was the measure of profitability, were determined using simple regression.

The study found out that the firm’s profitability increases with the firm’s gross working capital efficiency, size and less aggressiveness in asset management. Contrary to conventional theory that a conservative working capital policy sacrifices profits at the expense of liquidity the study revealed a positive relationship between a conservative working capital policy and firms profitability. Significant differences in working capital policies between the five sector classifications was also realised.
2.5 Critique of the Existing Literature Relevant to the Study

The existing literature on working capital has contributed to the development of this study. Existing literature has shown that there is quite a significance between the working capital management practices and the firms’ performance whereby the various components of working capital have to be optimised for a company to sustain its operations. It has also been proven that the practices used in managing working capital are determined by various issues including information technology, the firm’s structure, organisational culture, budgetary control, interdependency and perceived environmental uncertainty. This is supported by the configurational theory that proposes that the performance of an organisation depends on the alignment of the internal working capital variables to the arising environmental changes. However, despite the acknowledgement that uncertainty is an issue affecting the performance of firms, studies on working capital management have not addressed it conclusively but rather studies have concentrated on developing models for stable environments.

2.6 Summary

The summary section includes the relevant specific and generic literature on working capital management that will form a basis for the future chapters. The working capital of a firm is based on a difference between the current assets and current liabilities. This shows the liquidity of the firm and the ability of its current assets in meeting current liabilities. The management of the various components of working capital is a vital function of the treasury as its key in
maintaining firms’ liquidity and profitability. The main Cash management objective is the maintenance of an optimal cash holding level through proper collection and disbursement procedures. Inventory management ensures a firm holds the proper quantity of stock by determining a trade-off between opportunity costs and carrying cost. Accounts receivable management is another important aspect in WCM, which involve determination of the optimal level of debtors that increase a firm’s sales without incurring extra costs like bad debts. Accounts payable management on the other hand involve maintaining a balance between the benefits of using debt to fund short term operations and the costs involved like loss of goodwill and increased interest. Firms employ conservative, moderate and aggressive policies in managing working capital.

A lot of existing empirical and theoretical literature on working capital is based on the relationship between working capital and profitability but little on the practical management of working capital. Empirical findings have also shown that the working capital management practices are determined by interdependency, information technology, organizational culture, organizational structure and perceived environmental uncertainty. Literature has also shown that, there is a conflicting relationship on the various working capital policies and profitability in respect to the various business sectors.

2.7 Research Gaps

This study strives to determine the effects of working capital management practices on the financial performance of tourist hotels especially in developing
countries. Most of the benchmarking literature on working capital management is on the trade sector-manufacturing firms and mostly on firms operating in stable business environments but very little on the service sector firms especially the tourist hotels operating in highly uncertain environments.

Given the significance of tourist hotels to the world economy and especially to the Kenyan economy this study proposed to bridge the knowledge gap concerning the best working capital management practices in the highly uncertain economic environments, an area that had received little focus to date.
CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter includes the research design, target population, target sample size, sampling technique, nature of data to be used by the study, data collection tools, data collection procedure, measurement and analysis. Therefore, this section sets to answer the research questions raised in the study.

3.2 Research Design

The study adopted a descriptive survey research as it enables the identification and classification of the elements or characteristics of the subject. According to Cooper and Schindler (2003), a descriptive study attempts to describe or define a subject, often by creating a profile of a group of problems, people, or events, through the collection of data and tabulation of the frequencies on research variables or their interaction. A descriptive survey research design is also the most useful in a study when the research is interested on the state of affairs already existing in the field and no variable would be manipulated (Kombo & Tromp, 2006). To gain in-depth information on the working capital management practices in the tourism industry within a relatively short period, then a descriptive survey was the best suited. It helped in establishing the state of affairs as they were at the present.
3.3 **Target Population**

The target population in this study consisted of the tourist class hotels in Mombasa County. These category of hotels are chosen for the study because they rely to a larger extend on foreign tourists and they offer some services on credit hence are more affected in case of market volatility. There were forty-four tourist hotels in Mombasa County as at 2013 as per The Ministry of Tourism database. The list of the target tourist hotels is shown in appendix E.

3.4 **Sampling Techniques**

Systematic random sampling was used to determine the sample size of the study units (tourist hotels) from the total population. With a systematic random sampling, the researcher first randomly picked the first item or subject from the population then selected each 2nd subject (interval of 2) from the list. This allowed the researcher to add a degree of system to the random selection of subjects and ensured that the population was evenly sampled. Purposive sampling was used to specifically select respondents from the finance or administration department of the hotels selected. Purposive sampling is the use of cases that have the required information with respect to the objectives of the study (Mugenda et al., 2003). This mainly focused on the financial managers or administrator charged with the duty of managing the hotel’s finances especially the day-to-day operating funds.

3.5 **Target Sample Size**

The representative sample size in a study should range from 10 % to 30 % of the target population (Kothari, 2003). The study used a target sample of 22
hotels that represent 50% of the target population in collecting primary data. The bigger percentage was chosen due to the relatively small target population hence making the data more factual. The respondents were drawn from financial managers or administrators, as they are involved with management, evaluation and development of WCM (McInnes, 2000). One respondent was used from each of the tourist hotels selected.

3.6 Data Collection Methods and Procedures

3.6.1 Primary Data

Primary data was collected from the accountants and hotel managers. This is because they are directly involved with the management of working capital in their respective hotels hence are able to provide the appropriate information. The suitability of participants in enlightening and constructing relations among ideas is important in selecting the respondents (Eisenhardt & Graebner, 2007).

Both open and closed questionnaires were used. The researcher was in a position to replicate results with the close-ended answers while the respondents were able to explain further their experiences in the case of open-ended questions.

3.6.2 Secondary Data

To interpret the underlying aspects in the WCM practices used in the tourism industry in Kenya, secondary data was of importance. Information on WCM, tourism and the hotel industry was important in achieving the study’s
objectives. This information was collected from journals, published books, newspapers, local authorities, magazines and the hotel’s handbooks.

