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Effects of Cash Management Practices on the Financial Performance of the Hotel Industry in Kisii County, Kenya

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Abstract:
This study was carried out in Kisii County on the topic of effects of cash management practices on the financial performance of the hotel industry. Literature has existed about cash management practices as a pre-requisite for better financial performance of the hotel industry. The study was based on the objectives which included, finding out how budgeting, controlling, and planning as cash management practices affect the financial performance of the hotel industry. Data used included primary and secondary with primary data collected by use of self administered questionnaire. The study covered a sample of 134 respondents. The findings revealed that there is significant correlation of 0.05 between cash management practices and the financial performance of the hotel industry. Cash as an important current asset that needs critically budgeted, planned and controlled for optimal balance to enable business activities take place smoothly. If cash management is maximally ensured in business ventures, holding other factors positive the business must boom and serve the public as expected reflecting better and improved financial performance. However poor cash management practices constrains business operations and some customers who are not satisfied with the services run away signifying poor financial performance and hence retardation in the business growth.

CHAPTER ONE

1. Introduction

1.1. Background To The Study
According to Janklow (2009) cash management is the collection, concentration, and disbursement of cash. The goal is to manage the cash balances of an enterprise in a way to maximize the availability of cash not invested in fixed assets and a way to avoid the risk of insolvency. Factors monitored as a part of cash management include a company's level of liquidity, its management of cash balances, and its short-term investment strategies. Managing cash flow is the most important job of business managers. If at any time a company fails to pay an obligation when it is due because of the lack of cash, the company is insolvent. Insolvency is the primary reason firms go bankrupt. Obviously, the prospect of such a dire consequence should compel companies to manage their cash with care. Moreover, efficient cash management means more than just preventing bankruptcy (Bee, 2005).
Hull (1999) argued that the key to successful cash management lies in tabulating realistic projections, monitoring collections and disbursements, establishing effective billing and collection measures, and adhering to budgetary restrictions. Cash collection systems aim to reduce the time it takes to collect the cash that is owed to a firm. Some of the sources of time delays are mail float, processing float, and bank float. Obviously, an envelope mailed by a customer containing payment to a supplier firm does not arrive at its destination instantly.
According to Frank & Goyal (2004) an aspect of cash management is getting an institution's optimal cash balance. There are a number of methods that try to determine this magical cash balance, which is the precise amount needed to minimize costs yet provide adequate liquidity to ensure bills are paid on time. One of the first steps in managing the cash balance is measuring liquidity, or the amount of money on hand to meet current obligations. There are numerous ways to measure liquidity, including: the cash to total assets ratio, the current ratio the quick ratio and the net liquid balance. The higher the number generated by the liquidity measure, the greater the liquidity and vice versa. However, there is a tradeoff between liquidity and profitability which discourages firms from having excessive liquidity.

1.2. Statement of the Problem
Cash management is the most important and challenging issue in the hotel industry in Kenya. Making sure Organization manage its cash flow positive is essential to streamlining hotel industry operations and minimizing unnecessary financial costs which in turn affect its growth. Inadequate cash management is probably the most frequent stumbling block for the growth of hotel industry

in Kenya. Data from the Tourism Ministry indicate that hotel bed occupancy in the larger Kisii County has dropped by 15% also, indicates that 78% of the hotels industry in Kisii County more often change the trade name to remain in business and 67% have closed down in the past two years, most of the hotels have failed because of lack of working capital, proper financial planning and control. Cash management is an integral part of running hotel industry, organizations fail due to liquidity problems to support their day-to-day activities than because of inadequate management of other resources (Singh and Lakanatan, 2002). It should be noted that hotels are presently facing severe shortages in occupancy rates which are at their lowest in the recent times, good cash management practices will ensure there is sufficient cash to finance the business plans and cushion economic down town. Hotel industry with sufficient cash can confidently focus on business operations but a business suffering from inadequate cash levels must constantly reexamine and modify its plans, exerting enormous energies to obtain and keep additional financing. Though hotel industry is the largest industry in Kenya in terms of gross revenue and foreign exchange earnings, the government has not adequately put in place strategies which can promote the proper management of financial resources (Kenya tourist board, 2012). This study therefore proposes to assess the influence of cash management practices on the financial performance of hotel industry in Kenya with particular interest in Kisii County.

1.3. Research Objectives of the Study

1.3.1. General Objective

The general objective of the study is to establish the effect of cash management practices on the financial performance of hotel industry in Kisii County, Kenya.

1.3.2. Specific Objectives

The specific objectives of the study will be as follows;

- To establish the effect of budgeting as cash management practice on the financial performance of hotel industry in Kisii County, Kenya.
- To establish the effect of cash control as cash management practice on the financial performance hotel industry in Kisii County, Kenya.
- To establish the effect financial planning as cash management practice on the financial performance of hotel industry in kisii county, Kenya.

