



**WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE OF FOUR-STAR RATED BEACH HOTELS
IN MOMBASA, KENYA**

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ABSTRACT

This study was to investigate the effect of working capital management on financial performance of five-star rated hotels in Mombasa. The study adopted cross-sectional descriptive survey research design. The target population of the study was management and supervisory staff of five-star beach hotels in Mombasa County which include; Sarova Whitesands Beach Resort, Serena Beach Resort, Bahari Beach Hotel, Pride Inn Flamingo Beach Hotel and Nyalı International Beach Resort. The population was drawn from the departments of Operations, Finance and Credit. The study utilized purposive sampling design and a sample of 57 respondents was selected by use of Slovincs statistical formula. The study utilized primary data collected by use of structured closed-ended questionnaires. On data analysis, descriptive statistics and inferential statistics was employed to analyze collected data. Statistical Package for Social Science (SPSS) was the data analysis tool. The study results revealed that the five-star hotel has account receivable payment policy. This policy assists in planning for accounts receivable prudently. Further, it is shown that the beach hotel it takes less than a month to collect accounts receivable. Also there is maintenance of account receivable records and reconciliation in the five-star rated hotel and that the beach hotel sets credit limits to its customers. The study concludes that the beach hotels draw their funding from equity and external borrowing. Further, it was concluded that the beach hotels have adequate total asset reserves to cover its financial needs and this means that the beach hotel capital base will be affected by loss of income-generating activities. This fact has led triggered beach hotels to diversify capital portfolio. The study recommended that the management of beach hotels should widen their capital by focusing on the financing avenues in addition to equity and external borrowing. It is recommended that the beach hotels should ensure adequacy of total asset reserves to cover its financial needs and should cushion itself from loss of income-generating activities. The study recommended that the management of the beach hotels should ensure that goods are purchased when need arises. Further the management of the hotels should develop a re-order level policy which is dynamic. Also the beach hotels should adopt sales forecast approach when placing hotel order from the suppliers and they should purchase goods in large quantities to enjoy trade discount.

Key Words: *Receivable Cycle, Payment Deferral Period, Inventory Conversion Cycle, Cash Conversion Cycle*

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INTRODUCTION

World over, global financial crisis in the last decade has highlighted the significance of good liquidity management in the organizations. As funds become increasingly scarce and expensive, working capital management becomes ever more important (Cyttonn, 2021). The crisis has also underlined issues around leverage: while increased borrowing can help an organization increase its returns, it also exposes the institution to greater risk (Bouwman, 2017). But none of these issues is a simple switch that can be flipped on or off - they involve balancing priorities and, for most hotels, managing a mosaic of funding sources and an increasingly complex set of balance sheets. Sound working capital management is integral for any institution's stability, since deteriorating liquidity management is the most frequent cause of poor financial performance (Perways & Krishna, 2017).

Locally in Kenya, hotel sector is embroiled in intense competition occasioned by interconnectedness of global markets and upsurge in world tourism (Shahin & Samea, 2017). As of today, Hotels in Mombasa are shrouded in the cloud of intense business competitive environment. Hotels are jostling for market share expansion amid reduction in the number of international visitors due to COVID 19 upsurge in core tourist source nations. In addition, the preferences of the customers on services and hotel offerings have shot up than at any other time ever. All these dynamic shifts call for hotels to embrace optimal working capital management practices to stay afloat as well as enhance the overall hotel well-being and competitiveness (Al-Damen, 2017).

Hotels in Mombasa have not been spared by the wrath of COVID 19 as they have posted decline in hotel revenues and low hotel occupancy level in the same period leading to the closure of some hotels. Further, the situation has been exacerbated by increased inter hotel competitions in the local market and threats of emerging hospitality markets like Rwanda and Tanzania. A report of Kenya Tourism Federation (KTF) has shown that many

Coast hotels have recorded occupancy rate of below 10 percent in 2020 making most of the hotels to close shops. This has forced the remaining hoteliers to rethink their approaches to working capital management to avoid continued losses and reposition themselves in the global market (Cyttonn report, 2020).

