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EFFECTS OF WORKING CAPITAL MANAGEMENT ON FINANCIAL PERFORMANCE A CASE STUDY OF HOSPITALITY INDUSTRY IN KISII TOWN, KENYA

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Abstract

Working capital management plays a significant role in better performance of business entities. The study aimed at analyzing whether SMEs in the hospitality industry at Kisii town carry out working capital management and the effect of the same on their financial performance. The study relied heavily on primary data, collected through self-administered questionnaire, and also secondary data collected from annual reports and financial statements of hotels in Kisii town. The WCM components for the purpose of this study were; cash management, Accounts Payable Period (APP), Average Collection Period (ACP) and Inventory Conversion Period (ICP). From the study, all the independent variables are positively related to financial performance as attested by correlation coefficients of; cash management r=.438, accounts receivable r=.257, accounts receivable r=.362 and inventory control r=.427. The ranking of the independent variables with their contribution to inventory control was: accounts receivable contributed more (41%), followed by cash management (19.1%), and followed by accounts payable (17%). The study takes into account bad debts, EOQ knowledge & use, Accounting ratios in stock monitoring, Security & authorization and Stock movement control as indicators in a variable. These indicators can be crucial to the financial performance of a firm, therefore should be considered in another study as independent variables of financial performance.

Keywords: average collection period, financial performance, working capital management

Relationship between WCM and Financial Performance

A WCM involves planning and controlling current assets and liabilities in a manner that eliminates the risk of inability to meet short term obligations and avoid excessive investment in these assets (Eljelly, 2004). WCM has significant impact on both profitability and liquidity of firms (Shin and Soenen,1998). In regards to liquidity, WCM seeks to ensure that the investment in working capital components is neither too little nor too great. The former could give rise to illiquidity, stock-outs, and lost sales, whereas the latter amounts to waste (Tully, 1994). With regards to profitability, the level of investment in working capital and the financing of this investment, at any particular level of output, involve a risk-return tradeoff (Madura and Veit, 1988). Generally the higher the risk the higher the return demanded by management and shareholders in-order to finance any investment in working capital (Cooper *et al*., 1998, Gitman, 1997).

Therefore, for WCM to be effective there is need for clear specification of any firm's objectives. According to the mainstream economic theory, it is generally accepted that the main objective of any firm is to maximize profits. However, maintaining liquidity is also an important objective (Raheman & Nasr, 2007). The dilemma is that increasing profits at the cost of liquidity can bring grave problems to the firm. Therefore, there must be a trade-off between these two objectives (liquidity and profitability) of firms (Falope and Ajilore, 2009). This can be achieved through effective WCM since the two main objectives of WCM are; to increase the profitability of a company and to ensure that it has sufficient liquidity to meet short-term obligations as they fall due and so continue in business (Padachi, 2006).

Ultimately, WCM is a very crucial element in analyzing the firm's performance whilst performing day to day operations and achieving balance between liquidity and profitability. All individual components of working capital including cash, marketable securities, account receivables and inventory management play a vital role in the performance of any firm (Brigham & Hauston, 2007).

SME's in Kenya

Although WCM is the concern of all firms, it is of explicit importance to the Small Medium-sized Enterprises (SMEs) given the vulnerability of small firms to fluctuations in working capital since they cannot afford to starve of cash (Padachi, 2006). The SME Solutions Center (SSC, 2007) defines SME as a business formally registered, with an annual turnover of between Ksh. 8 million to Ksh.100 million, an asset base of at least Ksh.4 million and 5 to 150 employees.

With limited access to the long-term capital markets, SMEs tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their needed investment in cash, accounts receivable and inventory (Chittenden *et al.*, 1998; Saccurato, 1994). These sources of finance are more risk and are more expensive as compared to equity making WCM an important

financial management aspect in SMEs. Kwame (2007) noted that indeed WCM is important to the SMEs' managers, because it is them who strive for finances and the opportunity cost of finances, for them is usually on the higher side.

