

**EFFECTS OF FREE CASH FLOWS ON THE PROFITABILITY OF FIVE STAR
HOTELS IN KENYA**

BY

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DECLARATION

This research project report is my original work and has not been submitted for examination in any other University.

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DEDICATION

This research project is dedicated to my family, especially my wife Mary Ndolo who has been my source of inspiration in my studies.

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ABSTRACT

The goal of every organization is always to improve its performance. Thus, managers in corporate organizations do all that is necessary to improve their performance and especially their profitability. Scholars have examined what factors influence firm performance in a bid to recommend to practitioners on what needs to be done to improve firm performance. Free cash flow hypothesis has been advanced in literature as one of the determinants of firm performance. The objective of this study was to examine the effect of free cash flow on the profitability of five-star hotels in Kenya. This was a descriptive research. The population of this study was the 32 five star hotels in Nairobi. Since this number is not large and the present study seeks to come up with a predictive model for how cash flow affects profitability, all the 32 hotels were sampled. Thus, this was a census study of all the five star hotels in Kenya. This study used secondary data. These were collected from the financial statements of the hotels. The data was collected on the variables of interest for three year period beginning 2011 to 2013. This period gave enough data that was used in the analysis. Data was analysed using descriptive analysis, correlation analysis, and regression analysis with the aid of SPSS version 22 analysis software. The descriptive results showed that the mean ROA was 4% and free cash flow had a mean of 0.0318. The correlation results showed that except for size and foreign ownership, all the other independent variables were lowly correlated with each other thus these were transformed using second differences. The regression results showed that the model accounted for 81.7% of the variance in profitability, $R^2 = 0.817$. The F-statistic was 8.034 and was significant at 5% level, meaning that the model used was fit to predict the relationship between free cash flows and profitability. The study found that free cash flow had positive and significant effect on profitability, $\beta = 0.371$, $p = 0.001$. The study found that size of the firm had a negative but insignificant effect on profitability, $\beta = -0.049$, $p = 0.089$. The results showed that foreign ownership had a negative but insignificant effect on profitability, $\beta = -0.191$, $p = 0.120$. The results showed that leverage had a positive and significant effect on profitability, $\beta = 0.140$, $p = 0.036$. The results also showed that age of the firm had a positive but insignificant effect on profitability, $\beta = 0.002$, $p = 0.276$. The study concludes that free cash flows and leverage influence profitability of hotels in Kenya while size of the firm, foreign ownership and age of the firm do not. The study recommends that hotels in Kenya should use free cash flow as a way of improving their profitability.

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

The main purpose of business administration and financial management is to pursue perpetual growth of a corporation such that the wealth of its stockholders could be maximized. Ever since the disastrous financial tsunami in 2008, corporate financial distresses occurred to several well-known giant enterprises, including Citibank and American International Group (AIG). The U.S. government thus initiated financial bailout projects in order to save these corporations from financial distress.

To the surprise of many, several companies, after receiving government bailout funding, proposed enormous bonus compensation plans to the management as well as the board of directors. For instance, AIG decided to issue a bonus compensation plan amounted to \$165 million dollars to senior management even though the plan had been severely criticized by the press. This notorious case presented a dilemma to government policy-makers whether the government should assist these troubled companies out of corporate financial distress (Gandel, 2008).

Academicians, however, examine the issue in order to find an answer for the dilemma from several different perspectives. For example, firms are suggested to improve their corporate governance and business ethics in order to reduce the self-interest motives of management and to avoid management's moral hazard, while agency theory examines how management's behavior could be directed at stockholder's interest by reducing agency cost (Wang, 2010).

According to Brush, Bromiley & Hendrickx (2000), agency theory holds based on three premises: First, the goal of management is to maximize his/her personal wealth instead of stockholder's wealth. Second, management's self-interest motivates waste and inefficiency in the presence of free cash flows (FCF). Third, agency costs are incurred to the burden of stockholders because of weak corporate governance.