Hotel industry in Kenya has been quick to capitalize on the promising outlook of the tourism industry. More than 500 good hotels exist in the nation and the figures are developing quickly. As indicated by the Kenya Investment Authority (2013), rivalry in the hotel industry is relied upon to go a step higher as global hotel initiates their operations in Kenya in an expectation to get a position of the market comprising the middle income and high-income groups. A number of worldwide hotel brands have set up base in the nation in the previous couple of years. The travel and tourism industry has been a standout amongst the most noteworthy sectors behind Kenya's economic improvement recently by decreasing joblessness, improving national GDP and stabilizing the BOP of the Nation. The tourism industry is third biggest forex earner for Kenya right after tea and agriculture representing about 12% of formal wage employment and 13.7% of the total National output (National Tourism Strategy, 2013).

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, 2018). 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, 2018).

Statement of the Problem

Hotel sector is the most competitive in the hospitality industry and it is bombarded with endless loop of transformation (Gallouj & Weinstein, 2017). The bed occupancy has fallen by

15% and that 78% of the hotels and restaurants every now and again have been rebranding to enhance business, furthermore 67% of hotels have ceased operations in the previous two years. A number of hotels have been unsuccessful for the reason that they have inadequate working capital and proper control of finances. In 2020, the hotel industry which relies exclusively on tourist arrivals recorded adverse performance. Many nations in the world were put on lockdown thus automatically locking their citizens from flying to various destinations as tourists due to COVID 19 pandemic. This has affected sales of hotels particularly those at the Coast. A report of Kenya Tourism Federation (KTF) has shown that many Coast hotels have recorded occupancy rate of below 10 percent in 2020 making most of the hotels to close shops. Many five star hotels in Mombasa have embraced strategic innovations. For instance, Sarova Whitesands beach resort has invested in latest innovations which range from keyless rooms for customer, robotics service, automatic check-in and check-out and on-line room bookings with a virtual reality view. However, despite all these innovations having been deployed in the hotel, the number of customers who have booked the beach hotel has declined over the last three years (Business daily, 2020). Consequently, the sales turnover of the hotel has tanked by 38.6 percent in revenue (Business daily, 2020). The hotel customers repeat visit rate has reduced in the last three years (Business daily, 2020) and this translates to unsatisfied customers.

A number of studies have been done on working capital management. For example, a study by Hussain and Khan (2020) was focused on establishing the working capital management for the small hotel sector. Mwaura (2019) did a study on establishing the influence of liquidity management on hotel performance. The study was limited in scope as it looked non-star rated hotels only. Waduu and Rugami (2019) carried out a study to establish the effect of working capital management practices on performance of commercial banks in Kilifi County. The reviewed

empirical studies have majorly focused on other sectors rather than hotel industry and the few which have been done on hotels were executed before the COVID 19 pandemic struck the industry. It is against this background that this study empirically examined if there is any relationship between working capital management and financial performance of five-star rated beach hotels in Mombasa, Kenya.

Research Objectives

The general objective of the study was to investigate the effect of working capital management on financial performance of five -star beach hotels in Mombasa, Kenya. The specific objectives were;

- To establish the effect of accounts receivable cycle on financial performance of five -star beach hotels in Mombasa, Kenya.
- To determine the effect of payable deferral period on financial performance of five -star beach hotels in Mombasa, Kenya.
- To examine the effect of inventory conversion period on financial performance of five -star beach hotels in Mombasa, Kenya.
- To establish the effect of cash conversion cycle on financial performance of five-star beach hotels in Mombasa, Kenya.

The study was guided by the following research hypotheses

- **H₀1:** There is no significant effect of accounts receivable cycle on financial performance of five -star beach hotels in Mombasa, Kenya
- **H₀2:** There is no significant effect of payable deferral period on financial performance of five -star beach hotels in Mombasa, Kenya
- **H₀3:** There is no significant effect of inventory conversion period on financial performance of five -star beach hotels in Mombasa, Kenya
- **H₀4:** There is no significant effect of cash conversion cycle on financial performance of five -star beach hotels in Mombasa, Kenya

LITERATURE REVIEW

Theoretical Review

Liquidity Preference Theory

The theory was proposed and developed by John Maynard Keynes in 1936. Keynes described liquidity preference theory as individuals' value money for both the transaction of current business and its use as a store of wealth (Bibow, 2015). Thus, individuals will sacrifice the ability to earn interest on liquid cash that individuals want to spend in the present, and that individuals want to have it on hand as a precaution. On the other hand, when interest rates increase, individuals become willing to hold less cash for these purposes in order to earn a profit.

