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ASSESSMENT OF THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON LIQUIDITY OF CLASSIFIED HOTELS IN ELDORET TOWN, KENYA

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Abstract

The purpose of the study was to establish the effects of working capital management on liquidity of classified hotels in Eldoret Town -Kenya, the study sought to address the following specific objectives: to establish how Cash management affects liquidity of hotels in Eldoret-Kenya. The target population of the study was 12 classified hotels in Eldoret Town. A sample of 129 respondents was selected using Yamane technique of sampling in all the 12 hotels and to group the respondents into eight strata. This study used primary data. Data collection methods used included use of questionnaires. To determine the reliability of research instruments a pilot study will be conducted before the actual data collection and further split half method will be carried out to calculate Cronbach alpha. Data was analyzed quantitatively and presented descriptively. In particular, descriptive statics such as means, standard deviations, and frequencies were used to analysed data, also inferential statistics multiple regression was used. The financial data covered a period of 6 years (2004-2011) this period has been chosen on the belief that it is long enough to aid the study formulate reliable conclusions. The findings of the study indicated that Cash management ($\beta = 0.422$, $p < 0.000$) showed a positive significant effect on the dependent variable Liquidity of classified Hotels. This study recommends that there *is need for hotel managers to create value for their shareholders by ensuring effective and efficient management of debtors, they should negotiate for better terms of credit with their supplies, managers should put in place effective inventory control systems to their supply chain department and lastly ensure effective cash management and working capital practices*

Keywords: Cash Management, Liquidity, Financial Management, Classified Hotels, Working Capital Management

INTRODUCTION

The hotel industry constitutes has unique characteristics in tourist products, offering essential and unique services to tourists in the industry (Mihail, 2011). Working capital management is the process of determining the optimal levels of receivables, cash and payables so as to minimize holding costs while maximizing the benefits to the organization. In Hotel industry working capital is key in operation and therefore it's effective management becomes pivotal if the business has to succeed. For the seller Working capital management is represented in an investment in accounts receivables, inventories and cash held by the Hotels, while the payables represent a source of financing that is classified under current liabilities on the balance sheet (Pedro & Martínez, 2010). Accounts receivables are recorded when goods are sold on credit and the customer is obliged to pay at a later date (Joy, 1978); these goods there represent the receivables asset accounts. The value of these claims is carried on to the assets side of the balance sheet under titles such as Trade receivables, accounts receivables or customer receivables. This term can be defined as debt owed to the Hotel by customers arising from sale of goods or services in ordinary course of business (Joy, 1978).

The amounts that customers owe business firms is known as accounts receivables (Robert, 2001).the management of these accounts receivables is a series of five stages: determining to whom to extend credit, establishing a payment period, monitoring collections, evaluating the liquidity of receivables accelerating, and eventually cash receipts from accounts receivables holders. While accounts payables are the amounts the Hotel owes its suppliers in its ordinary course of business. This is a source of Finance for operation, the longer the period it takes the hotel to pay its suppliers the better it is for the Hotel, since this provides availability of a cheap source of finance. The critical part to this is that, care must be taken to ensure that the length of time the hotel takes to pay its suppliers should not be too long to discourage the suppliers from supplying the goods to the Hotel.

A crucial step of managing working capital is manifested in determining who will be granted credit and who will not, where supplies should be sourced from and where it should not, what quantities of inventories to keep at any one time so as not to have shortages and stoppages and finally what amount of cash to keep in order to facilitate smooth running of the hotel. When businesses decide to be lenient with their credit services they result in increased sales. Some customers who benefit from credit services may end up not paying. If the credit policy is too tight, company sales may be lost. Customers who have a history of not paying up for credit services should be made to pay cash right on delivery. Potential customers should be able to provide evidence of their historical payments either from banks or other suppliers. Continuing customers should also be checked to determine their financial health (MkKesson, 2011)

The largest assets in many companies are usually the accounts receivables. In 2007 accounts receivables represented over 11% of currents assets of Rite Aid, a pharmacy giant. Other companies which had accounts receivables representing a huge total of their assets include, 52% at General Electric, 42% at Ford Motor Company, 14% at Minnesota Mining & Manufacturing Company, 17% at DuPont Co. and 5% at tech giant Intel Corporation(Kimmel, Weygandt & Kieso, 2008).