1.1.1 Free Cash Flow

Free Cash Flow (FCF) is defined by Jensen (1986) as the net cash flows of operating cash flows less capital expenditure, inventory cost, and dividend payment. The definition is criticized to lack accounting preciseness. Dittmar (2000) elaborated on FCF as net cash flows that are at the management's discretion without affecting corporate operating activities. In this study, FCF is defined according to Lehn and Poulsen (1989) who defined it as net operating income before depreciation expenses, less tax expenses, interest expenses, and stock dividends, scaled by net sales.

Free cash flows are the discounted value of all the operating cash flows net of the needs of positive NPV projects. In addition to the accounting concept, free cash flows also represent idle cash flows at the discretion of management. The free cash flows hypothesis, proposed by Jensen (1986), states that management could prompt to invest unnecessary, negative NPV projects when there are too much free cash flows in the management's hands. Furthermore, the hypothesis implies that a higher level of free cash flows would lead to more of unnecessary administrative waste and inefficiency.

1.1.2 Firm Profitability

Performance according to Hornby (2000) is described as an action or achievement considered in relation to how successful it is. Performances are variously measured and

the perspective are tied together and consistently monitored from the organization context (Jamil and Mohamed 2012). Looking from the Hornby (2000) definition, it can be reasonably concluded that performance is synonymous to success. What connotes performance varies from one organization to another.

Garrigos-Simon, Marques & Narangajavana (2005) categorised performance measurement into four, namely: (1) Profit which include: return on assets, return on investment and return on sales (2) Growth in term of: sales, market share and wealth creation (3) Stakeholder satisfaction which include customer satisfaction and employees satisfaction and (4) competitive position which include: overall competitive position and success rate in launching new product. The research study was based on competitive strategies and performance in Spanish hospitality firms. The finding shows that there is no consensus agreement as to how performance should be measured in all organization.

Performance comprises the actual output or results of an organization as measured against its intended outputs or goals and objectives. According to Richard et al. (2009) performance encompasses three specific areas of firm outcomes namely financial performance, product market performance and shareholder return. This study focuses on financial performance which refers to performance based on financial indicators. More specifically, the profitability indicators are used which include profits, return on assets, and return on equity, among others.

1.1.3 Free Cash Flow and Firm Profitability

In the early 1990s, the relationship between free cash flow and business financial performance had been studied in the word. Baskin's study showed that an enterprise's profitability was negatively correlated to its debt ratio. It was said that the higher the

company's profitability, the lower its debt levels. The results did not support one of the points of views in the theory of free cash flow that by controlling debt effect corporate performance could be enhanced (Baskin, 1989).

McLaughlin (1999) found that after the issuance of a common stock the company's operating cash flow performance continued to decline for three years. With Tobin's Q, Hafford (1999) measured investment opportunities. He found that firms with higher free cash flow would have a lower efficiency of M & A and abnormal glide of finance performance. Freund (2003) discovered that for the company's asset purchase, the market response and the level of free cash flow was negatively correlated, and the company's return on assets and asset turnover had declined after the asset purchase. Chung, Firth and Kim (2005) found that the agency costs of free cash flow is the main motive to stimulate managers to conduct earnings manipulation, and it was more possible that those companies' management with a lot of free cash flow covered up its activities which would damage enterprises' values by earnings manipulation.

Zhang & Wu (2003) used free cash flow model to analysis related indexes and found that it was not optimistic about the whole continued viability and unreasonably high investment. Qing & Gan (2007) used correlation analysis to study on the relationship between free cash flow and performance. It had shown that free cash flow and discretionary revenue expenditure was positively related, but discretionary revenue expenditure negatively related to operating results.

Yuan & Wang (2008) analyzed whether the proportion of the largest shareholder hold could influence the profitability of company's sales growth. The results showed that the

company had more free cash flow, the lower the sensitivity of sales growth, and as the largest shareholder with an increase in the proportion, its sales growth sensitivity increased. Based on the hypothesis of agency costs for the free cash flow Ding (2010) researched listed companies' M & A. It showed for companies with fewer growth opportunities, changes in operating performance before and after M & A, and its free cash flow was negatively correlated, while for high-growth ones the negative correlation not established.