In Kenya, SMEs play an important role in the economy. According to the Economic Survey (2006), the sector contributed over 50 percent of new jobs created in the year 2005. In addition, Oketch (2000) noted that SMEs in Kenya contributed significantly to economic development through provision of job opportunities, reduction of poverty levels, nurturing the culture of entrepreneurship and providing a vital link in the economy through their supply chain and intermediary role in trade. However, despite their significance, past statistics indicate that three out of five businesses fail within the first few months of operation (Kenya National Bureau of Statistics, 2007). Fina Bank Report (2007) further highlights that SMEs exhibit both high birth rates and high death rates with 40% of the start-ups failing by year two and at-least 60% failing by year four.

Mead (1998) observed that the health of the economy as a whole has a strong relationship with the health and nature of SMEs. Further, given SMEs importance to a nation's economic growth and the critical role that they play in poverty reduction, an understanding of the problems that negatively affect SMEs in Kenya is a fundamental step in managing and avoiding the enormous failure of these SMEs (ILO, 2010). Based on this background, this study is designed to establish the impact of Working Capital Management practices on the financial performance of SMEs in Kenya.

Statement of the Problem

The studies specific to SMEs in Kenya have contradictory findings. For instance, Kithii, (2008) established that there was a significant negative relationship between the components of WCM with the financial performance of SMEs in Kisumu city. On the other hand, Nyambaga, *et al.*, (2012) established that there was a positive relationship between WCM components and the financial performance of SMEs in Kisii South District.

Given the importance of WCM especially to small firms, the significance of the SME sector to the economy of developing countries and the contradictory findings of the various studies carried out in this area, it is important to get a clear understanding of the effect that WCM has on the financial performance of SMEs

Specific objectives of the study were to;

i. establish the effects of cash management on working capital of hospitality industry in Kisii town

ii. establish effects of accounts receivables average collection period on working capital of hospitality industry in Kisii town

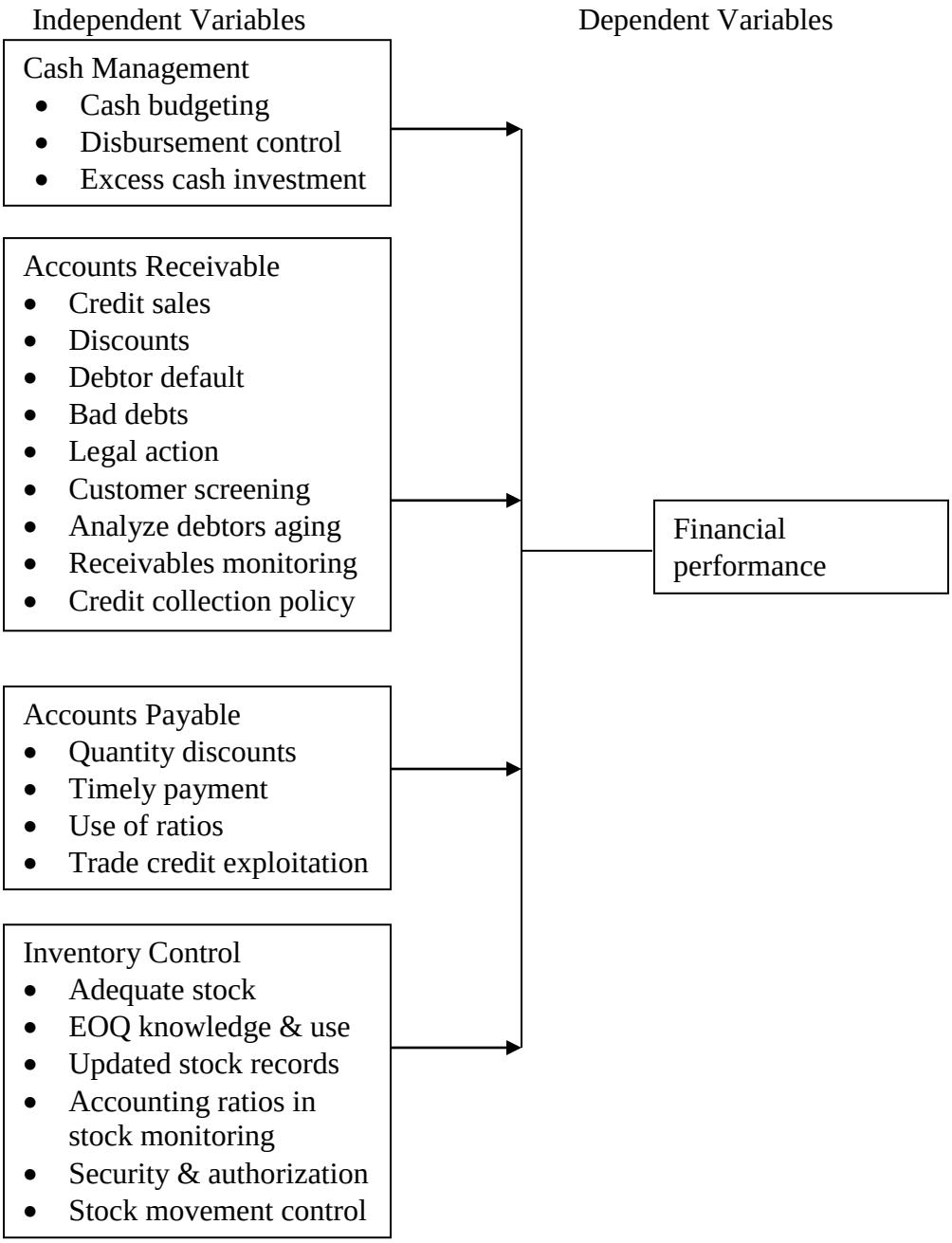
iii. investigate effects of accounts payable through average payable period on working capital of hospitality industry in Kisii town