**3.6.3 Administration of Research Instruments**

The researcher personally administered the questionnaires (appendices A and B) to the respondents and picked them later for analysis using drop and pick later method. For the secondary data that is not available electronically, the researcher visited the relevant institutions with formal letters to acquire the information.

**3.7 Pilot Testing**

The researcher carried out a pilot study to pre-test the validity and reliability of data that was to be collected using the questionnaire. Validity is defined as the degree to which a test measures what it is supposed to measure (Key, 1997). The tendency towards consistency found in repeated measurements is referred to as reliability (Bryman & Bell, 2003).

The researcher selected two hotels from the target sample for pilot testing to test the reliability of the research instrument. The pilot study was allowed for pre-testing of the research instrument. The clarity of the instrument items to the respondents was necessary to enhance the instrument’s validity and reliability. The aim was to correct inconsistencies arising from the instruments, which were to ensure that they measure the intended. The pilot data was not included in the actual study.
3.8 Data Analysis
Checking for completeness and consistency of the questionnaire was done followed by editing, coding and tabulating of the collected data. The analysis of data involves coding data into groups that consolidate it into various unique categories (Lofland, Snow, Anderson & Lofland, 2006). Microsoft Excel statistical package was used to analyze the data because of its ability to analyze data conclusively within a short period and its simplicity in application (Mugenda et al., 2003). Descriptive statistical techniques including Minimum, Maximum, Mean and Standard Deviation were used to analyze data. The association between the dependent variable and the independent variables were determined by the use of the Pearson correlation coefficient that determines a linear relationship between two variables. Pearson correlation determines whether there is a monotonous relationship between the two variables and Pearson's r varies from -1 to +1, with 0 indicating no relationship and 1 indicating perfect relationship. Presentation of the findings was done using tables, charts and graphs for further analysis and to facilitate comparison. Through the tabulations, measure of central tendency and percentages, a quantitative report was generated.
CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND DISCUSSION

4.1 Introduction

This chapter involves data presentation, analysis and interpretation of the study with reference to working capital management practices and financial performance. The data collected from all the respondents is presented and summarized using tables, charts, graphs and descriptive statistics.

4.1.1 Response Rate

The overall response rate was 19 out of 22 questionnaires giving a response rate of 86.4 %. The total number of usable responses was 18, which gave a usable response rate of 81.8 %. This response rate was adequately sufficient as it conformed to the stipulation that a response rate of 50 % is adequate for analysis and reporting; a rate of 60 % is good and a response rate of 70 % and over is excellent (Mugenda et al., 2003). Most of the respondents were reluctant in disclosing their hotels financial details hence the researcher had to convince them of confidentiality and not indicating the hotel name on the questionnaire but had unique identifying numbers on the questionnaire that were only known to the researcher.
Table 4.1: Response Rate

<table>
<thead>
<tr>
<th></th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>USEFUL RESPONSE</td>
<td>18</td>
<td>81.80</td>
</tr>
<tr>
<td>NON USEFUL RESPONSE</td>
<td>1</td>
<td>4.60</td>
</tr>
<tr>
<td>NON RESPONSE</td>
<td>3</td>
<td>13.60</td>
</tr>
<tr>
<td>TOTAL</td>
<td>22</td>
<td>100.00</td>
</tr>
</tbody>
</table>

4.1.2 Demographic Data

The results showed that majority of the respondents (55.6 %) were male while 44.4 % were female. This indicates that majority of the managers and accountants in the Kenyan tourist hotel industry are male although the female percentage has surpassed The World Bank’s Millennium Development goal target of 30 percent female stake in all organizations.
Figure 4.1 Response by Gender

On the age bracket of the respondents, majority (11) (61.1%) were in the category of 30-45 years followed by (4) (22.2%) below 30 years and (2) (11.1%) at the category of 46 to 55 years while one did not disclose her age. The information indicates that majority of the managers in the Kenyan tourist hotel industry are relatively young.

Table 4.2: Response by Age Group

<table>
<thead>
<tr>
<th>S/NO.</th>
<th>AGE GROUP</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>BELOW 30 YEARS</td>
<td>4</td>
<td>22.20</td>
</tr>
<tr>
<td>2</td>
<td>30-45</td>
<td>11</td>
<td>61.10</td>
</tr>
<tr>
<td>3</td>
<td>46-55</td>
<td>2</td>
<td>11.10</td>
</tr>
<tr>
<td>4</td>
<td>NON-DISCLOSURE</td>
<td>1</td>
<td>5.60</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>18</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Regarding the highest level of education achieved (1) (5.6%) respondent had a masters, (4) (22.2%) had a diploma and a bachelor’s degree respectively while majority (8) (44.4%) held the Kenyan Certified Professional Accountants Certificate with one respondent not disclosing her academic achievement. This analysis has shown different results from previous studies which indicated that most managers were diploma holders owing to the Kenyan hospitality industry being relatively younger than the other industries and lack of higher education centers in the coastal region.
Table 4.3: Response by Highest Level of Education Achieved

<table>
<thead>
<tr>
<th>S/NO.</th>
<th>LEVEL OF EDUCATION</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>MASTERS</td>
<td>1</td>
<td>5.60</td>
</tr>
<tr>
<td>2</td>
<td>BACHELORS</td>
<td>4</td>
<td>22.20</td>
</tr>
<tr>
<td>3</td>
<td>DIPLOMA</td>
<td>4</td>
<td>22.20</td>
</tr>
<tr>
<td>4</td>
<td>OTHER (CPAK)</td>
<td>8</td>
<td>44.40</td>
</tr>
<tr>
<td>5</td>
<td>NON-DISCLOSURE</td>
<td>1</td>
<td>5.60</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>18</td>
<td>100.00</td>
</tr>
</tbody>
</table>

Respondents who had worked in the hotel for 2 to 5 years formed a majority (77.8 %) while those between 5 to 10 years followed at 22.2 %. This indicated that most of the respondents had quite an experience in the hotel hence had sufficient information regarding the operations and the various dynamics of the hotel.