The FCF hypothesis states that when a company has generated an excessive surplus of FCF and there are not profitable investment opportunities available, management tends to abuse the FCF in hands so as to resulting in an increase in agency costs, inefficient resource allocation, and wrongful investment. Brush et al. (2000) found that sales growth was most beneficial to companies being lack of cash flows, but not necessarily to companies with sufficient FCF and thus supported the FCF hypothesis.

According to the free cash flows hypothesis, free cash flows have a negative impact on firm performance. Recent empirical studies also support this argument. For example, Lang et al. (1991) examined 101 merger cases and found that free cash flows might deteriorate the q ratio of a firm in mergers and acquisitions. Chung et al. (2005) found that free cash flows might incur agency costs so as to inversely influence short-term operating cash flows, thus under-mining long-term firm value and Chang, Chen, Hsing, & Huang (2007) found evidence to support a significant inverse relationship between free cash flows and stock returns.

Gregory (2005) examined how FCF influences merger performance based on the UK data and found that mergers with a higher level of FCF would perform better than those with a lower FCF level as evidence invalidating the FCF hypothesis. In addition, the studies conducted by Szewczyk, Tsetsekos & Zantout (1996) discovered empirical evidence in support of the investment opportunity hypothesis that investors would most favor companies with both substantial FCF and profitable investment opportunities in stock valuation.

1.1.4 Hotel Industry in Kenya

The hotel industry in Kenya plays a significant role in terms of creation of employment and contribution to the national economic growth. The industry is comprised of many small hotels and few large ones. The large hotels mostly service the foreign tourists and high end consumers in Kenya. These are also used by corporate and government institutions for meetings and conferences. The major challenge the industry faces is the insecurity which makes most tourists especially the foreigners to stop their plans to tour Kenya.

According to the KNBS (2013) data, the industry had a Gross Domestic Product (GDP) of Ksh. 56,337,000 with a growth rate of 2.6% in 2012. The industry contributed 0.8% of the country's GDP growth in 2012 down from 1.5% in 2011. The bed occupancy rate in hotels was 36.4% in 2012 down from 40.3% in the previous year while the room occupancy rate was 42.3% in 2012 down from 45.4% the previous year. The industry employed a total of 2.49 million people by 2012.

1.2 Research Problem

The goal of every organization is always to improve its performance. Thus, managers in corporate organizations do all that is necessary to improve their performance and especially their profitability. Scholars have examined what factors influence firm performance in a bid to recommend to practitioners on what needs to be done to improve firm performance. Free cash flow hypothesis has been advanced in literature as one of the determinants of firm performance.

Hotels in Kenya contribute a lot to GDP and employment. The industry contributed 0.8% of the country's GDP growth in 2012 (KNBS, 2013). With the importance of this industry in employment creation and selling the image of the country to foreigners, it is important scholars focus on the determinants of profitability in the industry in order to drive growth.

The free cash flows hypothesis states that FCF have a negative impact on firm performance. Studies such as Lang et al. (1991), Chung et al. (2005) and Chang et al. (2007) have confirmed this hypothesis. Others such as Gregory (2005) and Szewczyk et al. (1996) invalidated this hypothesis. The results on the relationship between FCF and performance are therefore mixed and more needs to be done to understand what the relationship is for countries like Kenya and for specific economic sectors.

Locally, studies on free cash flow are remote. In a study by Wambua (2013), the effect of agency cost on financial performance of listed firms was examined. In the results, it was shown that free cash flow highly influenced performance with an index of 80%. This remains the only study available and published on how free cash flow affects performance of firms in Kenya. While the study sheds some light on how FCF may

influence performance, it does not show the nature of the relationship. Further, it uses primary data in which opinions of respondents are sought on whether they think FCF affects performance. This introduces subjectivity in a matter that needs objectivity. There is therefore a lot more that needs to be done on this concept in Kenya.

From above, a research gap is available that the present study seeks to explore. The purpose of this study is therefore to examine the effect of free cash flow on performance of hotels in Kenya. The study seeks to answer the following research question: what is the effect of free cash flow on the profitability of five-star hotels in Kenya?