iv. determine the effects of inventory control through inventory conversion period on working capital of hospitality industry in Kisii town

Conceptual Framework

The conceptual framework adopted will be done for each of the independent variables (CM, AR, AP and IM) in relation to the dependent variable (FP).

Figure 1: Conceptual framework



Research Method

The study employed quantitative research design which was useful in establishing the relationship of working capital management and financial performance. In addition, the study employed a cross sectional survey to establish whether SMEs carry out WCM practices. The study relied heavily on primary data, collected through self-administered questionnaire, and also secondary data collected from annual reports and financial statements of hotels in Kisii town. The sample size of this study consisted of 40 respondents selected using stratified random sampling technique. The study employed a regression analysis and the Pearsons' correlation analysis was used to test the significance of relationship between WCM and financial performance of hospitality industry in Kisii.

Results And Discussion

Cash Management

The first objective of the study was to establish the effects of cash management on working capital of hospitality industry in Kisii town. The following sub-section presents a summary of the findings.

Use of Cash Management Models

It was important to establish whether the firms in question use formal cash management models. The response was as follows;

Table 1: **Formal Cash Management Models**

		Frequency	Percent
	yes	29	55.0
	no	18	45.0
Total		40	100.0

From the table above, most of the respondents 54.0 % use formal cash management models in working capital management. This is a good indicator for SMEs in Kisii.

As stressed by Atrill (2006), there is need for careful planning and monitoring of cash flows overtime so as to determine the optimal cash to hold. (Pandey, 2004) states that cash management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time.

In measuring cash management of hospitality industry in Kisii, the study used three indicators namely; budget, disbursement control and excess cash investment.

A likert scale of 1 to 5 with 1= Never, 2=Hardly ever, 3=Sometimes, 4=Mostly and 5= Always, was used to identify the extent to which the cash management indicators existed in the organizations.

On whether the firms budget their cash, table 4.9 below shows that majority (47.5%) of the firms always budget for its cash, 15.0% mostly budget while 35.0% do their budgeting sometimes. Only 1 firm does not budget for its cash.