The liquidity preference theory attempts to describe the reasons as to why institutions need to hold cash. In the study "The general Theory of employment, interest and money" Keynes in 1936 identified three reasons why liquid cash is important, the speculative motive, the precautionary motive and the transaction motive. Money needed by hotels for their daily activities in order to complete economic transactions is known as the demand for money for transaction motives and is usually depends on the size of the income, time gap between the receipts of income and spending habits. Precautionary motive is when hotels want to keep some liquid money to meet some unforeseen emergencies, contingencies and accidents while speculative motive is when the hotels keep cash with them to take advantage of the changes in the prices of bonds and securities.

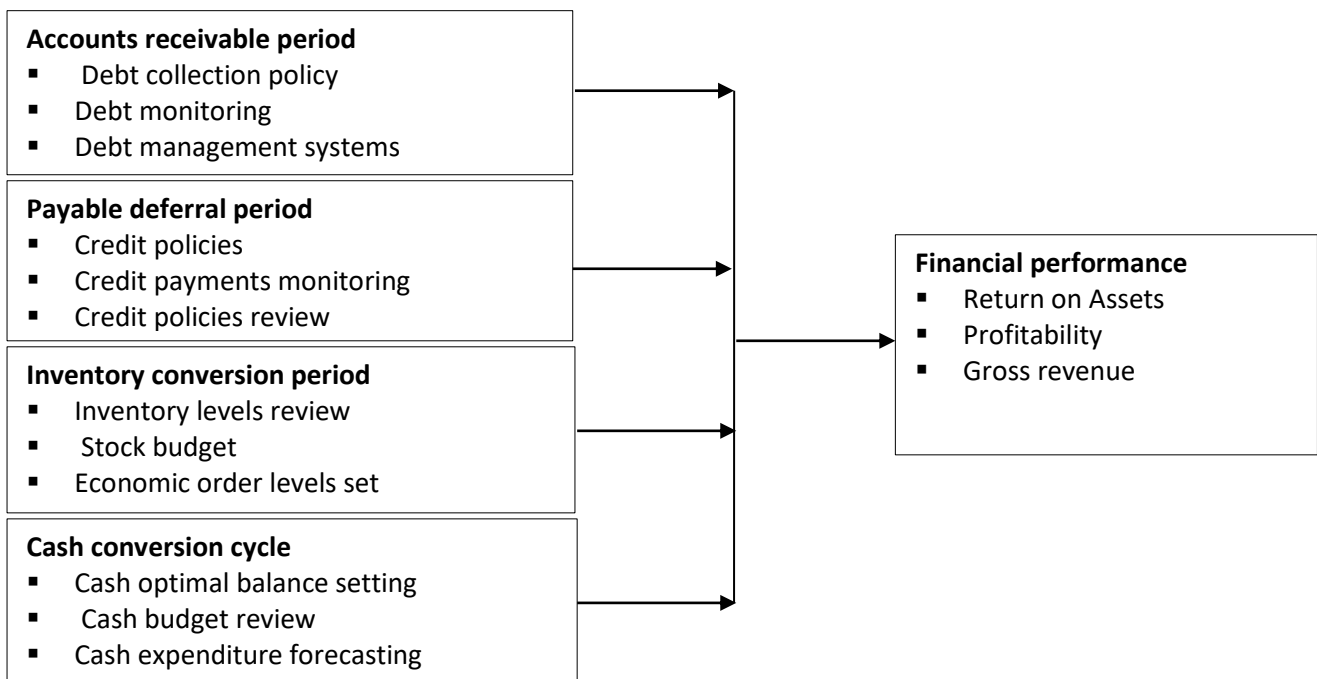
Beranek's Model

The model was propounded by Beranek in 1967 and the model states that in as far as cash inflows can be controlled and they recur in a cyclical way, the

financial manager can foretell financial need over a given period and can capitalize the surplus money during the planning period. He states that a business may keep additional cash for precautionary commitments. The theory assumes some critical minimum balance, which is never expected to be violated. If violated, it is assumed to be absorbed by postponement of trade payments. Beranek's model is useful in defining the least balance that must be held at the beginning of a planning period to evade shortages of cash at the course of the period. With this probability distribution, Beranek came up with a cost function and by differentiating it to obtain the optimal initial cash balance that should be in hand at the beginning of the period (Beranek, 1967).