1.3 Research Objective

The objective of this study is to examine the effect of free cash flow on the profitability of five-star hotels in Kenya.

1.4 Value of the Study

This study will contribute to the field of finance by enhancing the knowledge on how free cash flows affect firm performance. This is a theory that is still unexplored in Kenya and therefore an examination from a Kenyan perspective will be important to the theory of free cash flows in finance.

The study will also be important to practitioners in the hotel industry. Hotel managers will first hand evidence on how free cash flows may affect their profitability and therefore enable them plan their cash flow management. A recommendation based on the findings in the study will be important for the hotel managers.

The study will also be important to researchers who are interested in carrying out further research on free cash flows. A recommendation on what gaps future studies need to

address will be important for further research in Kenya. The paper can also be used as a guide on free cash flow effects.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the literature review. First, a theoretical foundation of the study is discussed. This is followed by a review on the determinants of financial performance. The next section presents an empirical review of the studies related to the concepts in the study. The chapter then concludes.

2.2 Theoretical Review

This section reviews three critical theories that explain why firms differ in their performance and how FCF helps explain differences in performance. The specific theories reviewed are resource-based view, the dynamic capability theory, and the agency theory.

2.2.1 Resource Based View

The resource based view (RBV) of the firm tries to explain that resources owned or controlled by the firm have the potential for providing enduring competitive advantage when they are inimitable and not readily substitutable (Peteraf, 1993). Resources are considered central to understanding firm performance (Amit and Shoemaker, 1993). Resources include all assets, capabilities, organizational processes, firm attributes, information, knowledge, controlled by a firm that enable the firm to conceive of and implement strategies that improve its efficiency and effectiveness (Barney, 1991).

A resource approach stresses internal aspects of the firm. As such, competitive strategy should be more influenced by accumulated resources than by the environment; what a firm possesses would determine what it accomplishes. Resources become fundamental

drivers of firm performance (Conner, 1991). According to Das & Teng (2000), a resource-based view emphasizes value maximization of a firm through effective resource integration with the partner's valuable resources for the purpose of gathering otherwise unavailable competitive advantages and values to the firm. Dyer & Singh (1998) define complementary resource endowment as a "distinctive resource of alliance partners that collectively generate greater rents than the sum of those obtained from the individual endowments of each partner." But first, firms must find each other and recognize the potential value of combining resources. Utilizing a resource-based view of the firm, Lambe, Spekman & Hunt (2002) define and conceptualize a firm's alliance competence as an organizational ability for finding, developing, and managing alliances. Therefore, finding the right partner and recognizing the complementary resources would be the first step in achieving successful supply chain integration.

2.2.2 Dynamic Capability

Teece et al. (1997) define dynamic capabilities as 'the ability to integrate, build, and reconfigure internal and external competencies to address rapidly-changing environments'. The concept of dynamic capabilities arose from a key shortcoming of the resource-based view of the firm. The RBV has been criticized for ignoring factors surrounding resources, instead assuming that they simply "exist". Considerations such as how resources are developed, how they are integrated within the firm and how they are released have been under-explored in the literature.

Dynamic capabilities attempt to bridge these gaps by adopting a process approach: by acting as a buffer between firm resources and the changing business environment, dynamic resources help a firm adjust its resource mix and thereby maintain the

sustainability of the firm's competitive advantage, which otherwise might be quickly eroded. So, while the RBV emphasizes resource choice, or the selecting of appropriate resources, dynamic capabilities emphasize resource development and renewal.

A central concern of a firm's overall strategy and management is to maintain a dynamic fit between what the firm has to offer and what the environment dictates (Learned et al., 1965; Miles and Snow, 1978). Achieving this fit again requires that the firm is able to change its processes. As such, a firm has to possess dynamic capabilities which, besides increasing firm's opportunities to survive, often provide organisations with the potential for growth (Helfat et al., 2007). The roots of dynamic capabilities are based in evolutionary economics (see Nelson and Winter, 1982) and, briefly, the essence of the dynamic capabilities approach is that competitive success arises from the continuous development, alignment and reconfiguration of firm-specific assets (Teece et al., 1997; Augier and Teece, 2006). In other words, dynamic capabilities impact the resource base of the firm, which in turn is the source of the firm's competitive advantage (Ambrosini and Bowman, 2009). However, dynamic capabilities do not just appear from nothing, but instead they are typically the outcome of experience and learning within the organisations.