On whether the firms control disbursement and receipt of cash in cash management, 60.0 % of the respondents always do while 17.5 % mostly do. A similar 17.5 % of the firms control disbursements sometimes with a remaining 5.0 % hardly ever. This is commendable because it translates to 77.5 % of the firms controlling disbursements and receipts of cash to handle cash management. A mean score of 4.38, suggests that control of disbursement and receipt of cash management is a great influence to cash management, as compared to the other indicators.

Majority of the firms in Kisii invest excess cash 47.5% and 15.0% while 32.5% invest sometimes. Only 5% of the firms do not invest their excess cash. It is a better way of cash management when SMEs invest in other areas as a means of managing their working capital. This revelation is supported by (Madura and Veit, 1988) who stated that, the level of investment in working capital and the financing of this investment, at any particular level of output, involve a risk-return tradeoff.

(Ross *et al.,* 2008) also stated that efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little.

Table 2: **Cash Management**

Question	*Never*	*Hardly ever*	*Sometimes*	*Mostly*	*Always*	*Mean*
Does the firm budget its cash?	(1) 2.5 %	(0) 0 %	(14) 35.0%	(6) 15.0 %	(19) 47.5%	4.08
Does the firm control disbursements and receipts of cash?	(0) 0 %	(2) 5.0 %	(7) 17.5 %	(7) 17.5 %	(24) 60.0 %	4.38
Does the firm invest any excess cash?	(1) 2.5 %	(1) 2.5 %	(13) 32.5 %	(6) 15.0 %	(19) 47.5%	4.03

Accounts Receivables (Debtor)

The second objective involved checking how debtors have an influence on the financial performance of the hospitality industry in Kisii town. The analysis was done on a scale of 1 (never) to 5 (always). The study identified nine indicators for this variable. These included; offering some sales on credit, offering cash discount, suffering bad debts, taking legal action,

screening customers, analyzing and reporting debtors aging, monitoring receivables, and use of credit collection policy.

The study sought to establish whether the firms had a credit policy. The study established that 65% of the firms in Kisii town have a credit policy (42.5 % always and 22.5 % mostly). 22.5 % of the firms have credit policies sometimes while 12.5 % do not have.

(Brigham & Houston, 2007) asserts that goal of WCM, is to ensure that the firm is able to continue in its operations and that it has sufficient cash flow to satisfy both maturing short-term debt and up-coming operational expenses. It is therefore necessary for an organization to have a credit policy in place as a measure to manage the receivables.

When the opinion of the respondents was sought on whether the firm sales on credit, an equal response was got from those who sell sometimes 35% and those who sell mostly 35%. 25% always sell on credit while only 2.5% never or hardly sell on credit.

On whether the firms offer cash discounts, 35% agreed, as always, 17.5% offer discounts mostly while 32.5% offer sometimes. 7.5% of the firms hardly or never offer cash discounts.

Given that 60% of the firms offer credit, it emerged that 57.5 % of the firms suffer bad debts sometimes, 22.5 % always suffer bad debts while 5 % mostly suffer bad debts. Only 5 % have never suffered bad debt and 10 % hardly suffer bad debts. This is a bad indicator for SMEs because they contributed significantly to economic development through provision of job opportunities, reduction of poverty levels, nurturing the culture of entrepreneurship and providing a vital link in the economy through their supply chain and intermediary role in trade Oketch (2000). The bad debt suffering could be a contribution to a study by (Kenya National Bureau of Statistics, 2007) which shows that three out of five SMEs fail within the first few months of operation.

Asked whether legal action is taken to recover the bad debts, the study reveals that 57.5 % (always), 10.0 % (mostly) and 25.0 % (sometimes) took legal action. Only 7.5 % hardly took that route.