Beranek adopted a probability distribution for expected future cash flows and the cost function for the lost cash discount and falling of firm credit rating when the business firm is liquidity problems. In this model, Beranek gave emphasis on the allocation of funds between investments and cash at the outset of the period under review. The model also assumes that withdrawals from investments are possible at the end of each planning period. According to Beranek, the model is more helpful in management of cash problems since cash payout can be controlled directly by the management. Wages and salaries are paid on weekly or monthly basis. Tenth or final days of the month can be the time of paying creditors but other key payments for example tax and dividend are paid on regular intervals (Beranek, 1967). Therefore, this model is relevant for this study because financial managers of hotels can easily establish the requirements of funds over the planning period by establishing the forecasted cash inflows and cash out flows.

Conceptual Framework



Independent Variables

Dependent Variable

Figure 1: Conceptual framework

Empirical Review

Chang and Jeng (2016) examined the effect of liquidity control on return on assets of fish processing firms in Guanzu China. The study adopted cross sectional survey of the fish processing firms with selected firms being based on multi-level sampling. The revealed that liquidity control had a significant effect on return on assets of the concerned firms. Murugesu (2013) on the other hand revealed that profits were affected negatively by cash conversion cycle up to 60.2 % and that liquidity control explained 25% of the variation of profitability based on analysis of variances.

Velnampy and Kajanathan (2017) evacuated the cash position and profitability among telecommunication firms in Sri Lanka. The target population was major 120 telecommunication firms in Sri Lanka with the study relying on census survey to collect and analyze data. The study was based regression to analyze the relationship between cash position and profitability. The study revealed that

centralized cash management had a direct effect on profitability. Additionally, cash budgeting had a positive impact on profitability. The study concluded that there is a significant relationship between centralized cash management and return on equity & assets in the Sri Lanka. The study focused on centralized cash management besides being based in telecommunication industry.

Muthoga (2019) did a study on liquidity risks and profitability of commercial banks listed in Nairobi Securities Exchange. The specific objective was to evaluate the effect of net loan holdings, asset quality and liquid assets holdings on profitability of listed commercial banks at the Nairobi Securities Exchange, Kenya. The research adopted causal research design where the study population comprised all the 11 listed commercial banks at the Nairobi Securities Exchange, Kenya as at December 2018. The research used descriptive analysis and panel regression analysis for the data analysis. The panel regression analysis indicated that net loans holdings have a negative and significant effect on

the profitability of commercial banks. Similarly, with respect to asset quality and profitability of commercial banks, the regression output revealed that the effect of asset quality on profitability is negative and significant.

Njue (2020) carried a study on liquidity management effect on financial performance of Microfinance banks in Kenya. Secondary data on the study variables were deduced from the audited financial statements of the MFIs under consideration. The data was obtained from the CBK website, CBK's Annual Supervision reports and also the AMFI annual reports for 5 years from 2012-2016. The desired population of the research consisted of all the twenty-six MFIs in Kenya that were members of AMFI and available at the CBK website. Primary data was collected using questionnaires whereas the secondary data involved analysis of the audited financial statements. The study used both descriptive and inferential statistics to evaluate the data. In descriptive analysis mean, and standard deviation of the responses was analyzed whereas, under inferential statistics, Pearson correlation, panel power correlation and regression analysis were adopted. The analysed data indicated that liquidity management practices fundamentally influenced the financial performance of MFIs in Kenya.