Table 4.4: Response by Working Experience

<table>
<thead>
<tr>
<th>S/NO.</th>
<th>EXPERIENCE (YEARS)</th>
<th>FREQUENCY</th>
<th>PERCENTAGE</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>2-5</td>
<td>14</td>
<td>77.80</td>
</tr>
<tr>
<td>2</td>
<td>5-10</td>
<td>4</td>
<td>22.20</td>
</tr>
<tr>
<td>TOTAL</td>
<td></td>
<td>18</td>
<td>100.00</td>
</tr>
</tbody>
</table>

4.2 Working Capital Management

Most of the respondents (77.8 %) admit that the management of working capital is very important to the hotel while 22.2 % rate it at just important with none classifying it as non-important. This is consistent with the fact that the significance of working capital to corporates’ performance, viability,
sustainability and overall success cannot be underestimated despite the fact that a lot of emphasis has been on long term investment and financing decisions. The hotels that practiced an aggressive working capital financing policy were a majority at 50 %, followed by moderate policy at 27.8 % while the least, 22.2 % had a conservative policy. With an aggressive policy, it indicated that the hotel maintained low levels of net current assets to the total assets while a conservative policy indicated the holding of quite a large proportion of net current assets (Apuoyo, 2010). This implies that in case of sudden changes in demand and supply then the hotels operating an aggressive policy will be at a higher risk. It was also revealed that majority of the hotels (44.4 %) reviewed their working capital policies on annual basis followed by those that reviewed on quarterly basis at 33.3 %.

![Working Capital Financing Policies](image)

**Figure 4.2: Working Capital Financing Policies**

Previous literature has pointed out several financial risks that affect firm operations and performance including credit risk, foreign exchange risk,
political risk, cash and liquidity risk, interest rate risk, and operational risk. The study sought to establish their effect on the management of the hotels working capital. Political risk was indicated as having great effect at an average of 3.4 on a 4-point likert scale while the other risks exhibited a moderate effect at averages of 2. The likert scale raged from 1 to 4 with 1 being low extend and 4 being very great extent.

Table 4.5: Financial Risks on Working Capital

<table>
<thead>
<tr>
<th>Risk on Working Capital</th>
<th>N</th>
<th>Mean</th>
<th>Standard Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political Risk</td>
<td>18</td>
<td>3.4</td>
<td>0.83</td>
</tr>
<tr>
<td>Foreign Exchange Rate Risk</td>
<td>18</td>
<td>2.9</td>
<td>0.97</td>
</tr>
<tr>
<td>Cash and Liquidity Risk</td>
<td>18</td>
<td>2.9</td>
<td>0.81</td>
</tr>
<tr>
<td>Credit Risk</td>
<td>18</td>
<td>2.9</td>
<td>0.91</td>
</tr>
<tr>
<td>Interest Rate Risk</td>
<td>18</td>
<td>2.4</td>
<td>0.95</td>
</tr>
<tr>
<td>Operational Risk</td>
<td>18</td>
<td>2.8</td>
<td>0.85</td>
</tr>
</tbody>
</table>

4.3 Cash Management

As per the Keynes (1973) three main motives of holding cash (transaction, precautionary and speculative), majority of hotels (77.8 %) indicated that their main motive of holding cash was the transaction motive while the rest (22.2 %) were motivated by precautionary factors. On the transaction motive the hotels held cash for settling supplier debts and making change for any cash sales therefore, enabling them to cater for the duration of incurring trade costs and
receiving proceeds from trade hence helping in paying for the day-to-day expenses. Given the highly uncertain tourist arrivals, the hotels that held cash for precautionary motives were right as it dictates that businesses cannot forecast their future with utmost accuracy as situations arise that may need immediate financing- either expense arising in the course of trading or opportunities that are beneficial to the firm. This therefore meant that such hotels would be less exposed in case of low demand and gain a lot in case of a sudden rise in demand.

![Figure 4.3: Motives of Holding Cash](image)

Figure 4.3: Motives of Holding Cash

All the hotels prepared cash budgets, which indicated that they understood the benefits of cash budgets in effectively managing the most liquid current asset (cash) and consequently its impact on overall working capital management. Majority of the hotels (72.2%) indicated that they acquired short-term credits
from their banks in case of shortfalls while 22.2% covered the difference from their own savings. This resonates with the pecking order theory that posits that firms prefer internal financing and the use of credit to common stock in case of the need for external funds (Graham & Harvey, 2001). This is because, internally generated funds are assumed to have no transaction costs and the use of credit signals positive information while the use of shares signals negative firm information (Nakamura et al., 2007). All the hotels also revealed that they kept the proceeds generated on a daily basis in the bank as a form of control mechanism. By keeping their daily proceeds in the bank, the hotels are assured of security, absolutely no misuse and an increased chance of financing from the bank in case of shortfalls.

Figure 4.4 Managing Cash Shortfalls

Several factors have been found as the main determinants of the practices that are adopted by firms in managing cash as follows: foreign exchange rates,
banking and economic environment, efficiency of the financial system, liquidity on the security markets, market regulation and inflation rates (Menyah, 2005; Zhao, 2011). This study was consistent with the previous studies as it indicated that most tourist hotels in Kenya considered political and economic environment as very important in the management of cash followed by efficient financial systems, technological advancement, inflation rate, foreign exchange rate and interest rates at an average of 3.8, 3.7, 3.6, 3.5, 3.2 and 2.9 respectively as shown in figure 4.5. This was based on a 4-pointer likert scale where 1 was low extend and 4 meant very great extend. Political and economic environment ranked highest especially because the study was carried out in the wake of several terrorist attacks that led to travel advisories resulting in very low tourist arrivals.