62.5 % of the firms always screen customers or do client referencing before giving out credit. 20.0 % screen the customers most of the time while 2.5% hardly screen and 7.5 never % screen customers before giving out credit. This shows that more than 80% of the firms do proper procedure to ensure that credit is given to dependable customers.

On whether the enterprise analyze and report on debtors aging, 60.0 % of the firms always analyse, 15.0 % mostly analyse, 10.0 % analyse sometimes, 2.5 % hardly analyse and 12.5 % never analyse. This is in agreement with a study done by (Mathuva, 2009) who found that the standard measure of receivables management is the Average Collection Period (ACP) which is the time taken to collect cash from customers.

Asked whether the firm monitors receivables, 77.5 % of the firms stated to always monitor, 10.0 % monitor sometimes with an equivalent response monitoring mostly. Only 2.5 % hardly monitor their receivables. The findings of this study are in line with Sushma and Bhupesh (2007), who stated that putting in place a sound credit policy ensures proper debt collection procedures and is pivot in improving efficiency in receivables management hence the performance of firms.

Asked whether there is a credit collection policy, 87.5 % of the firms were in agreement with 75.0 % always having one, 12.5 % mostly having one and 7.5 % having a credit collection policy sometimes. Only 2.5 % hardly used one and a similar response of never having used one.

A mean of 4.59 indicates that the firms reviewed in this study took monitoring their receivables as key measure towards improving their FP. A credit monitoring policy was also a key accounts receivables measure with a mean of 4.55 followed by screening customers before giving credit (4.23).

Table 3: **Accounts Receivables**

Question	*Never*	*Hardly ever*	*Sometimes*	*Mostly*	*Always*	*Mean*
Does the firm have a credit policy?	(0)	(5) 12.5 %	(9) 22.5 %	(9) 22.5 %	(17) 42.5 %	3.95
Does the firm offer some sales on credit?	(1) 2.5 %	(1) 2.5 %	(14) 35.0 %	(14) 35.0 %	(10) 25.0 %	3.70
Does the firm offer cash discounts?	(3) 7.5 %	(3) 7.5 %	(13) 32.5 %	(7) 17.5 %	(14) 35.0 %	3.55
Does the firm suffer bad debts	(2) 5.0 %	(4) 10.0 %	(23) 57.5 %	(2) 5.0 %	(9) 22.5 %	3.28
Is legal action taken to recover them?	0	(3) 7.5 %	(10) 25.0 %	(4) 10.0 %	(23) 57.5 %	4.08
Does the firm screen customers or do client reference before giving credit?	(3) 7.5 %	(1) 2.5 %	(3) 7.5 %	(8) 20.0 %	(25) 62.5 %	4.23
Does the enterprise analyze and report on debtors aging?	(5) 12.5 %	(1) 2.5 %	(4) 10.0 %	(6) 15.0 %	(24) 60.0 %	4.03

Does the firm monitor receivables?	0	(1) 2.5 %	(4) 10.0 %	(4) 10.0 %	(31) 77.5 %	4.59
Is there a credit collection policy?	(1) 2.5 %	(1) 2.5 %	(3) 7.5 %	(5) 12.5 %	(30) 75.0 %	4.55

Accounts Payable (Creditors)

The study sought to establish the role accounts payables on financial performance. This study used four indicators namely; quantity discounts, timely payment, use of ratios and trade credit exploitation. Analysis is presented in table 4.

Table 4: **Accounts Payable**

Question	*Never*	*Hardly ever*	*Some times*	*Mostly*	*Always*	*Mean*
Does the firm obtain services on credit?	(1) 2.5 %	(2) 5.0 %	(19) 47.5 %	(14) 35.0 %	(4) 10.0 %	3.41
Do the firms suppliers offer quantity discounts?	(1) 2.5 %	(2) 5.0 %	(15) 37.5 %	(6) 15.0 %	(16) 40.0 %	3.79
Are all creditors paid in time?	(1) 2.5 %	(2) 5.0 %	(17) 42.5 %	(7) 17.5 %	(13) 32.5 %	3.73
Does the firm use ratios in monitoring trade credit?	(1) 2.5 %	(6) 15.0 %	(12) 30.0 %	(9) 22.5 %	(12) 30.0 %	3.62
Does the firm exploit trade credit as much as possible?	(1) 2.5 %	(4) 10.0 %	(12) 30.0 %	(7) 17.5 %	(16) 40.0 %	3.82