The major factors that determine the relative significance of a firms' accounts receivables as a percentage of its total assets include: its industry, the time of year, whether it extends long-term financing, and its credit policies (Kimmel et al., 2008). Very little research has been conducted in the hotel industry compared to other industries such as manufacturing (Burgess, 2006 and 2007; Drury & Tayles, 2006; Mattimoe, 2008).Companies can be willing to give more credit easily to their customers in order to promote their sales thus bringing about a positive correlation between accounts receivables and sales, firms with more inventories are likely to extend more credit than other firms (Jian, Yang & Tsung, 2011). Accounts receivables and also inventories are current assets and are therefore substitutes from the viewpoint of asset management. Credit extension is motivated by the need to make company operations more flexible. When sales in the hotel industry fluctuate or are cyclical, demand for products and services is usually low therefore credit can be given to customers in order to reward them.

Global Hotel Perspective

The American Institute of Bankruptcy released statistics showing the number of failing businesses in most major sectors is going up. The assets of businesses in the global market is represented by Accounts Receivables. Using the Compustat data of 1986, Accounts receivables make up 21% company assets in the United States (Mian & Smith (1992). According to Molina & Preve (2009), who also used a sample from the Compustat data finding, whose study covered big corporations during the period from 1978 to 2000 they found out that on average, the ratio of assets to account receivables is 8%, which comprises up to 55 days of sales financing.

Petersen & Rajan (1997 indicated that big companies show accounts receivables to sales ratio to be at around 18.5%, whereas ratio for small firms is shown to be 7.3%. this is because small businesses provide less commercial credit to their customers compared to large firms in the USA. When huge amounts of money is invested in providing client financing presents an interesting puzzle. Why would firms that are not in the money lending industry be willing to loan money to other firms? And since banks have clear information about money lending, why would clients be willing to obtain money from non-financial organisations? This puzzle has triggered an interesting body of research that seeks to explain the existence and main patterns of trade credit. The use of trade credit can help firms fight for market share - a firm that seeks to grow at the expense of another firm's business may seek to increase its sales by increasing the financing it offers clients. Similarly, firms facing profitability problems may seek to increase sales or market share by increasing the provision of commercial credit to clients (Petersen & Rajan, 1997; Molina & Preve, 2009).

Hotel and restaurant industry excising efficient working capital management are making a significant investment in clients, optimal levels of inventories and riskless levels of payables. The expected return on this investment is linked to an increase in sales. However, this benefit comes as both an opportunity cost and a cost associated with the risk of recovering the invested capital. That is, in addition to the cost associated with the time value of money, firms that finance their clients are subject to the risk of not being repaid on time or not being repaid in full. This latter risk, usually called credit risk, is a significant by-product of the decision to finance clients through accounts receivables. Interestingly, a significant number of commercial firms lack sufficient skills to adequately assess clients' ability to generate the necessary cash flow to repay their debts, and hence some firms show very large exposure to the risk of client default.

Min et al. (2009), have suggested that multiple outputs and different categories of hotels should be considered in future studies. Pavlatos & Paggios (2009) included in their sample five-, four- and three-star hotels from six geographical areas of Greece and found that firms facing profitability problems may seek to increase sales or market share by increasing the provision of commercial credit to clients (Petersen & Rajan, 1997; Molina & Preve, 2009). Molina & Preve (2009) found evidence that this trend reverses, however, when firms enter financial distress (i.e., face cash flow problems), and that a decrease in client financing causes a significant drop in performance for distressed firms. The role of hotel category has been stressed by Barjaktarovic & Barjaktarovic (2010) as one of the factors determining "the exact amount of investment costs," since "hotels with higher category achieve higher price and better occupancy rate"