![Importance of Various Factors in Cash Management](image)

**Figure 4.5: Importance of Various Factors in Cash Management**
4.4 Accounts Receivable Management

The study sought to establish the motives that drive hotels to offer credit instead of cash and the operating motive was common at 50 %, followed by financial motives (33.3 %) and the transaction motive at 16.7 %. The operating motive drives the hotels as they avoid storage costs and minimise wastage by giving credit, the financial motive is because clients are more satisfied by getting credits than borrowing funds to pay for the services while the transaction motive involves the encouragement of early repayments (Zhao, 2011). None of the hotels was motivated by price or tax based factors. This is consistent with previous studies that postulated the motives for giving credit as operating, financial, transaction, price and tax (Asselbergh, 1999; Zhao, 2011).

All the hotels indicated that they offered credit to their customers with those at 1-15% of their sales at 44.4% followed by 16-30% at 33.3 % and above 30% at 22.2%. The credit terms in the hotels was normally offered to corporate clients, as their default rate is lower given their financial strength and corporate image.

Majority of the hotels (55.6 %) indicated they maintained their accounts receivable turnover period at 16-30 days followed by over 30 days at 27.8 % and those at 1-15 days at 16.7 %. The receivables turnover period policy is the period that the hotels give their customers to settle their debts.

Most of the hotels also indicated that they did not provide for bad debts with 77.8 % having less than 1% bad debts while 22.2 % had 1-5% bad debt provision. This implies that the level of default was very low in the tourist hotels. This is supported by the indication that most of the hotels had some
procedures of determining the credit worth of their prospective customers. All the hotels indicated they at least checked their previous dealings with the credit customers, 94.4 percent indicated they checked customer past records from other hotels while 72.2 percent checked with credit bureaus and credit card providers.

Figure 4.6: Investigating Customer Credit Worthiness

4.5 Accounts Payable Management

All the hotels indicated that they purchased goods on credit with majority (44.4 %) maintain a 16-30% credit purchases of their total purchases, while those at 1-15 % and those above 30 % being each at 27.8 %.

Majority of the hotels (50 %) also maintained an accounts payable payment period of 16-30 days, followed by1-15 days at 33.3 % while those that had a policy to pay after 30 days were 16.7 %. This indicates that most hotels understood the benefits of servicing their short-term obligations in the shortest time possible and is reflected in the fact that all of the hotels indicated that they
maintained a good relationship with their creditors. This is further explained by the fact that majority of the hotels (50 %) indicated they were motivated to settle their obligations in good time by reduced prices, 38.9 % were motivated by discounts offered while 11.1 % pointed out that early settlement of obligations enabled them to project their cash levels against payments.

Figure 4.7 Motivation for Early Debt Payment

Majority of the respondents (77.8 %) also indicated they had an accounts payable control system in place. They revolved around controlling their accounts payables by ensuring proper documentation before payment were made and ensuring payables were made thirty days after the supplier invoices were raised.
4.6 Inventory Management

The study sought to establish the inventory management approach commonly used in the tourist hotels among the ABC method, just in time, enterprise resource planning, sales forecasting and inventory models. Majority of the hotels (72.2 %) adopted a sales forecasting method of managing inventory followed by 22.2 % that adopted the just in time method while 5.6 % adopted an inventory models (EOQ) approach. Sales forecasting has been found to be the best in uncertain environments as firms’ sales fluctuate due to economic environment and seasonality among other factors hence the need for an efficient system to help in capital budgeting, firm future operations and production schedules (Zhao, 2011). The findings are similar to previous studies that pointed out that sales forecasting was the commonly used method in managing inventory (Zhao, 2011; Belt & Smith, 1991).

![Inventory Management Approaches](image)

Figure 4.8: Inventory Management Approaches
All the hotels had a re order level policy with majority (50 %) maintaining a minimum re-order level of 21-30 % of their inventory, followed by 11-2 % at 27.8 % while 1-10 % were at 22.2 %. On the maximum re-order level, the hotels were as follows: 51-60 % (16.7 %), 61-70 % (11.1 %), 71-80 % (44.4 %), above 80 % (27.8 %). A very low minimum re order level meant that the hotel maintained very low levels of inventory while a very high maximum reorder level meant that the hotel kept large quantities of inventory with them. Majority of the hotels (55.6 %) indicated demand based on orders as the main factor determining their reorder level, followed by storage costs and availability each at 16.7 %, price discounts at 5.6 % while 5.6 % pointed out that their reorder level was based on the forecasted guest turnover in the given period.

Majority of the hotels (61.1 %) carried out monthly stocktaking while the rest (38.9 %) carried out daily stock takes. This short-term stocktaking exercise ensures that the hotels do not over or under stock which may lead to increased storage costs or opportunity costs in case of sudden demand level changes.

The study also sought to determine the Inventory turnover period that is the length of time items are held in inventory before being sold. For efficiency then firms strive to keep the inventory turnover period as low as possible since longer periods lead to increased security and warehousing costs, which translates to additional cash held up in form of inventory. Majority of the hotels (50 %) indicated a period of 16-30 days, followed by 27.8 % at 1-15 days while 22.2 % had an over 30 days period. Given that most of the hotels inventory comprise of perishables, the 16-30 days and more periods indicated...
that the hotels were having problems selling off their stock, which could be attributed to the very low tourist arrivals during the period.

Almost all the hotels indicated that in case of a sudden drop in sales they used the most perishable inventory in their staff canteen, stored others in cold rooms and stopped any purchases. This would ensure little spoilage of their stock hence minimize losses. On the specific management strategies on the working capital components since the increased security alerts and dwindling tourist arrivals, most of the hotels could not pin point any major changes in management. This could be attributed to the low education standards for the managers and the insufficient research focus in to the sector.

4.7 Financial Performance

The study measured financial performance of the hotels based on various working capital management metrics including the receivables collection period, creditors’ payment period, inventory turnover period, cash conversion period and the net operating profit. The study used the hotel’s annual financial details as provided to measure the variables as follows:

No. of Days Accounts Receivable (ACR) = (Accounts Receivables/Sales) x 365

No. of Days Accounts Payable (ACP) = (Accounts Payables/Cost of Goods Sold) x 365

No. of Days Inventory (ICP) = (Inventory/Cost of Goods Sold) x 365

Cash Conversion Cycle (CCC) = (No. of Days A/R + No. of Days Inventory) – No. of Days A/P
Net operating Profit (NOP) = (Operating Income + depreciation) / (Total Assets - Financial Assets)

4.7.1 Descriptive Statistics

Table 4.6 shows descriptive statistics for the 18 tourist hotels with respect to their recent financial statements. Descriptive analysis presents the mean, median, maximum, minimum and standard deviations of the different variables used in the study.