From analysis of the results that are presented in table 4.11, on whether the firms obtains services on credit, 10% always do while 35% mostly do. 47.5% obtain credit sometimes. Only 1 firm has never obtained services on credit and 2 firms hardly use credit services.

On whether the firms suppliers offer quantity discounts, majority of the respondents (40 %) agreed that discounts are always offered, followed by 37.5 % who are offered sometimes. 15 % of the firms are mostly offered quantity discounts while 5 % hardly use credit and 2.5 % never use credit.

Asked whether all creditors are paid in time, majority of the firms stated sometimes (42.5 %), 32.5 % of the firms always paid their debts in time, 17.5 % mostly paid in time and the 1 firm which did not obtain services on credit did not need to pay in time. The same case applied to the two firms which hardly obtained services on credit.

On whether the firm use ratios to monitor trade credit, 30 % always do, 30 % sometimes do, 22.5 % mostly do while 15 % hardly do and 1 firm never does.

Asked whether the firms exploit trade credit as much as possible, 40 % indicated that they always exploit followed by 30 % which exploit sometimes and 17.5 % which exploit mostly. 1 firm indicated not to be exploiting trade credit and 10 % to hardly exploit trade credit.

A mean of 3.82 indicates that most firms exploit trade credit as much as possible. The firms' suppliers also seem to offer quantity discounts a lot due a mean of 3.79.

Results of the study reveal that the firms in the study use credit facilities sometimes. Only 1 of the firms in the study did not indicate using credit facilities. The results in this study are in agreement with Ayiro (2012), who stated that creditors are a vital part of effective cash management and should be managed carefully to enhance cash position of a business. This has been further affirmed by Raheman and Nasr (2007), who indicated that delaying payment of accounts payable to suppliers allows firms to access the quality of obtaining products and can be an expensive and flexible source of financing.

Inventory Control

In measuring the financial performance of hospitality industry in Kisii, the study adopted inventory control as a variable with four indicators namely; Adequate stock, EOQ knowledge & use, Updated stock records, Accounting ratios in stock monitoring, Security & authorization and Stock movement control.

Table 5: **Inventory Control**

Question	*Never*	*Hardly ever*	*Sometimes*	*Mostly*	*Always*	*Mean*
Does the firm have adequate stock to meet demand at all times?	0	(1) 2.5 %	(8) 20.0 %	(7) 17.5 %	(24) 60.0 %	4.33
Does the firm know its Economic order quantity?	0	(2) 5.0 %	(6) 15.0 %	(13) 32.5 %	(19) 47.5 %	4.23
Does the firm maintain up to date stock records?	0	(1) 2.5 %	(5) 12.5 %	(6) 15.0 %	(28) 70.0 %	4.53
Does the firm use accounting ratios in monitoring stock?	0	(3) 7.5 %	(6) 15.0 %	(9) 22.5 %	(22) 55.0 %	4.25

Are there controls over security and authorization of stock?	0	0	(2) 5.0 %	(13) 32.5 %	(25) 62.5 %	4.58
Is a system used in controlling stock movement effective?	0	(1) 2.5 %	(1) 2.5 %	(13) 32.5 %	(25) 62.5 %	4.53

Asked whether the firm has adequate stock to meet demand at all times 60.0 % of the respondents agreed to always while 17.5 % said mostly and 20.0 % agreed to having adequate stock sometimes. A small percentage of 2.5 % indicated hardly. The results in stock levels were as expected since the hospitality industry must have ready stock for operation.