The degree of competition in the market has meant that classified hotels and restaurants have to conduct a non-price competition strategy; this is in order to acquire or even maintain existing customers (Soufani, 2003).Revenues of Hotel and Restaurant (H&R) industry in India during the financial year 2006-07 was INR604.32 billion, a growth of 21.27% over the previous year, primarily due to increased government consumption, increase of corporate trading and also driven by foreign tourist arrivals ,which increased by 14.17%. A study by Noone (1997), on the Irish hotel sector, revealed deficiencies in the information used for pricing the room rate, allocating room inventory to market segments, and marketing decisions, all of which are customer related decisions. The net effect of such actions is a greater difference in cost elements between customers and ultimately, variations in profitability (Noone, 1997).

The Hotel Industry in Kenya.

The hotel industry has been on a downward trend between 1996 at the upsurge of terrorism and 2008 during the Post-Election Violence (PEV). Several other occurrences have befell the industry , such as, the bombing of the American Embassy in Kenya and the Global Economic crisis in 2006 (ROK, 2011). All these events have adversely affected the hotel industry in Kenya which remains very vulnerable and exposed to such events. Besides this the industry has been adversely affected by travel advisories regularly imposed by western nations such as USA and Britain. These advisories warn citizens of these states from travelling to Kenya. Kenya, is a tourist destination, it receives its tourists immensely from USA and Europe, and these states contribute close to 70% of the total number of tourist visiting Kenya annually (ROK2011). Whenever these warnings are issued, tourist volumes drastically reduce and therefore hotels resort to adopt marketing strategies to keep them afloat rather than sustaining themselves for growth.

Notwithstanding the foregoing, the Kenyan hotel industry has continued to register significant growth in form of accommodation and conferences held. Investors have diligently engaged into this sector because of its profitability opportunities despite its exposure to risk. This has not helped the industry since the growth in the tourism arrivals has not matched the growth in the number of beds. Due to the sluggish economic growth of the country, the growth in the domestic tourism has not been encouraging. The middle class, which would be the potential domestic tourists, have been declining in numbers and more citizens in Kenya tend towards below the poverty line. Domestic tourism has therefore not grown as it should have (ROK, 2011).

The corporate sector and the government have tended to support the hotel industry in Kenya as this is one sector in which growth has been recorded. International conferences have also been held in Kenya as it is centrally located. These conferences have tended to take excursions out of the busy schedule and visit various tourist sites, while they take residential status in the hotels in the location of their conferences. Despite this growth though, much higher numbers would be required to fill in the hotels. Sports tourism is yet to catch up in Kenya and might require a whole paradigm shift for the hotel industry to be able to capture any benefits out of that (Eberl, 2010).

It is against the foregoing backdrop that the management of working capital has become important in the industry as it determines how much various hotels can attract business by allowing credit to the various tour operators, keep a certain level of inventories, maintain a determinate level of cash and secure adequate payables for smooth operation. The tour operators and the other operators normally have direct contact with the tourist or the client and are able to make their sales in cash. However, for the tour operators and the other industry players to release their business to the hotels, they demand the best rates and the best credit terms (Buhalis, 2005). The rates must be the best they can get and the credit terms must be the most favourable. The government payment procedure is very bureaucratic in that upon issuing the Local Service Order (LSO) they obtain service immediately but the settlement can take well over 90 days.