Mugo and Njeje (2016) investigated factors affecting liquidity risk management practices in microfinance in Kenya. The study adopted a survey research design. The target population included all the 128 employees from the 6 selected MFIs in Kenya. A sample of 96 employees were drawn and used in the study. Questionnaires were used to collect data from the field. The raw data collected was analyzed using the Statistical Program for Social Sciences (SPSS) Version 21.0. The hypotheses were tested using multiple regression analysis. The study found out that Micro Finance Institutions internal control systems, policies, Board oversight and risk monitoring significantly affects its liquidity risk management practices.

Njeru (2016) focused on investigating liquidity management in the context of deposit taking Saccos in Kenya. The target population was thirty licensed deposit taking SACCOs in Kenya, the sampling technique employed was simple random sampling and the sample size was 92 respondents. This study adopted a descriptive survey in soliciting information on effects of liquidity management on financial performance of deposit taking SACCOs in Kenya. Primary quantitative data was collected by use of self-administered structured questionnaires. The researcher also used secondary data derived from the audited financial statement of the SACCOs and the regulator (SASRA). The data collected was analyzed, with respect to the study objectives, using both descriptive and inferential statistics. The data was analyzed using descriptive statistics such as mode, median, mean, standard deviation. Research hypothesis was tested by use of F- test statistics, to determine relationship between variables, cross tabulation was undertaken with the help of SPSS and correlation was determined. Univariate and multiple regression analysis was employed to determine relationship between liquidity management and financial performance of SACCOs. Data was presented in tables, charts, figures and mathematical expressions. The results showed that even though SACCOS undertake strict cash flow forecast, there are external variables that can affect cash management which poses a greater risk in the operations of the institutions.

METHODOLOGY

The study used cross-sectional research design and descriptive research design. The target population of the study was management and supervisory staff of five-star beach hotels in Mombasa County which include; Sarova Whitesands Beach Resort, Serena Beach Resort, Bahari Beach Hotel, Pride Inn Flamingo Beach Hotel and Nyali International Beach Resort. The population was drawn from the departments of Operations, Finance and Credit. The study employed stratified random sampling technique whereby the target population was divided into different groups and those with similar

characteristics were grouped in the same stratum then sample for the study was selected at random from each stratum. This study utilized quantitative data which was collected by use of a questionnaire. Research data for this study comprised the primary data. Secondary data was obtained from already existing sources which includes hotel reports, published journals and existing relevant literature. Based on the fact that the questionnaires were quantitative, the data was analyzed through descriptive statistics (Mean and standard deviation) and inferential statistics were computed through multiple regression and correlation analysis. The data collection tool used by the researcher was Statistical Package for Social Sciences (SPSS) version 25. Multiple regression analysis used because it provides estimates of net effects and explanatory power. Analyzed data was presented in frequency distribution tables so as to make it easy for research results description and explanation. The following linear regression model was adopted to test the statistical significance of the study predictor variables on dependent variable;

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \epsilon$$

Where:

Y= Financial performance

β_0 = constant term

β_1 - β_4 are the coefficient function of the independent variables,

X_1 = Accounts receivable cycle

X_2 = Payable deferral period

X_3 = Inventory conversion period

X_4 = Cash conversion cycle

ϵ = Error term

FINDINGS AND DISCUSSIONS

Descriptive Statistics

This study carried out the following descriptive statistics; mean, standard deviation of all the study variables as shown in the following sections.

Accounts Receivable Cycle

The first objective of the study was to establish the effect of accounts receivable cycle on financial performance. They were required to do this on a 5 point Likert scale where 1 represented Strongly disagree while 5 represented Strongly agree. The results are presented in Table 1.

Table 1: Accounts Receivable Cycle

	N	Mean	Std. Deviation
Hotel has Account Receivable Payment Policy	55	3.87	.992
In the beach hotel it takes less than a month to collect accounts receivable	55	4.13	.447
There is maintenance of account receivable records and reconciliation in the five-star rated hotel	55	4.01	.340
The beach hotel sets credit limits to its customers	55	4.87	.498

From Table 1 it was revealed that respondents agreed to the statement that hotel has Account Receivable Payment Policy as indicated by a mean of 3.87 and standard deviation of 0.992. The respondents agreed to the statement that in the beach hotel it takes less than a month to collect accounts receivable as shown by a mean of 4.13 and a standard deviation of 0.447. The respondents agreed to the statement that There is maintenance

of account receivable records and reconciliation in the five-star rated hotel and that the beach hotel sets credit limits to its customers as indicated by a mean of 4.01 and a mean of 4.87 respectively.