Table 4.6: Descriptive Statistics (N=18)

<table>
<thead>
<tr>
<th></th>
<th>ACR</th>
<th>ACP</th>
<th>ICP</th>
<th>CCC</th>
<th>NOP</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>MEAN</strong></td>
<td>46.39</td>
<td>31.61</td>
<td>21.39</td>
<td>37.83</td>
<td>0.1382</td>
</tr>
<tr>
<td><strong>MEDIAN</strong></td>
<td>42</td>
<td>30</td>
<td>20</td>
<td>37.5</td>
<td>0.1326</td>
</tr>
<tr>
<td><strong>MAXIMUM</strong></td>
<td>81</td>
<td>62</td>
<td>35</td>
<td>56</td>
<td>0.1916</td>
</tr>
<tr>
<td><strong>MINIMUM</strong></td>
<td>28</td>
<td>14</td>
<td>7</td>
<td>17</td>
<td>0.1015</td>
</tr>
<tr>
<td><strong>STD. DEVIATION</strong></td>
<td>61.44</td>
<td>44</td>
<td>34.27</td>
<td>11.82</td>
<td>0.0267</td>
</tr>
</tbody>
</table>

The descriptive analysis shows that the credit period granted by the tourist hotels to their credit customers ranged 46.39 days that means that the hotels received payment against sales after an average of 46.39 days and standard deviation of 61.44 days. The minimum time that a hotel would take to receive payments was 28 days while the same would stretch to a maximum of 81 days.
The analysis also indicates that the tourist hotels paid their creditors/ suppliers in an average of 31.61 days with a standard deviation of 44 days. The minimum time taken by a hotel to pay creditors was 14 days while the maximum time it would take for the same was 62 days.

The descriptive data also showed that the duration that the average period that a hotel would take to sell inventory was 21.39 days with a standard deviation of 34.27 days. The disposal of inventory would be carried out within a minimum time of 7 days and a maximum time of 35 days by the hotels.

The cash conversion cycle that was used to determine the efficiency of working capital management showed an average of 37.83 days and a standard deviation of 11.82 days. The cash conversion cycle also had a minimum of 17 days and a maximum of 56 days.

On the net operating profitability, the descriptive analysis showed the average profit of the hotels at 13.82 % with a standard deviation of 2.67 % which meant that the profit could deviate from the average by 2.67 % on both sides. The net operating profit had a minimum of 10.15 % and a maximum of 19.16 %.

### 4.7.2 Correlation Analysis

The relationship between the various components of working capital and the tourist hotels’ profitability was measured using the Pearson’s Correlation analysis as provided in table 4.7 below.

**Table 4.7: Pearson Correlation Coefficient**

<table>
<thead>
<tr>
<th>CORRELATIONS</th>
<th>NOP</th>
<th>ARC</th>
<th>ACP</th>
<th>ICP</th>
<th>CCC</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
As indicated in table 4.7, there is a strong negative correlation of $r = -0.6825$ between the hotels’ net operating profit and the number of days accounts receivable. This implies that an increase in the average collection period will influence net operating profits negatively, hence for the hotels to make profits they should collect their receivables in the shortest time possible by sticking to their policies and avoiding any postponements. The number of days accounts payable is also strongly negatively correlated ($r = -0.6636$) to the net operating which implies that for the hotels to make profits they should pay their bills in shorter periods also. This can be supported by the fact that a delay in servicing bills attracts other costs like fines and bad relations between the hotels and their creditors. The number of days it takes to sell inventory is also very strongly negatively correlated to the net operating profit ($r = -0.7027$) which implies that hotel profitability will be negatively affected if the inventory turnover period increases hence the tourist hotels should strive to dispose their inventory in the shortest time possible. The cash conversion cycle which is an aggregate of the three variables is also negatively correlated to the net operating profit ($r = -0.8338$). This implies that efficient management of
working capital is crucial for increased hotel profitability. The results confirm previous studies that posit that a firm’s profitability is increased through a short conversion period between production and sale of products. These findings are in line with previous studies on the relationship between working capital and firm profitability (Ray, 2012; Deloof, 2003).
CHAPTER FIVE

SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction
This chapter provides a summary of the key elements of the study, the conclusions reached based on the information gathered and recommendations for ensuring sustainability and profitability of tourist hotels in Kenya that operate in high uncertain environments as well as recommendations for further research.

5.2. Summary and Conclusion
This study sought to establish the working capital management practices employed in the tourist hotels in the Kenyan coastal region and their effect on the hotels financial performance. This revolved around the working capital components including cash, accounts receivable, accounts payable.

5.2.1 General Working Capital Management
It was established that all the hotels understood the importance of managing working capital in the hotel’s financial management and had adopted various policies in managing the same. Majority of the hotels indicated that they adopted an aggressive working capital policy that meant that they held minimal levels of net current assets. This meant that most of the hotels were risk takers. In the Kenyan turbulent business environment, an aggressive policy if not well managed can be disastrous as short-term debt is more expensive and riskier since it is continually renewed. Political, cash and liquidity risks were indicated
as key financial influencers in the tourist hotel’s working capital. This was a reflection of the ever-instable Kenyan political climate that leads to insecurity hence dwindling tourist arrivals that affect the hotel’s cash levels.

5.2.2 Cash

The hotels mainly held cash for transaction and precautionary purposes. This meant that the hotels were more concerned on the maintenance of funds for daily operations and mitigating any arising obligations. This also showed that the tourist hotels were not concerned with speculating the market, which is supported by their low investment in financial assets. All the hotels maintained cash budgets that helped with the control of liquidity and kept their daily proceeds in banks where they acquired short term financing in case of shortages. The high reliance on short-term finances from banks was in line with the aggressive policy in most hotels. Political and economic environment, technological advancement, efficient financial systems and inflation levels were established as important aspects in managing cash. This showed that the hotels working capital management is very sensitive to both internal and external dynamics.