2.2.3 Agency Theory

The agency problem was originally raised by Berle and Means (1932) who argued that agency costs might be incurred in the separation of ownership and control due to inconsistent interests of management and stockholders. Jensen and Meckling (1976) suggested that the incomplete contractual relationship between the principal (stockholders) and the agent (management) might cause the agency problem. In general, the

agency problem caused by management would cause a loss in stockholders' wealth in the following ways: First, management, from the aspect of self-interest motive, would increase perquisite consumption and shirking behavior, which in turns led to an increase in agency costs. Second, management might not choose the highest NPV investment project, but the one that maximized his own self-interest, which would expose stockholders to unnecessary investment risk. Therefore, management's decision might cause the firm's loss in value because the best project was not chosen.

It was obvious that the agency problem caused by management would burden the stockholder's loss, yet it was not clear how the agency costs were defined as well as measured. Early literature, such as Jensen and Meckling (1976) and Jensen (1986), argued that there were at least three forms of agency costs: monitoring cost of management's actions, bonding cost of restrictive covenants, and residual loss due to suboptimal management's decisions. Jensen (1986) linked the agency problem with free cash flows such that management might abuse free cash flows at their authority when investment opportunities were not readily available to the firm. There-fore, free cash flows to management were agency costs to stockholders.

To tackle the agency problem, two contrasted approaches, the refraining approach and the encouraging approach were suggested. Kester (1986) and Gul and Tsui (1998) took the refraining approach and argued that an increase in financial leverage would sufficiently reduce the agency costs since management is subjective to legal bonding of repaying debt and interest, which in effect might decrease the abuse of free cash flows. In addition, Shleifer and Vishny (1991) and Bethel and Liebeskind (1993) proposed that corporate takeover could discourage management's incentive to perquisite consumption and

shirking behavior. Furthermore, Crutchley and Hansen (1989) implied that the firm could attempt to distribute idle cash flows to stockholders by stock repurchase or dividend payments to avoid the abuse of free cash flows. By contrast, Fox and Marcus (1992) suggested the encouraging approach that a firm could change management's action to be more in favor of stockholders by increasing the shares held by management.

Although abundant literature has reviewed the agency theory, yet the measurement of agency costs was still not clearly defined, thus depending on proxy variables. According to literature, there were seven proxy variables suggested to measure agency costs: They are total asset turnover (Ang et al., 2000; Singh and Davidson, (2003), operating expense to sales ratio (Ang et al., 2000), administrative expense to sales ratio (Singh and Davidson, 2003), earnings volatility, advertising and R & D expense to sales ratio, floatation cost (Crutchley and Hansen, 1989), and free cash flows (Chung et al., 2005).

2.3 Determinants of Firm Performance

This section reviews literature on some of the determinants of financial performance. The specific determinants reviewed are size of the firm, capital structure, ownership structure, age of the firm, market share, and the industry.

2.3.1 Size

The nature of the relationship between firm size and economic performance has received considerable attention in the literature and has provoked vigorous debate. Several arguments favour larger firm sizes in attaining higher performance. Large firms are more likely to exploit economies of scale and enjoy higher negotiation power over their clients and suppliers (Serrasqueiro and Nunes, 2008). In addition, they face less difficulty in getting access to credit for investment, have broader pools of qualified human capital,

and may achieve greater strategic diversification (Yang and Chen, 2009). On the other hand, small firms exhibit certain characteristics which can counterbalance the handicaps attributed to their smallness. They suffer less from the agency problem and are characterized by more flexible non-hierarchical structures, which may be the appropriate organisational forms in changing business environments (Yang and Chen 2009).