Payable Deferral Period

The second objective of the study sought to establish the effect of payable deferral period on financial performance. The results are as presented in Table 2.

Table 2: Payable Deferral Period

	N	Mean	Std. Deviation
The beach hotel is funded partially by external borrowing and equity	55	4.12	.408
The beach hotel has adequate total asset reserves to cover its financial needs	55	3.89	.271
The beach hotel loss of income-generating activities will lead to capital base reduction	55	4.58	.617
The beach hotel has diversified its capital portfolio	55	4.73	1.106

From the findings in Table 2, respondents agreed to the statement that the beach hotel is funded partially by external borrowing and equity as indicated by a mean of 4.12 and standard deviation of 0.408. The respondents agreed to the statement that the beach hotel has adequate total asset reserves to cover its financial needs as shown by a mean of 3.89 and a standard deviation of 0.271. Respondents agreed to the statement that beach hotel loss of income-generating activities will lead

to capital base reduction (mean=4.58) and that the beach hotel has diversified its capital portfolio as indicated by a mean of 4.73 with a standard deviation of 1.106.

Inventory Conversion Period

The third objective of the study sought to determine the effect of inventory conversion period on financial performance. The results are presented in Table 3.

Table 3: Inventory Conversion Period

	N	Mean	Std. Deviation
In the beach hotel, goods are purchased when need arises	55	4.72	.651
The beach hotel has re-order level policy in place	55	4.10	.445
The beach hotel use sales forecast approach to place order	55	4.23	.816
Hotels buy goods in large quantities to enjoy trade discount	55	4.71	1.005

Table 3 showed that respondents agreed to the statement that in the beach hotel, goods are purchased when need arises as indicated by a mean of 4.72 with a standard deviation of 0.651. Further respondents agreed to the statement that the beach hotel has re-order level policy in place as indicated by a mean of 4.10 with a standard deviation of 0.945. Respondents agreed to the statement that often the beach hotel use sales

forecast approach to place order and that hotels buy goods in large quantities to enjoy trade discount as indicated by a mean of 4.23 and a mean of 4.74 respectively.

Cash Conversion Cycle

The fourth objective sought to investigate the effect of cash conversion cycle on financial performance. The results are as presented in Table 4.

Table 4: Cash Conversion Cycle

	N	Mean	Std. Deviation
The beach hotel undertake regular budget cash budget	55	4.83	.703
The beach hotel experiences cash shortages most of the times	55	2.60	.670
The beach hotel undertakes cash expenditure forecasting frequently	55	4.77	.895
The beach hotel has developed dynamic cash management policy to ensure cash adequacy	55	4.29	.929

Results in Table 4 showed that respondents agreed to the statement that the beach hotel undertake regular budget cash budget as indicated by a mean of 4.83 and standard deviation of 0.703. Findings showed that respondents disagreed to the statement that the beach hotel experiences cash shortages most of the times as indicated by a mean of 2.60 and standard deviation of 0.670. The findings also showed that respondents agreed to the statement that the beach hotel undertakes cash expenditure forecasting frequently (mean = 4.77) and that the beach hotel has developed dynamic cash management policy to ensure cash adequacy

(mean = 4.29). The study results is corroborated by the findings by Murugesu (2013) which revealed that profits were affected negatively by cash conversion cycle.

Correlation Analysis

The researcher further sought to establish the bivariate correlation between the variables. Pearson correlation result was the main item here. According to Sekaran and Bougie (2010), Pearson correlation analysis indicates the strength, direction, and significance of bivariate relationship among the variables. The results are shown in Table 5.