5.2.3 Accounts Receivable

Financial, operating and transaction motives were the main drivers behind the hotels credit offering. All the hotels offered some credit to their customers and had a receivables policy in days to help control the accounts receivable. However, as per the number of days accounts receivable ratio, most hotels surpassed their policy days which meant that their controls were not sufficient
enough. The hotels also employed various procedures to ensure the credit worth of their respective customers including credit reference bureaus, past records with other hotels and any previous dealing with the prospective customer. Despite the benefits of offering credit the hotels understood the risks involved hence the thorough due diligence.

### 5.2.4 Accounts Payable

All the hotels engaged in credit purchases and maintained a payment policy in days. Most of the hotels payment policy was close to the number of days accounts payable which meant that they settled their obligations relatively within time. Reduced prices and discounts were key motivations for the hotels to service their bills in time, as these would lead to good relations with their suppliers and other creditors. Most of the hotels also indicated they had control measures to reduce embezzlement like the provision of certified documents from the suppliers before actual payment.

### 5.2.4 Inventory

To manage inventory, most hotels indicated that they used the sales forecasting technique approach with a few using the just in time and inventory models. This shows that the hotel’s managers quite understood their ever-changing environment hence supply of inventory was pegged on the demand at the time and any forecasted demands. All the hotels had reorder level polies that depended much on demand-based orders, price discounts, storage costs and availability. Most of the hotels’ inventory being perishables it would be more economically viable to have the shortest inventory turnover period possible. At
an average turnover period of 21-30 days it indicated that, the hotels had problems selling off their stock given their perishability. The hotels also indicated they carried out stocktaking that is very important in such an industry to ensure customer demands are well met.

5.3 Discussion

The research found a strong negative relationship between the hotels' net operating profit and the various measures of working capital management including the number of days accounts receivable, number of days accounts payable, the inventory turnover period and the cash conversion cycle. The findings imply that the shorter the accounts receivable, accounts payable, inventory turnover and cash conversion cycle period the higher the net operating profit in the hotels.

Most of the hotels had very low operations on going at the period of the study with some almost closing down. Majority had laid off most of their staff hence they maintained only the key operations of the hotel because of very low bed capacity occupancy. The participating staff members acknowledged the effect of insecurity on the performance of the hotels as they indicated that a slight security threat or rumor in the coastal region led to cancellation of booking reservations. Majority of the hotels’ working capital policies and practices were relatively viable. However, they would work smoothly in case of high sales due to high tourist arrivals hence were for stable or booming economies but not the highly unstable environment.
The indication of most of the employees having worked in the hotel for 2-5 years strongly supported the high employee turnover in the industry due to the unstable operations where most of them were always working in different hotels in case of closure or low operations leading to dismissal and resignation. The researcher realized a poor attitude among some of the employees that could be attributed to frustrations due to unpaid salaries and fear of losing their jobs. This could lead to loss of customers if the frustrations were advanced to them.

5.4 Recommendations

The study has strongly confirmed that the hotels best financial performance strongly relates to the efficient management of working capital components whereby the shareholders’ value can be created through shortening of the cash conversion cycle.

The management should identify the hotel’s unique working capital drivers and relevant risks and use them to develop their unique working capital management policies and practices that is in line with their business model and the overall hotel corporate strategy.

The hotels should not focus on speeding up collection periods and delaying payments to creditors as the study has shown that these two need to be shortened for any financial gain. Delaying payments may crate bad relations between the hotel and their suppliers while ‘unprofessional’ collection procedures may lead to loss of some customers that hurt the hotel’s
performance hence excellent and professional customer relations should be followed in these activities.

The hotels managers should assign someone the responsibility to deal with the accounts receivable and he should be able to contact the customers even before the debt is due to resolve any misunderstanding that may have occurred and show some concern that the customer is still valued.

The hotels should avoid the typical business cliché of just stocking items and waiting for customers to come. Operating in their very sensitive and uncertain environment the hotels should manage their inventory more on demands of the customer than their sales projections.

The hotels should make use of enabling technology to increase working capital management efficiency and other organisational activities. These will help in more accurate forecasting but will need executive level support especially at their commencement because introduction of new technology has its shortcomings.

Working capital management should not be solely left with the finance department but rather all hotel employees should be involved and should understand the effect of their activities on working capital especially the cross-functional managers.

1.7 **Limitations of the Study**

There was a problem accessing important financial data from the respondents for fear that confidential information may spill to the public especially their
competitors. However, the researcher assured the respondents that the information provided would solely be used for academic purposes and treated with utmost confidentiality. Time for collecting and analysing the data was also a challenge especially when some respondents delayed in giving feedback but the researcher made frequent reminder calls in case of any delays. The study involved a lot of travelling in delivering and collecting the questionnaires that was costly for the researcher. This however was mitigated through contributions from the researcher’s family and friends.

5.5 Further Research

This study has set a foundation for other related research. This study based performance on financial metrics although non-financial parameters have shown to be better performance measures in the service sector hence a study can be carried out that factors that. A research can also be done on the impact of the working capital variables on profitability of the hotels based on their financial performance for longer periods like ten years.
REFERENCES


APPENDICES

Appendix A: Letter to Respondents

Dear Sir/Madam,

**RE: RESEARCH QUESTIONNAIRE**

I am a student at the Technical University of Mombasa pursuing a Master’s in Business Administration (finance option). I am kindly inviting you to participate in my academic research project that I am conducting as part of the requirement for the award of the degree. Your participation will involve responding to the questionnaire enclosed to your best of knowledge.

The purpose of this research is to understand the current business practices around Working Capital Management applied in the tourist hotels in Mombasa County. The findings of this research will provide some important recommendations that will help the tourist players to sustain operations during volatile economic periods as well as the maximization of profitability and growth.