Existing empirical evidence has not been unambiguous, lending support to both a positive and a negative impact of firm size on performance. Yang and Chen (2009) compared the technical efficiency of SMEs with that of large firms and were inconclusive about the relationship when choosing different estimation methods. In a study on Portuguese companies Serrasqueiro and Nunes (2008) found that size is related positively to performance but only for the sample of SMEs and not for large firms. A similar finding by Diaz and Sanchez (2008) in the Spanish context suggested that SMEs were more efficient than large firms lending support to earlier studies that identified an inverse relationship between size and performance. These studies imply a relationship between firm size and performance that might not necessarily be linear, as illustrated in Barrett et al. (2010), Yoon (2004), and Risseeuw (1997), which conclude that company growth beyond optimal level can deteriorate performance.

A positive relationship between firm size and profitability was found by Vijayakumar and Tamizhselvan (2010). In their study, which was based on a simple semi-logarithmic specification of the model, the authors used different measures of size (sales and total assets) and profitability (profit margin and profit on total assets) while applying model on a sample of 15 companies operating in South India. Papadognas (2007) conducted analysis on a sample of 3035 Greek manufacturing firms for the period 1995-1999. After

dividing firms into four size classes he applied regression analysis which revealed that for all size classes, firms' profitability is positively influenced by firm size. Using a sample of 1020 Indian firms, Majumdar (1997) investigated the impact that firm size has on profitability and productivity of a firm. While controlling for other variables that can influence firm performance, he found evidence that larger firms are less productive but more profitable.

2.3.2 Capital Structure

In addition, the study of the relationship between debt and performance, Jensen (1986) considers that the debt should require executives to retain only profitable projects to avoid bankruptcy of the company. Indeed, debt financing would encourage leaders to be more efficient and effective in the positions occupied. However, most studies that have examined the relationship debt, ownership structure and performance, were based on U.S. and French data. This limits their general geographic (McGahan and Porter, 1997).

In addition, in connection with this, Driffield et al. (2007) explores a possible interaction between debt and firm performance using a system of simultaneous equations. They propose two alternative hypotheses for this inverse relationship. The first hypothesis focuses on the most successful companies. In the latter case the most successful companies reduce their debt levels to protect shareholder wealth in the risk of bankruptcy (Latrous, 2007). In the same context, Abdennadher (2006) shows the negative and significant effect of debt on performance in the Tunisian context for the study of twenty listed companies over the period 1996-2000.

2.3.3 Ownership Structure

Berle and Means (1932) warned that the growing dispersion of ownership of stocks was giving rise to a potentially value-reducing separation of ownership and control. As a consequence, they expected an inverse correlation between the diffuseness of shareholdings and corporate performance. This analytical framework is based upon the view that shareholder diffusion makes it difficult for them to act collectively and hence to influence management to any great extent. The inverse relationship between ownership diffuseness and firm performance was first challenged by Demsetz (1983), who supports the endogeneity of ownership structure.

Since Demsetz's (1983) work, numerous empirical studies investigating this issue have been published. In a seminal study, Morck et al. (1988) proposed a non-linear relationship between insider ownership and firm performance. By examining Future 500 firms for the year 1980 and using piecewise linear regression, they find a positive relationship between Tobin's Q and ownership structure for the 0 per cent to 5 per cent board ownership range, a negative relationship in the 5 per cent to 25 per cent range and a positive relationship for board ownership exceeding 25 per cent.

More recently, Villalonga and Amit (2004) examine the impact of family ownership, control and management on firm value. They conclude that family ownership creates value only when it is combined with certain forms of control and management. Finally, in a study of Taiwan's electronics industry, Sheu and Yang (2005) find that insider ownership (executives, board members and large shareholders) has no influence on total factor productivity.

2.3.4 Age

It is not easy to find specific theoretical predictions for how firm age affects firm performance, because many theoretical models take firm size and firm age as representing the same fundamental concept. For example, Greiner (1972) presents his stages of growth model of organizational change in growing firms, in which size is

linearly related to age. Other scholars have nonetheless made specific predictions about how firm performance changes with age.