Table 5: Correlation Coefficient

			ARC	PDP	ICP	CCC	Financial performance
Accounts receivable cycle	Pearson Correlation		1				
	Sig. (2-tailed)						
	N		55				
Payment deferral period	Pearson Correlation		.679**	1			
	Sig. (2-tailed)		.000				
	N		55	55			
Inventory conversion period	Pearson Correlation		.605**	.716**	1		
	Sig. (2-tailed)		.000	.000			
	N		55	55	55		
Cash conversion cycle	Pearson Correlation		.609**	.499**	.518**	1	
	Sig. (2-tailed)		.000	.000	.000		
	N		55	55	55	55	
Financial performance	Pearson Correlation		-.201**	-.398**	-.260**	.490	1
	Sig. (2-tailed)		.014	.000	.005	.010	

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

Table 5 revealed that the correlation between accounts receivable cycle and financial performance had a negative correlation as shown by r of -.201 and p-value of 0.014. The correlation between payment deferral period and financial performance was established by be positive and strong as indicated by r of 398 and p-value of 0.000. Further, the correlation between inventory conversion period and financial performance was negatively correlated (r=-0.260, P=0.000). The correlation

results showed a negative correlation between cash conversion cycle and financial performance (r=-0.490, P=0.010). The findings agree with Murugesu (2013) study which revealed that profits were affected negatively by cash conversion cycle.

Multiple Regression Analysis

Financial performance was regressed on working capital management constructs. The results of regression analysis are presented as follows.

Table 6: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.692 ^a	.479	.396	.26265

a. Predictors: (Constant), Accounts receivable cycle, Payment deferral period, Inventory conversion period, Cash conversion cycle

b. Dependent Variable: Financial performance

The regression results in Table 6 indicate that the coefficient of determination (R^2) is 0.479. This implies that 47.9 percent of variance in financial performance is explained by working capital

management aspects of accounts receivable cycle, payment deferral period, inventory conversion period and cash conversion cycle.

Table 7: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	1.587	4	.397	11.34	.000 ^b
	Residual	1.725	50	.035		
	Total	3.311	54			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Accounts receivable cycle, Payment deferral period, Inventory conversion period, Cash conversion cycle

ANOVA results in Table 7 showed that the significance value in testing the reliability of the model for the relationship between the working capital management and financial performance was

obtained as 0.000 which is less than 0.05, the critical value at 95% significance level. Therefore, the overall model was statistically significant in predicting the relationship between the variables.

Table 8: Regression Coefficients

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	2.991	.998		2.998	.000
1 Accounts receivable cycle	-.427	.168	.059	-2.542	.018
1 Payment deferral period	.413	.118	1.009	3.509	.002
1 Inventory conversion period	-.263	.087	.157	-3.023	.000
1 Cash conversion cycle	-.565	.197	.404	-2.868	.006

a. Dependent Variable: Financial performance

$$Y = 2.991 - 0.427X_1 + 0.413X_2 - 0.263X_3 - 0.565X_4$$

The regression results in Table 8 showed that for a 1- point increase in working capital management, financial performance is predicted to increase by 2.991, given that all the other factors are held constant at zero. Further in the model it shows that a unit increase in accounts receivable cycle would lead to a negative increase in financial performance by -0.427. A unit increase in payment deferral

period would lead to a positive increase in financial performance by 0.413, a unit increase in inventory conversion period would lead to a decrease in financial performance by -0.263, and a unit increase in cash conversion cycle would lead to decrease in financial performance by -0.565. The predictors had significance level of 0.05 and below meaning that they were statistically significant at $P < 0.05$.

Discussion of Key Findings and Hypothesis Testing

Regression analysis formed a basis for achieving research objectives adopted in this study. This was done by considering the p values corresponding to each variable of interest in the results. The first objective of the study sought to investigate the effect of accounts receivable cycle on financial performance of five-star rated hotels in Mombasa County. Regression analysis conducted proved that there was a negative significant effect of accounts receivable cycle and financial performance as shown by the values $\beta_1 = -0.427$, $t = -2.542$, $p < 0.05$. The study concludes that a unit change in accounts receivable cycle would lead to -0.427 unit change in financial performance. Further, since the $p < 0.05$, the null hypothesis that accounts receivable cycle has no significant effect on financial performance is rejected.