The Hotel Industry in Eldoret

The hotel and restaurant business in Eldoret town is growing and this growth can be attributed to various factors in the market. Some of this factors include;

Sporting Activities

Eldoret town is home to many athletes. Therefore numerous athletic competitions are arranged in the town on occasional basis. This events bring in visitors who come as either participants in the races, as organisers of the races or as spectators. Therefore hotel bookings are always on demand

Great North Road

This is the main highway that connects North Africa to South Africa. It passes though Eldoret town on the way to Uganda. Many travellers there get the chance to spend time in the town during travelling experiences and also transporters of different commodities make a stopover in the town to use the hotels that are available

Petroleum Exportation

The pipeline company located in Eldoret town has massively contributed to the rapid growth of hotels in the town. Countries found in the East African region are supplied with oil from this depot. The hotel industry in the town therefore must improve in order to ensure that the numerous people who visit the town in search of petroleum are accommodated well and served with their favorite cuisines.

Farming Activities

Being located in one of Kenya's most fertile regions, Eldoret town has greatly benefited as a result of agricultural activities that happen in the region. Due to its strategic location, many agricultural corporations in the rift valley have their headquarters in the town. The hotel industry has grown in order to serve the many people who visit the town to get farming aid

Statement of the Problem

Working capital management involves the ratio between a firm's short- term assets and its short-term liabilities. The goal of working capital management is to ensure that a firm is able to continue its operations and that it has sufficient ability to satisfy operational expenses (Beranek, 1966). The management of working capital involves managing inventories, accounts receivables accounts payables, and cash. Like any other business, hotels, too have operating cycle which begins with the purchase of supplies and ends with the collection of accounts receivables. Due to this operating cycle, sales do not convert into cash instantaneously. Therefore, sufficient working capital is required to sustain sales activity during the operating cycle period. This capital is required to finance supplies such as stores, spares, crockery, wine and liquor, food materials etc.; to meet out the operating expenses such as salaries, power, fuel etc.; to provide finance during credit sales period and to meet the future contingencies (Hampton, 1989). One of the dimensions in working capital management is to determine the optimal level of current assets and current liabilities. As the higher/lower level of current assets has their respective dangers, so working capital management requires a trade-off between these dangers/costs. More specifically, higher level of current assets strengthens the liquidity position of a firm but weakens the profitability while a lower level of current assets shows better utilization of resources but it may have its own dangers in the form of liquidity crunch (Van Horne,2002). So to reach at a liquidity-profitability trade-off is the ultimate goal of working capital management. Another important dimension of working capital management is related to the financing of current assets. As per prudent practices, a firm has to maintain a desirable balance between long-term and short-term sources of financing current assets.

Objectives of the Study

To determine the effect of Cash management on Liquidity of classified Hotels in Eldoret Town.

LITERATURE REVIEW

Review of Theories

The Agency Theory of Financial Management

Agency theory deals with the people who own a business enterprise and all others who have interests in it, for example managers, banks, creditors, family members, and employees. The agency theory postulates that the day to day running of a business enterprise is carried out by managers as agents who have been engaged by the owners of the business as principals who are also known as shareholders. The theory is on the notion of the principle of 'two-sided transactions' which holds that any financial transactions involve two parties, both acting in their own best interests, but with different expectations. The proponents of this theory are Stephen Ross and Barry Mitnick in 1972.

Emanating from the risks faced in agency theory, researchers on small business financial management contend that in many small enterprises the agency relationship between owners and managers may be absent because the owners are also managers; and that the predominantly nature of SMEs make the usual solutions to agency problems such as monitoring and bonding costly thereby increasing the cost of transactions between various stakeholders (Emery et al.1991).

Information asymmetry- a situation in which agents have information on the financial circumstances and prospects of the enterprise that is not known to principals (Emery et al.1991). For example 'The Business Roundtable' emphasized that in planning communications with shareholders and investors, companies should consider never misleading or misinforming stockholders about the corporation's operations or financial condition. In spite of this principle, there was lack of transparency from Enron's management leading to its collapse; Moral hazard- a situation in which agents deliberately take advantage of information asymmetry to redistribute wealth to themselves in an unseen manner which is ultimately to the detriment of principals. A case in point is the failure of the Board of directors of Enron's compensation committee to ask any question about the award of salaries, perks, annuities, life insurance and rewards to the executive members at a critical point in the life of Enron; with one executive on record to have received a share of ownership of a corporate jet as a reward and also a loan of $77m to the CEO even though the Sarbanes-Oxley Act in the US bans loans by companies to their executives.