The relationship between firm age and survival has also been investigated by many researchers (Mata and Portugal, 2004; Bartelsman et al., 2005), but the results have not been clear-cut. An early contribution coined the term liability of newness to describe how young organizations face higher risks of failure (Stinchcombe, 1965). More recently, however, authors have referred to the liability of adolescence (Fichman and Levinthal, 1991) to explain why firms face an initial 'honeymoon' period in which they are buffered from sudden exit by their initial stock of resources. Still others have identified liabilities of senescence and obsolescence (Barron et al., 1994) according to which older firms are expected to face higher exit hazards once other influences (such as firm size) are controlled for.

More recently, researchers have begun to take more interest in the role age plays in the performance of surviving firms. Some authors have investigated age effects by focusing specifically on samples of young firms (Stam and Wennberg, 2009). Some researchers have focused on the functional form of the aggregate age distribution, showing that the empirical density is well approximated by an exponential distribution (Coad, 2010), while others have tracked the evolution of the FSD over time, for cohorts of ageing firms (Cirillo, 2010).

Other research has focused on differences in performance and behaviour across firms of different ages. For instance, it has been suggested that the age of a firm is positively related to its productivity levels (Haltiwanger et al., 1999). Brown and Medoff (2003)

investigate whether older firms pay higher wages. Bartelsman et al. (2005) compare the post-entry growth rates of North American and European firms. Bellone et al. (2008) examine how pressures related to market selection (i.e. firm survival) change as firms age. Others have investigated how probability of innovation and productivity growth change across the firm age distribution (Huergo and Jaumandreu, 2004a, b). Autio et al. (2000) observe that young international firms – born global firms – experience faster growth in international sales than their older counterparts. They interpret this finding as evidence that younger firms are better able to develop export capabilities because they are better able to learn how to succeed in uncertain environments.

2.3.5 Market Share

The key member of this class is relative market share, a variable which has been widely used in literature and is emphasized by BCG (1972) and PIMS (PIMS, 1977; Buzzell and Gale, 1987). Originally perceived as the source of market power (Shepherd, 1972) market share and more specifically relative market share as viewed for this study serves as a proxy for some firm-specific relative competitive advantage resulting from learning effects and other firm specific assets (Karnani, 1983).

2.3.6 Industry

A long tradition, most often associated with Bain (1956) is concerned with identifying properties of industries contributing to above-average profitability. A large set of variables (growth, concentration, capital intensity, advertising intensity, etc.) have performed differently in different studies, but the overall importance of these factors is beyond dispute (Ravenscraft, 1983). The effect of industry can be captured by the average industry profits. A recent study by Schmalensee (1985) shows that differences

between industries as measured by average industry return on assets account for almost all the explained variance in business unit performance.

2.4 Empirical Review

Opondo (2004) compared the earnings based measures of corporate performance against that obtained using free cash flow. The findings indicated that there is no significant difference between free cash flow measure of corporate performance and that of earnings especially when the amount of maintenance capital spending cannot be properly segregated. Further the research found that neither average profit after tax nor cash flow from operations (CFFO) approximates to the market return model for stocks quoted at the Nairobi Stock Exchange (NSE) at the time of this study.

Chung et al. (2005) argued that low-growth companies with high free cash flow (SFCF) will use income-increasing discretionary accruals (DAC) to offset the low or negative earnings that inevitably accompany investments with negative net present values (NPVs). The results, using 22,576 company year observations over the period 1984–1996, confirmed the study hypothesis. The study examined the role of high-quality auditors and institutional shareholders in mitigating the SFCF–DAC relation. The results showed that Big 6 auditors and institutional investors with substantial shareholdings moderate the SFCF–DAC relation, which suggests that external monitoring by these two outside stakeholders is effective in deterring managers' opportunistic earnings management.

Gregory (2005) examined the long-run abnormal performance of acquirers and the free cash flow hypothesis. Using a dataset of UK take-overs and proxies for free cash flow, the study found no support for the FCF hypothesis and show that this conclusion is robust to the model of long run returns employed. Contrary to the free cash flow hypothesis

there is evidence that acquirers with high free cash flow perform better than acquirers with low free cash flow. Although not consistent with the Jensen hypothesis, this evidence is compatible with the emerging UK evidence that shows cash flow-to-price measures are associated with market returns.