The second objective was to establish the effect of payment deferral period on financial performance of five-star rated hotels in Mombasa County. Regression analysis result showed a positively significant effect of payment deferral period on financial performance as indicated by the values $\beta_2 = 0.413$, $t = 3.509$, $p < 0.05$. The study concludes that a unit change in payment deferral period would lead to 0.413 unit change in financial performance. On hypothesis testing, since $p < 0.05$ null hypothesis that payment deferral period has no significant effect on financial performance is rejected.

Thirdly, the study sought to establish the effect of inventory conversion period on financial performance of five-star rated hotels in Mombasa County. Regression analysis conducted showed that there was negative significant effect of inventory conversion period and the study outcome variable as revealed by the values $\beta_3 = -0.263$, $t = -3.023$, $p < 0.05$. The study concludes that a unit change in inventory conversion period would lead to -0.263 unit change in financial performance. On hypothesis testing, since $p < 0.05$, the null hypothesis that inventory conversion period has no significant effect on financial performance is rejected.

Finally, the study sought to investigate the effect of cash conversion cycle on financial performance of five-star rated hotels in Mombasa County. Regression analysis conducted showed that there was negative significant effect of cash conversion cycle and financial performance as indicated by the values $\beta_4 = -0.565$, $t = -2.868$, $p < 0.05$. The study concludes that a unit change in cash conversion cycle would lead to -0.565 unit change in financial performance of five-star rated hotels in Mombasa County. The findings agree with Murugesu (2013) study which revealed that profits were affected negatively by cash conversion cycle. On hypothesis testing, since $p < 0.05$, the null hypothesis that cash conversion cycle has no significant effect on financial performance is rejected.

CONCLUSIONS AND RECOMMENDATIONS

The study concluded that the five-star hotel has account receivable payment policy. This policy assists in planning for accounts receivable prudently. Further, it is concluded that the beach hotel it takes less than a month to collect accounts receivable. Also there is maintenance of account receivable records and reconciliation in the five-star rated hotel and that the beach hotel sets credit limits to its customers.

The study concluded that the beach hotels draw their funding from equity and external borrowing. Further, it is concluded that the beach hotels have adequate total asset reserves to cover its financial needs and this means that the beach hotel capital base will be affected by loss of income-generating activities. This fact has led triggered beach hotels to diversify capital portfolio.

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

The results of study revealed that cash conversion cycle had negative and statistically significant effect

on financial performance of the five-star rated hotels. Therefore, the study concludes that hotels develop cash flow management policy that will ensure cash is maintained at the optimal level in order to ensure smooth running of the day-to-day operations and ultimately enhance financial performance.

The study recommended that the five-star hotel management should develop a dynamic account receivable payment policy. This policy would assist greatly in accounts receivable planning. Further, it is recommended that the beach hotel should hasten to minimize the time taken to collect accounts receivable and ensure prudent maintenance of account receivable records and reconciliation in the five-star rated hotel. In addition, the beach hotel management should set credit limits to its customers.

The study recommended that the management of beach hotels should widen their capital by focusing on the financing avenues in addition to equity and external borrowing. It is recommended that the beach hotels should ensure adequacy of total asset reserves to cover its financial needs and should cushion itself from loss of income-generating activities.

The study recommended that the management of the beach hotels should ensure that goods are

purchased when need arises. Further the management of the hotels should develop a re-order level policy which is dynamic. Also the beach hotels should adopt sales forecast approach when placing hotel order from the suppliers and they should purchase goods in large quantities to enjoy trade discount.

The study recommended that the beach hotels should carry out frequent cash budgeting with a view to enable the hotels navigate from potential cash shortages in the long run. In addition, the beach hotels should forecast their cash expenditure often to ensure any expenditure is pre-accounted for and hence minimize unnecessary expenditure which could eat up profitability. This could be made possible by developing a dynamic and proactive cash management policy.

Areas of Further Study

The study was delimited to investigating working capital management and financial performance in the context of five-star rated hotels in Mombasa County. The random chosen predictors only explained variation in financial performance of hotel by 47.9 percent and this calls for further research on working capital management by focusing on other variables to ascertain their contribution in financial performance of not only five-star rated hotels but also other non-star rated hotels in Kenya.

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