Adverse selection-this concerns a situation in which agents misrepresent the skills or abilities they bring to an enterprise. As a result of that the principal's wealth is not maximized (Emery et al.1991).In response to the inherent risk posed by agents' quest to make the most of their interests to the disadvantage of principals (i.e. all stakeholders), each stakeholder tries to increase the reward expected in return for participation in the enterprise. Creditors may increase the interest rates they get from the enterprise. Other responses are monitoring and bonding to improve principal's access to reliable information and devising means to find a common ground for agents and principals respectively (Deloof and Jegers, 1996).

Effects of Cash Conversion cycle on Liquidity

Cash is the important current assets for the operation of the business. Cash is the basic input needed to keep the business running on a continuous basis; it is also the ultimate output expected to be realized by selling the service or product sold by the hotel. The hotel should keep sufficient cash, neither more or less. Cash shortage will disrupt the hotel's operations while excessive cash will simply remain idle, without contributing anything towards the hotel's performance. Thus, a major function of the financial manager is to maintain a sound cash position.

The cash conversion concept was first introduced by Gitman (1974). This variable is used as a measure of efficiency of company's working capital management (Soenen, 1993; Deloof, 2003; Lazaridis and Tryfonidis, 2006; Padachi, 2006; Garcia –Teruel and Martnez –Solano, 2007; Banos –Caballero et al., 2009).While there are alternatives, such as Shin and Soenen`s (1998) net trade cycle measures and the weighted cash conversion cycle (WCCC) developed by Gentry et al. (1990), the cash conversion cycle measure is standard in many corporate finance and used in most studies for studies for example: Deloof (2003), REL Working Capital Surveys (2005), Lazaridis and Tryfonidis (2006), Padachi (20060, Raheman and Nasr (2007), Garcia –Taeruel and Martinez –Solano (2007) and Banos –Caballero et al . (2009). Johnson and Soenen (2003) demonstrated the strength of using the cash conversion cycle as a comprehensive working capital measure in predicting the success of a company.

Gentry`s WCCC captures both the amount of the funds and the number of days funds are tied in working capital components. The challenges of the WCCC is that it requires one to analyze the various inventory types separately (i.e., raw materials, work in progress and finished goods). Decomposing inventories into the three separate categories can be challenging because this information may not be readily available. Again, not all companies in the study have all this categories of inventories. These technicalities of using WCCC were highlighted by Shin and Soenen (1998) AND Deloof (2003). The CCC is accrual-based and it has an indirect relationship with company value. A short CCC implies that companies collect receivable as early as possible and delay payables. The effect of this is a higher net preset value of the company's cash flow set al., 1990; Shin and Soenen, 1998). Thus, the cash conversion cycle was adopted as a measured of working capital management in this study

Other studies have defined working capital in different ways. According to the Kerr (1997), working capital management is one of the key financing decisions of a financial manager of any company. Belt (1991) defined `gross working capital`` as the current assets used in operating the business in the form of cash, account receivable and inventories. Belt (1991) also defined ``net working capital `` (NWC) as the absolute different between current and assets liabilities (CL). Other liquidity measures such as current ratio and quick acid ratio have been omitted due to their static nature. In addition to this, Emery (1984) and Kamath (1989) questioned the applicability of these current and quick ratios in measuring working capital management for a company.

Deloof (2003) generalized working capital management as the cash conversion cycle (i.e., the time span between the expenditure for the purchases of raw materials and the collection of sales of finished goods). Deloof held that a longer the cash conversion cycle is associated with a larger investment in working capital. In the conclusion from his 2003 study, Deloof seemed to support that companies should strive to minimize the cash conversion cycle. Deloof however gave a declaimer that a longer cash conversion cycle might increase liquidity because it leads to a higher level of sales.