The information you provide and that may identify you or your organization will be kept strictly confidential. Your participation will be highly appreciated.

Sincerely,
Appendix B: Questionnaire

General Instructions: The Purpose of this Questionnaire is to collect data on the working capital management practices among tourist hotels in Mombasa County. The questionnaire consists of seven sections. Please respond to every statement.

Section A: General Information

1. Name of the establishment (optional) ....................................................

2. The hotel’s star rating? One star [ ] Two star [ ]
   Three Star [ ] Four star [ ] Five star [ ]
   Not Rated [ ]

3. Respondent’s designation: ---------------------------------------------------

4. What is your gender: Male [ ] Female [ ]

5. What is your age bracket: Below 30 years [ ] 30 to 45 years [ ]
   46 to 55 years [ ] above 55 years [ ]

6. What is your highest level of education completed?
   Diploma [ ] Bachelors [ ] Master [ ]
   PhD [ ] other (specify) ...........................................................

7. How long have you worked in the hotel?
   Less than 1 year [ ] 2 to 5 years [ ]
   5 to 10 years [ ] More than 10 years [ ]
Section B: General Working Capital Management

8. To what extent do you rate the importance of managing working capital to the hotel?
   
   Very important [ ]  Important [ ]  Not important [ ]

9. What is your hotel’s working capital financing policy?
   
   Conservative [ ]  Moderate [ ]  Aggressive [ ]

10. On average, how often does your hotel review its working capital policies?
    
    Weekly [ ]  Monthly [ ]  Quarterly [ ]  Semi Annually [ ]  Annually [ ]
    Whenever necessary [ ]  N/A [ ]

11. To what extent do you rate the effect of the following financial risks to working capital in your hotel? Use a scale of 1 to 4 where, 1 = Low Extent, 2

<table>
<thead>
<tr>
<th>Risk</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Political risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange rate risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash and Liquidity risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Credit risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rate risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operational risk</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

= Moderate extent, 3 = Great extent, 4 = Very great extent

12. Rate the following four components of working capital on their preference
on a scale of 1 to 4
Cash [ ]  Debtors [ ]  Inventory [ ]  Creditors [ ]

**Section C: Liquidity (Cash) Management**

13. What factor motivates the holding of cash by your hotel?
   - Precautionary motive [ ]
   - Speculative motive [ ]
   - Transaction motive [ ]
   - Any other (specify) ……………………………

14. Do you prepare cash budgets?  Yes [ ]  No [ ]

15. How do you manage the difference in your required cash in case of shortfalls? ……….. ……………………………………………………………………………………………

16. How do you control the proceeds generated on a daily basis?
   - Keep it in office cash till [ ]  Keep it in the bank [ ]
   - Spend the proceeds [ ]  others (specify)…………………………

17. Rate the importance of the following factors in cash management. Use a scale of 1 to 4 where, 1 = Low Extent, 2 = Moderate extent, 3 = Great extent, 4

<table>
<thead>
<tr>
<th>Factor</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
</tr>
</thead>
<tbody>
<tr>
<td>Level of inflation</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Foreign exchange rate</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Interest rates</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Political and Economic environment</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Efficient financial systems</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Technological advancement</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
= Very great extent
Section D: Accounts Receivable Management

18. What factors motivate the use of accounts receivable instead of cash?

Price motives [ ] financial motives [ ] Operating motives [ ] Tax
based motives [ ] Transaction motives [ ]

Do not give credit (specify reason)……………………………………

19. What percentage of your sales constitutes credit sales?

1 – 15% [ ] 16 – 30% [ ] 30% and above [ ]

20. What is your accounts receivable payment policy?

1 – 15 days [ ] 16 – 30 days [ ] 30 days and above [ ]

21. What is the bad debt percentage of the accounts receivable?

Less than 1% [] 1%-5% [] 5%-10% [] 11%-20% [] over 25% []

22. What procedures are involved in investigating a prospective credit customer? (Tick the appropriate one)

<table>
<thead>
<tr>
<th>Procedure</th>
<th>Yes</th>
<th>No</th>
</tr>
</thead>
<tbody>
<tr>
<td>checking customer past records from other hotels</td>
<td></td>
<td></td>
</tr>
<tr>
<td>checking customer previous dealings with your hotel</td>
<td></td>
<td></td>
</tr>
<tr>
<td>checking customer's finances from credit reference bureaus/credit card providers</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Other (specify)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Section F: Accounts Payable Management

23. Do you purchase goods on credit? Yes [ ] No [ ]

24. If yes to question 28 above, what percentage of your purchases constitutes credit?
   1 – 15 % [ ] 16 – 30 % [ ] 30 % and above [ ]

25. What is your accounts payable payment policy?
   1 – 15 days [ ] 16 – 30 days [ ] over 30 days [ ]

26. What motivates you to pay your creditors in good time?
   Discounts [ ] Reduced prices [ ] after sale services [ ]
   Any other (specify)……………………………………………………………………

27. Do you maintain a good relationship with creditors?
   Yes [ ] No [ ]

28. If no to question 32 above, how does that affect your operations?
   ……………………………………………………………………………………………

29. Do you have an accounts payable control system in place? Yes [ ] No [ ]
   If Yes please explain…………………………………………………………………

Section E: Inventory Management

30. What inventory management approaches does the hotel apply?
   Just in time [ ] ABC method [ ] ERP system [ ] Sales forecasting [ ]
   Inventory models (EOQ) [ ] other (specify)……………………………. 
31. Do you have a re-order level policy? Yes [ ]  No [ ]

32. What percentage of stock represents your minimum re-order level?

1 - 10% [ ]  11 – 20% [ ]  21 – 30% [ ]

33. What percentage of stock represents your maximum re-order level?

51 – 60% [ ]  61 – 70% [ ]  71 – 80% [ ]  80% and above [ ]

34. What influences re-ordering quantities or levels?

Inflation [ ]  Shortage Costs [ ]  Price Discounts [ ]

Availability [ ]  Storage Costs [ ]  Demand based on order[ ]

Other (specify)……………………………………………………………………

35. How often do you do stock taking?

Daily [ ]  Monthly [ ]  yearly [ ]  when necessary [ ]

Other (specify)……………………………………………………………………

36. What is your inventory turnover period?

1 – 15 days [ ]  16 – 30 days [ ]  over 30 days [ ]

71
37. How do you manage sudden changes, for instance inventory levels getting higher due to a sudden drop in sales?