On whether the firms know their EOQ, most were in agreement with 47.5 % always in the knowhow, 32.5 % mostly in the knowhow and 15.0 % sometimes in the knowhow. 5.0 % hardly know their EOQ. These results display a good indication of inventory control measurement on financial performance.

Asked whether the firms maintain up to date stock records, 85.0 % of the firms maintain at 70.0 % always maintaining and 15.0 % maintaining mostly. 12.5 % of the firms maintain updated records sometime and only 1 firm in this study hardly maintains.

On whether the firms use accounting ratios in monitoring stock, 55.0 % always use, 22.5 % mostly, 15.0 % use sometimes and 2.5 % hardly uses ratios.

On whether there are controls security and authorization of stock, 62.5 % always use controls, 32.5 % mostly used controls and 5.0 % use controls. The analysis leads to a mean of 4.58, the highest in this variable.

Asked whether a system is used in controlling stock movement effectively, 62.5 % firms agreed to always using, 32.5 % firms agreed mostly using, 2.5 % agreed to using sometimes and 2.5 % to hardly using.

From the analysis, inventory control is the most influential variable to FP in the hospitality management. With the leading mean score of 4.58 (security and authorization controls over stock) and two indicators with a mean score of 4.53 (updated stock records and using system to control stock movement).

Correlations

The researcher tested the correlation between the dependent and the independent variable. The correlation results are shown in the table below. Correlation indicates the level of association between the variables under consideration, FP as dependent variable, CM, AR, AP and IC independent variables.

Table 6: **Correlations**

		FP	CM	AR	AP	IC
FP	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	40				
CM	Pearson Correlation	.438**	1			
	Sig. (2-tailed)	.005				
	N	40	40			
AR	Pearson Correlation	.257	.440**	1		
	Sig. (2-tailed)	.109	.004			
	N	40	40	40		
AP	Pearson Correlation	.362*	.171	.595	1	
	Sig. (2-tailed)	.022	.290	.001		
	N	40	40	40	40	
IC	Pearson Correlation	.427**	.191	.041	.017	1
	Sig. (2-tailed)	.002	.238	.801	.917	
	N	40	40	40	40	40

**. Correlation is significant at the 0.01 level (2-tailed).
*. Correlation is significant at the 0.05 level (2-tailed).

Table 6 indicated that CM and FP have significant relationship as attributed by the correlation coefficient of 0.438 and p-value of 0.005. Logically cash management is important to effect financial performance. The results shows presence of a significant relationship between AR and FP as proved by the correlation coefficient and the p-value (r=.257, p=0.109). However, there is a significantly strong correlation between AR and CM as provided by the correlation coefficient and the p-value (r=-.440, p=0.004). This is because AR contribute majorly to CM.

The correlation matrix table shows presence of strong and significant positive relationship between accounts payable and FP (r=0. 362, p=0.022). This is because businesses acquire majority of their services or products on credit. However, the correlation between AP and AR is stronger (p=0.001) as per the matrix. Logically, firms have to manage what is at hand versus what to get. There is an evidence of significant less moderate relationship between AP and cash management (r = 0.171). There is a strong and significant positive relationship between inventory control and FP as attributed by the correlation coefficient and the p value (r=0. 427, p=0.002). Furthermore, the results of the table show presence of a significant positive relationship between cash management, accounts receivable and accounts payable as proved by the Pearson correlation coefficient of 0.191, 0.41, and .017 respectively.

From the table, all the independent variables are positively related to financial performance as attested by the respective correlation coefficients. Accordingly, the ranking of the independent

variables with their contribution to inventory control was: accounts receivable contributed more (41%), followed by cash management (19.1%), and followed by accounts payable (17%).

Summary Of Findings

This chapter provides the summary of the findings as discussed in chapter four. It also draw conclusions based on the findings as per the objectives of the study.