1.4. Research Questions

The study will be guided by the following research questions;

- What is the effect of budgeting as a cash management practice on the financial performance of hotel industry in Kisii County, Kenya?
- What is the effect of cash control as a cash management practice on the financial performance of hotel industry in Kisii County, Kenya?
- What is the effect of financial planning as a cash management practice on the financial performance of hotel industry in kisii county, Kenya?

CHAPTER TWO

2. Literature Review

2.1. Introduction

According to Ayodo *et al.* (2008) cash is the most liquid of assets and it represents the lifeblood for growth and performance in organizations. Effective cash flow strategies assure that enough cash is on hand to meet financial obligations while maximizing financial return from excess cash. Bryk and Schneider (2002) added that effective cash flow strategies educate and stress the importance of cash flow management to all members of the senior management team as well as all other effected departments. They also stated that senior management team should periodically solicit ideas on improving cash flow and also exchanging ideas about how to managing cash flow. Other strategies that are as follows: Make sure customers pay you on time; Provide more than one payment option; Bill customers daily as orders are fulfilled; Communicate customer credit terms, recommends Cash Followers; and reduce the amount of credit and credit terms to get customers to pay you sooner.

2.2. Theoretical reviews

2.2.1. The Baumol Model of Cash Management

Baumol model of cash management helps in determining a firm's optimum cash balance under certainty. It is extensively used and highly useful for the purpose of cash management. As per the model, cash and inventory management problems are one and the same. Baumol (1981) developed a model which is usually used in inventory management and cash management. Baumol model of cash management trades off between opportunity cost or carrying cost or holding cost & the transaction cost. As such firm attempts to minimize the sum of the holding cash & the cost of converting marketable securities to cash.

The Baumol model enables companies to find out their desirable level of cash balance under certainty. The Baumol model of cash management theory relies on the tradeoff between the liquidity provided by holding money (the ability to carry out transactions) and the interest foregone by holding one's assets in the form of non-interest bearing money. The key variables of the demand for money are then the nominal interest rate, the level of real income which corresponds to the amount of desired transactions and to a fixed cost of transferring one's wealth between liquid money and interest bearing assets.
The particular company should be able to change the securities that they own into cash, keeping the cost of transaction the same. Under normal circumstances, all such deals have variable costs and fixed costs. The applicability of this theory is present many companies make an effort to reduce the costs incurred by owning cash. They also strive to spend less money on changing marketable securities to cash. The Baumol model of cash management is useful in this regard.

2.3. Empirical Literature Reviews

2.3.1. Cash Management Practices

Because of the uncertainty of cash flows Maksimovic and Titman (1991) observed that companies use forecasts to help offset these uncertainties and match incoming receipts with disbursements. Sources of solid information range from shipping data to orders from salespeople to buying patterns, and even include news gathered from grapevines all the quantitative and qualitative intelligence available. Cash flow management is challenging and particularly so for those companies with operations in more than one country. Global cash management occurs on two levels: the first is each country's cash management system that addresses standard treasury functions such as collections within national borders. The second is a network that connects the domestic systems and manages various currencies while integrating cash management with functions such as purchasing, sales, and accounting (Petersen, 2008).
According to Fischer *et al.* (1999) the importance of cash-flow management with the components of cash-flow reporting and cash-flow monitoring has changed dramatically. Cash- flow monitoring has been an important part of managing a company for years, but it always was an ex-post view on the balance sheet. Cash-flow reporting is aided by cash-flow accounting, which records changes in cash flows directly. Incoming and outgoing payments of liquid funds, such as cash in hand and bank savings, are analyzed in real time and recorded according to their cash flow classes in revenues and expenditures. The primary task of cash accounting is to provide information on a corporate solvency and internal financing potential (Myers, 1997).
Beck and Murphy (1994) stated managing cash flow is an essential function for businesses that, if not correctly handled, can cause such problems as not being able to pay employees or suppliers or not having enough inventories on hand to fulfill customer orders. Effective cash flow strategies assure that enough cash is on hand to meet financial obligations while maximizing financial return from excess cash. Bryk and Schneider (2002) added that effective cash flow strategies educate and stress the importance of cash flow management to all members of the senior management team as well as all other effected departments. They also stated that senior management team should periodically solicit ideas on improving cash flow and also exchanging ideas about how to managing cash flow.

CHAPTER THREE

3. Research Methodology

3.1. Introduction

Kothari (2004) noted that methodology is the theoretical analysis of the methods applied to a field of study. This chapter presents the procedures that were used to conduct the study, focusing on research design, target population, sample and sampling procedures, research instruments, and data collection and analysis.