Shin and Soenen (1998) held a similar definition of working capital as the time lag between the expenditure for the purchases of raw materials and collection for the sale of finished products. However, a number of studies hold that corporate liquidity might also decrease with cash conversion cycle. This usually arises if the costs of higher investment in working capital rise faster than the benefits of holding more inventories and/or grading more trade credit to customers (Kieschnich et al., 2006; Raheman and Nasr, 2007).Taking the cash conversion cycle as the overall measure of company's working capital management, Raheman and Nasr (2007) found that the coefficient of cash conversion period effects liquidity of company.

Similarly, Deloof (2003), Lazaridis and Tryfonidis (2006), Garcia –Teruel and Martinez – Soenen (2007) and Falope Ajilore (2009) found that a relationship exists between the cash conversion cycle and profiability. This is consistent with the view that a decrease in cash conversion cycle will generate more profits for a company. Deloof (2003) argued that it cannot be ruled out that negative relation between the cash conversion cycle and not vice versa. From these previous studies, it is evident that companies strive to reduce the cash conversion cycle to its minimum in order to maximize firm performance.

$H_{o1:}$ There is no significant effect of cash management on firm liquidity of classified Hotels in Eldoret Town

METHODOLOGY

Target population

The target population for this study comprises of all the classified Hotels in Eldoret Town namely; Boma Inn Hotel, The Noble Hotel, Poa Place Hotel, Winstar Hotel, Hotel Comfy, Cicada Hotel, Ken Mosa Resort, Star backs Hotel and Restaurant,The Pearl Tourist Hotel, Horizon Hotel, Samich Resort and Sirikwa Hotel.

Table 1 Target population

Category	Total Population
Chief Executive Officers	12
Chief Finance Officers	12
Finance Managers	12
Marketing Managers	12
Hotel Supervisors	12
Chefs	60
Procurement Managers	12
Deputy Chefs	60
TOTAL	**192**

Sample and Sampling Procedure

According to Mugenda and Mugenda (2003), the key factor taken into account while determining the sample size is the need to keep it manageable enough. From the target population of 192, members of the 12 hotels and restaurants Yamane (1973) sample size formula was used to select a sample size of 186 as shown below:

$$n = \frac{N}{1+Ne^2}$$

Where: n=sample size

N=population size

e =error of sampling

$$n = \frac{192}{1+192(0.05^2)}$$

$$n = 129$$

Therefore 129 respondents were selected using proportionate random sampling.

Data Analysis and Presentation

Data was analyzed using descriptive and inferential statistics. Descriptive statistics includes frequencies, percentages, tables, and means. Data was entered into the statistical package for the social sciences (SPSS). The study used regression to determine the relationship between variables i.e. cash management, inventory management, receivables management and liquidity of classified hotels in Eldoret town.

The regression analysis makes the following assumptions: Linear relationship, Normality, Homoscedasticity and Little or no multicollinearity. Normality assumption assumes that all variables have normal distribution which were tested using Skewness and Kurtosis (Kothari, 2010). Linearity assumption assumes that the relationship between the dependent and independent variables is linear. This was tested using Pearson moment correlation. Homoscedasticity means that the variance of evous is similar across all levels of the independent variables. This was checked by Durbin-Watson statistics (Cohen, 2003).

The multiple regression model for this study is:

$y = \alpha + \beta_1 x_1 + \beta_2 x_2 + \beta_3 x_3 + \beta_4 x_4 + \varepsilon$

Where, y =

β_i= beta

α = constant

x_1 = cash management

x_2= inventory management

x_3 = receivables management

x_4= accounts payables management

ε = Error Term

RESULTS AND DISCUSSION

Effects of Cash management on Liquidity

The researcher sought to assess the effect of cash management on Liquidity of classified Hotels in Eldoret Town.The responses are presented and summarized in the Table 2.