The study established that 70.0 % of the firms in Kisii town use a combination of both computerized and manual system which was important in this study in relation to financial performance. The study also established that most of the hospitality service providers in Kisii town have an annual gross turnover ranging at Ksh 500,000, making the study's respondents very relevant to the study as SMEs.

What are the effects of cash management on working capital?

The study found that the cash management had significant positive effect on financial performance of hospitality firms in Kisii town. The study also shows that 35 % of the firms use budgets to manage cash sometimes. More so, 75 % the firms control disbursement and receipt of cash in cash management. The study established a significance correction between CM and FP with a p-value of 0.005. Logically cash management is important to effect financial performance.

What are the effects of accounts receivables average collection period on working capital?

The study established that 65% of the firms in Kisii town have a credit policy. This was attributed majorly because majority of the firms sell on credit (only 2.5% never or hardly sell on credit). Given that 60% of the firms offer credit, it emerged that 57.5 % of the firms suffer bad debts and 67.5 % of these firms take legal action against defaulters. The study shows a weak correlation relationship between AR and FP at r = - .257, p= 0.109.

What are the effects of accounts payable through average payable period on working capital?

The study established that 65% of the firms obtains services on credit. This was attributed to the firms' suppliers who were found to offer quantity discounts. The study also revealed that 50% of the firms pay their creditors on time while 37.5 % paid on time sometimes. This shows a laxity in timely payment of creditors by the firms. There is a presence of strong and significant positive relationship between accounts payable and FP (r=0. 362, p=0.022). This is because businesses acquire majority of their services or products on credit.

What are effects of inventory control through inventory conversion period on working capital?

Of the 40 firms reviewed in this study, only 1 firm hardly has adequate stock to meet demand at all times. Likewise, more than 85 % of the firms have knowledge of their economic order quantity, have updated stock records, use accounting ratios in stock monitoring and have security

controls to monitor stock movement. There is a strong and significant positive relationship between inventory control and FP as attributed by the correlation coefficient and the p value (r=0. 427, p=0.002). Furthermore, the results of the table show presence of a significant positive relationship between cash management, accounts receivable and accounts payable as proved by the Pearson correlation coefficient of 0.191, 0.41, and .017 respectively.

Conclusion

Cash management on financial performance

In measuring cash management of hospitality industry in Kisii, the study used three indicators namely; budget, disbursement control and excess cash investment. A mean score of 4.38, suggests that control of disbursement and receipt of cash management is a great influence to cash management, as compared to the other indicators on this variable.

Accounts receivable on financial performance

The study identified nine indicators for this variable. These included; offering some sales on credit, offering cash discount, suffering bad debts, taking legal action, screening customers, analyzing and reporting debtors aging, monitoring receivables, and use of credit collection policy.

A mean of 4.59 indicates that the firms reviewed in this study took monitoring their receivables as key measure towards improving their financial performance followed by credit monitoring policy with a mean of 4.55.

Accounts payable on financial performance

This study used four indicators namely; quantity discounts, timely payment, use of ratios and trade credit exploitation.

A mean of 3.82 indicates that most firms exploit trade credit as much as possible. The firms' suppliers also seem to offer quantity discounts a lot due a mean of 3.79. Results of the study reveal that the firms in the study use credit facilities sometimes. Only 1 of the firms in the study did not indicate using credit facilities. The results in this study are in agreement with Ayiro (2012).

Inventory control on financial performance

In measuring the financial performance of hospitality industry in Kisii, the study adopted inventory control as a variable with four indicators namely; Adequate stock, EOQ knowledge & use, Updated stock records, Accounting ratios in stock monitoring, Security & authorization and Stock movement control. The ranking of the independent variables with their contribution to inventory control was: accounts receivable contributed more (41%), followed by cash management (19.1%), and followed by accounts payable (17%).

Recommendations

Given the role working capital management has on financial performance, it is important that the hospitality industry in Kisii to view working capital management as a technique for improving the financial performance.

The study recommends that it is important to have an accounting system in place for monitoring debtors, creditors, inventory and stock movement.

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