Target Population	
Category	**Target Population**
Managers	34
Accountants	34
Catering Supervisor	132
Total	200

Table 1
Source: Kisii County Office (Statistics, 2014)

3.2. Sampling Frame and Sample Size

3.2.1. Sampling Frame

According to Mugenda and Mugenda (2003) a sample frame is a set of information used to identify a sample population for statistical treatment. A sampling frame includes a numerical identifier for each individual, plus other identifying information about characteristics of the individuals, to aid in analysis and allow for division into further frames for more in-depth analysis. Kothari (2004) also noted that the sampling frame must be representative of the population and this is a question outside the scope of statistical theory demanding the judgment of experts in the particular subject matter being studied. A good sample frame includes all individuals in the target population, excludes all individuals not in the target population and includes accurate information that can be used to contact selected individuals.

3.2.2. Sample Size

Kull (1984) noted that sampling is the process by which a relative small number of individual object or event is selected and analyzed in order to find out surrounding about the entire population from which was selected using some systematic form. Since the overall population is heterogeneous, stratified random sampling was used in the study to select the respondents. Yamane (1967) provides a simplified formula to calculate sample sizes. This formula was used to calculate the sample sizes as shown below.

$$n = \frac{N}{1+N(e)^2}$$

Where n is the sample size, N is the population size, and e is the level of precision or margin of error at 5% (standard value of 0.05). When this formula is applied to the above sample, we get;

$$n = \frac{200}{1+200(0.05)^2} = 134$$

The table 2 below shows sample size representing 67% of target population in which sampling technique was used to group the target population into homogeneous strata. The percentage of the sample size was as illustrated below;

Percentage of the sample size =

$$\frac{\text{Sample Size}}{\text{Target Population}} * 100\%$$

$$= \frac{134}{200} * 100\% = 67\%$$

Table 2

3.3 Data Analysis

Data collected from the field was analyzed using descriptive and inferential statistics. Descriptive statistics involved the use of frequency, tables and percentages. Inferential statistics involved the use of correlation and regression analysis to assess the strength and association of the variables in the study.

CHAPTER FOUR

4. Resaerch Findings And Discussions

4.1. Introduction

This chapter presents the interpretation and discussion of the findings. The order of the presentation, discussion and interpretation is based on the research objectives and questions

4.2. Findings of cash planning as a cash management practice

The studies also sought to establish whether the manager of the hotel industry plan for its finances before beginning of any financial year table 3 summarizes the respondent. According to Martin and Morgan (1991) financial planning is a process of estimating a firm's needs and arranging for them before time when those funds will be needed. In this study the definition of John (2009) is adopted which states that financial planning as a process of analyzing projecting formulating and monitoring of short-term and long-term choices in financial terms for the purpose of unraveling any inconsistency in order to arrive at a financial plan for the business. Therefore financial planning is very useful to any organization since it helps it to plan its funds in relation to procurement, investment and management of available funds. Through proper financial planning a firm is capable for preparing adequately for future unforeseen eventualities.

		Frequency	percent	cumulative percent
Valid	Strongly agree	28	21.1	21.1
	Agree	28	21.1	42.2
	Not sure	49	36.8	79
	Disagree	11	7.9	86.8
	Strongly disagree	18	13.2	100.0
	Total	134	100.0	

Table 3: cash planning
Source: Primary data

42.2% strongly agree that cash planning is aimed at having optimal cash balance meaning they apportion appropriately cash that makes the business to retain enough cash which can be invested in other profitable activities that will enable the business grow in all corners and improve financial performance (Richard, 2009). On the other hand 46.9% of the respondents did not agree at all and were not sure whether cash planning is aimed at having optimal cash balance. This means at times they operate with no cash balance which impedes economic growth of the business. All times a lucrative business operates with enough cash balance to fulfill its objective.

		Total Cost of Consumables 2007-2013	Total Level of Profit After Tax 2007-2013
Total Cost of Consumables 2007-2013	Pearson Correlation	1	-.310**
	Sig. (2-tailed)		.018
	N	134	90
Total Level of Profit After Tax 2007-2013	Pearson Correlation	-.310**	1
	Sig. (2-tailed)	.018	
	N	90	90
Dependant: financial performance of hotel **. Correlation is significant at the 0.01 level (2-tailed).			

Table 4: Correlations

5. Questionnaire

1. On the table below please indicate the volume (in Kenya shillings) the level of costs and costs allocation on the following.

Year	2007	2008	2009	2010	2011	2012	2013
consumables							

2. On the table below please indicate the volume (in Kenya shillings) the level of financial planning and projections

Year	2007	2008	2009	2010	2011	2012	2013
Capital injected							
Work in progress							
Financial projections							
Business Re-evaluation							
Business value							

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