Table 2 Effects of Cash management on Liquidity

Cash management		SA	A	U	D	SD	M	Std. D
There are difficulties in paying short term debts of the organization as and when they fall due	F	37	36	14	7	9		
	%	35.9	35.0	13.6	6.8	8.7	3.83	1.240
The cost of holding cash in the organization is high	F	51	32	15	4	1	3.81	1.261
	%	49.5	31.1	14.6	3.9	1.0		
The cash ratio of the organization is high	F	50	30	17	3	3	4.24	0.913
	%	2.9	29.1	16.5	2.9	48.5		
The organization sets its standard level of cash management cycle	F	39	50	3	9	2	4.12	.963
	%	37.9	48.5	2.9	8.7	1.9		

As illustrated in Table 2 majority of the respondents strongly agreed on effect of accounts receivables management on Liquidity of classified Hotels: in relation to whether the there are difficulties in paying short term debts of the organization as and when they fall due, the respondents agreed with (Mean 3.83; SD 1.240). On the issue that the cost of holding cash in the organization is high, the respondent agreed (Mean 3.81; SD 1.261). Further the respondents agreed that the cash ratio of the organization is high with (Mean 4.24; SD 0.913). In addition the respondents with (Mean of 4.12; SD 0.93) agreed that lastly the respondents agreed that the organization sets its standard level of cash management cycle. This implies that performance cash management influences organizational liquidity which is a critical factor for organizations overall performance. This is consistent with the view that a decrease in cash conversion cycle will generate more profits for a company. Deloof (2003) argued that it cannot be ruled out that negative relation between the cash conversion cycle and not vice versa From these previous studies, it is evident that companies strive to reduce the cash conversion cycle to its minimum in order to maximize firm performance.

Inferential Statistics

Multiple regression model was used as a form of inferential statistics analysis to determine the relationship between the dependent and independent variables.

Results of Regression Analysis Assumptions

To achieve the study objectives, the study highly relied on multiple regression analysis. To provide unbiased estimates of the study parameters, various assumptions of regression were tested, these include normality assumption linearity assumption and homoscedasticity means that the variance of errors is the same across all levels of the independent variables.

Normality Assumption

The study assumed that all the variables have a normal distribution. Kurtosis and Skewness were used in order to test the assumption of the normality of the population distribution, whereby a Skewness and kurtosis should be between ±1.96. Normality can be defined as, the shape of the data distribution for an individual variable and its association to the normal distribution, the benchmark for statistical methods. Skewness and kurtosis measures of the distributions should be calculated. Where Skewness describes how symmetrical the distribution is around the centre, kurtosis describes how flat or peaked the distribution is (Cohen *et al.,* 2003). Table 3 shows the variables with corresponding Skewness and kurtosis values.

Table 3 Test of Normality Assumption

	N	Skewness		Kurtosis	
	Statistic	Statistic	Std. Error	Statistic	Std. Error
Cash Management	103	-1.236	.238	1.476	.472

From the table 3 above, it is indicated that the data used in this study is normally distributed and hence can be subjected to other statistical tests of significance used to test the relationship between independent and dependent variables that require normally distributed data.

Homoscedasticity

Homoscedasticity assumes that the dependent variable show an equivalent level of variance across the range of predictor variable. Homoscedasticity is one of the assumptions required for multivariate analysis. Although the violation of homoscedasticity might reduce the accuracy of the analysis, the effect on ungrouped data is not fatal (Tabachnick and Fidell, 2007). The study used Durbin-Watson statistic to test the assumption of Homoscedasticity, the Durbin-Watson statistic should be between 1.5 and 2.5.the results in table 4 indicated that The Durbin-Watson statistic is 1.955 which is between 1.5 and 2.5 and therefore the data is not auto correlated.