Section G: Financial Performance

38. Please provide an estimate of the following financial details as per the last ended financial year.

<table>
<thead>
<tr>
<th>Financial Item</th>
<th>Amount (Ksh ‘000’)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Annual Sales Turnover</td>
<td></td>
</tr>
<tr>
<td>2 Annual Purchases</td>
<td></td>
</tr>
<tr>
<td>3 Cost of goods Sold</td>
<td></td>
</tr>
<tr>
<td>4 Total operating expenditure</td>
<td></td>
</tr>
<tr>
<td>5 Depreciation/ Amortization</td>
<td></td>
</tr>
<tr>
<td>6 Inventory</td>
<td></td>
</tr>
<tr>
<td>7 Accounts Payables</td>
<td></td>
</tr>
<tr>
<td>8 Accounts Receivables</td>
<td></td>
</tr>
<tr>
<td>9 Total Assets</td>
<td></td>
</tr>
<tr>
<td>10 Financial Assets</td>
<td></td>
</tr>
<tr>
<td>11 Total Current Assets</td>
<td></td>
</tr>
<tr>
<td>12 Total Current Liabilities</td>
<td></td>
</tr>
</tbody>
</table>
39. Following the current security alerts and consistent fall in tourist arrivals, has your hotel changed its strategies in managing the following variables? (If yes, please specify how).

Cash [Yes] [No] (..........................................................)

Inventory [Yes] [No] (..........................................................)

Receivables [Yes] [No] (..........................................................)

Payables [Yes] [No] (..........................................................)

THANK YOU
# Appendix E: List of Tourist Hotels in Mombasa County

<table>
<thead>
<tr>
<th>S/NO</th>
<th>Hotel Establishment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Serena Beach Resort &amp; Spa</td>
</tr>
<tr>
<td>2</td>
<td>Eden Beach Resort &amp; Spa</td>
</tr>
<tr>
<td>3</td>
<td>Pride Inn Sairock Beach Hotel, Spa &amp; Conferencing</td>
</tr>
<tr>
<td>4</td>
<td>Severin Sea Lodge</td>
</tr>
<tr>
<td>5</td>
<td>Neptune Sentido Beach Resort</td>
</tr>
<tr>
<td>6</td>
<td>Cowrie Shell Beach Apartments</td>
</tr>
<tr>
<td>7</td>
<td>Pangoni Beach Resort Mombasa</td>
</tr>
<tr>
<td>8</td>
<td>Tijara Beach Hotel</td>
</tr>
<tr>
<td>9</td>
<td>Sarova Whitesands Beach Resort &amp; Spa</td>
</tr>
<tr>
<td>10</td>
<td>Voyager Beach Resort Mombasa</td>
</tr>
<tr>
<td>11</td>
<td>Sentrim Castle Royal Hotel</td>
</tr>
<tr>
<td>12</td>
<td>Nyali International Beach Hotel &amp; Spa</td>
</tr>
<tr>
<td>13</td>
<td>Reef Hotel Mombasa</td>
</tr>
<tr>
<td>14</td>
<td>Pride Inn Hotel Mombasa</td>
</tr>
<tr>
<td>15</td>
<td>Kenya Bay Beach Hotel</td>
</tr>
<tr>
<td>16</td>
<td>Sunrise Resort Apartments</td>
</tr>
<tr>
<td>17</td>
<td>New Palm Tree Hotel</td>
</tr>
<tr>
<td>18</td>
<td>Emerald Flamingo Beach Resort &amp; Spa</td>
</tr>
<tr>
<td>19</td>
<td>Bamburi Beach Hotel Mombasa</td>
</tr>
<tr>
<td>20</td>
<td>Coast Gate Hotel Mombasa</td>
</tr>
<tr>
<td>21</td>
<td>Indiana Beach Apartments Hotel</td>
</tr>
<tr>
<td>22</td>
<td>Chamiachi Luxury Apartments</td>
</tr>
<tr>
<td>23</td>
<td>Royal Court Hotel</td>
</tr>
<tr>
<td>24</td>
<td>Pride- Inn Nyali Mombasa</td>
</tr>
<tr>
<td>25</td>
<td>Mombasa Beach Hotel</td>
</tr>
<tr>
<td>26</td>
<td>Travellers Beach Hotel</td>
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<tr>
<td>27</td>
<td>Sentido Neptune Beach Hotel</td>
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<tr>
<td>28</td>
<td>Mombasa Continental Resort</td>
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<tr>
<td>29</td>
<td>Flamingo Beach Hotel</td>
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<tr>
<td>No.</td>
<td>Name of the Establishment</td>
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<tr>
<td>30</td>
<td>Baobab Holiday Resort</td>
</tr>
<tr>
<td>31</td>
<td>Campers Haven &amp; Jamboree Resort</td>
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<tr>
<td>32</td>
<td>Gishuno Apartment Hotels</td>
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<tr>
<td>33</td>
<td>Makweteu Resorts</td>
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<tr>
<td>34</td>
<td>Milele Beach Hotel</td>
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<td>Pa Pweza Adamsville Beach Suites</td>
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<td>Plaza Beach Hotel</td>
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<td>Sheba Resorts</td>
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<td>Surfside Villas</td>
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<td>Quale Hotel</td>
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<td>Hotel Dorse</td>
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<td>Hotel Sapphire</td>
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<td>Tamarind Hotel</td>
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<td>44</td>
<td>Lambada Holiday Resort</td>
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**Source:** KUDHEHIA Mombasa Branch (2014); Ministry of labour and manpower development & Ministry Tourism (2014)