Table 4 Test of Homoscedasticity

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.930[a]	.864	.859	.270	1.955

a. Predictors: (Constant), accounts payables, Inventory management, Account receivables, cash management

b. Dependent Variable: Liquidity

Test of Hypothesis

In this study, a multiple regression analysis was conducted to test the influence among predictor variables and liquidity in the classified Hotels. The null hypotheses were tested using the multiple regression models. The regression equations was first obtained using the B coefficients on the line of best fit. The decision rule was that when the p-value is less than the conventional 0.05 the null hypothesis is rejected and when it is above the conventional value 0.05 the null hypothesis is accepted,

Regression Coefficient between Cash management on Liquidity

The second hypothesis indicated that there is no significant relationship between cash management and firm liquidity of classified Hotels in Eldoret Town.A simple multiple regression model was used to test for the relationship between the independent variables (cash management) and dependent variable (liquidity).

Table 5 Model Summary of Cash management

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.865[a]	.749	.746	.362

a. Predictors: (Constant), cash management

The result on model summary as shown in table above indicates that R= 0.865, R- square = 0. 749, adjusted R- square= 0.746, and the SE= 0.362. The coefficient of determination also called the R square is 0.749. This means that the combined effect of the predictor variable (Cash management) explains 74.9% of the variations in liquidity of classified hotels in Eldoret Town. This implies that a unit change in Cash management has a strong and a positive effect on liquidity of classified hotels in Eldoret Town.

Table 6 ANOVA of Cash management

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	39.449	1	39.449	300.824	.000[b]
1	Residual	13.245	101	.131		
	Total	52.694	102			

a. Dependent Variable: Liquidity

b. Predictors: (Constant), cash management

The significance of the regression model was tested using Analysis of Variance (ANOVA). Table above presents the results of this test. The regression model also indicated that it was significant (p = .000) to mean that it had not been computed by chance, this was because the significance value is 0.000 which is less than 0.05. This made the results of the regression model credible and reliable.

Table 7 Coefficients of Cash management

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.948	.184		5.142	.000
	Cash management	.785	.045	.865	17.344	.000

a. Dependent Variable: Liquidity

Table 7 above shows the regression coefficients of the independent variables Cash management, are statistically significant in explaining liquidity of classified hotels in Eldoret town. Cash management was also positively and significantly related to liquidity (B=0.785, p value=0.000). This implies that an increase in Cash management by one unit leads to an increase in liquidity by 0.785 units. These findings are consistent to that of Deloof (2003) argued that it cannot be ruled out that negative relation between the cash conversion cycle and not vice versa From these previous studies, it is evident that companies strive to reduce the cash conversion cycle to its minimum in order to maximize firm performance.

CONCLUSION AND RECOMMENDATIONS

On the effect of cash management on liquidity of classified hotels in Eldoret town, the study concluded that, there are difficulties in paying short term debts of the organization as and when they fall due, the cost of holding cash in the organization is high, the cash ratio of the organization is high and the organization sets its standard level of cash management cycle

Based on the findings of this study, the following recommendations were made: This study recommends that managers of the classified hotels should create value for their shareholders by ensuring effective and efficient management of debtors, this ensures the reduction of time between sales and receipt of payment and this will determine the liquidity of the firm.

Secondly the study recommends that the hotels should negotiate for better terms of credit with their supplies, this elongates the accounts payable, and this ensures minimal interruption of supplies to the firm which in turn leads to smooth operation which ends up with better organizational profitability.

Thirdly it is recommended that managers of the hotels should put in place effective inventory control systems to their supply chain department, this ensures that the organizations maintains inventory levels which leads to the reduction of costs due to interruptions in the production process and loss of business due to scarcity of products.

Lastly it is recommended that managers of classified hotels in Eldoret business centre should ensure effective cash management and working capital practices which leads to better cash position leading to confidence and reduces the risk of short term crisis.

SCOPE FOR FURTHER RESEARCH

Owing to the limitations of the study it is suggested that same study be done but in other sectors to allow generalizations of the study findings. Also working capital is not only a factor that ensures profitability of hotels, there is need for a study on the determinants of profitability in the hospitality industry.

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