Chang et al (2007) examined the role of investment opportunities and free cash flow in explaining the source of the stock valuation effects of secured debt offerings. The study found a significantly positive relation between a firm's investment opportunities and its stock price response to announcements of secured debt issues. This evidence supports the investment opportunities hypothesis that secured debt financing is more valuable for issuing firms with high growth opportunities. In contrast, the study found a lack of support for the free cash flow hypothesis. These findings hold even after controlling for other potentially influential variables. The study provides a better understanding of the relative importance of various potential determinants in explaining the variation in the valuation impact of secured debt issues.

Wang (2010) investigated how FCF is associated with agency costs (AC), and how FCF and AC influence firm performance. The research purpose was therefore threefold. Specifically, the study explored the impact of FCF on AC, to re-examine the free cash flow hypothesis, and to test the agency theory based on the empirical data from Taiwan publicly-listed companies. The study used the variable of standard free cash flow to measure FCF and six proxy variables to measure AC. The study found that FCF has a significant impact on AC with two contrary effects. On one hand, FCF could incur AC due to perquisite consumption and shirking behavior; on the other hand, the generation of FCF, resulting from internal operating efficiency, could lead to better firm performance.

Excluding insignificant proxy variables of AC and including only total asset turnover and operating expense ratio as sufficient AC measures, the study finds evidence to support the agency theory, meaning AC has a significantly negative impact on firm performance and stock return. In contrast, the study finds a significantly positive relation between FCF and firm performance measures, indicating lack of evidence supporting the free cash flow hypothesis. The study provides a better understanding of the association among FCF, AC, and firm performance.

Mojtahedzadeh and Nahavandi (2011) investigated the relationship between agency problems that rise due to the free cash flow with long term profitability and income management; and also the effects of the structure of ownership on income management. The criterion used for measuring long-term profitability is Tobin's Q. Discretionary accruals have been estimated using the Adjusted Jones Model (1995) and finally the Panel analysis was used to analyze the data. Results from testing the hypotheses in 106 companies listed on Tehran Stock Exchange (TSE) throughout the years 2003-2007 reflect that agency problems of Free Cash Flows result in short term and eventually long term profitability. The results also indicate that managers in companies with Free Cash Flows apply discretionary accruals that tend to reduce profits. However, no evidence was observed pertaining to the application of income management in companies with agency problems due to Free Cash Flows. Moreover monitoring of investors would not decrease the application of arbitrary accruals and income management.

Based on the data from 2006-2010 of all listed real estate companies in China, Zhou et al. (2012) studied the relationship between the free cash flow and the financial performance of these firms in order to optimize the finance decision for management and investment.

Using principal component analysis and regression analysis, key financial performance indicators were calculated out of 21 financial performance indicators, and these key indicators of sample companies were correlated to their free cash flow. The results showed that the free cash flow of a company is negatively linear-correlated to its financial performance, i.e., too much free cash flow will lead the financial performance to decline. Therefore, the investors and the managers should comprehensively analyse the free cash flow, and avoid business inefficient because of too much free cash flow, which triggers the investment risk and loss.

Wambua (2013) examined the effects of agency costs on financial performance of companies listed at the Nairobi Securities exchange (NSE). In particular the study sought to investigate the effect of board independence, executive compensation, board size, free cash flows and chief executive duality on financial performance. Descriptive research design was adopted with target population being individuals working in the public listed companies in Kenya. The study used questionnaire as the primary tool to collect the required data while secondary data was sourced from published information about the current performance of the public listed companies and the implications resulting from the agency costs. Descriptive statistics such as means, standard deviation, frequency distribution and percentages were used to analyze the data. The study concluded that firm's chief executive duality, executive remuneration, board independence, board size and free cash flow are all significant at 95 percent confidence level. The study revealed that, free cash flow is the most important in determining financial performance compared to other variables. Based on the findings of this study, it can be revealed that, liquidity level of a firm is paramount in financial performance of any organization. Towards this

end, the study recommends that organizations should consider form a lean but standard size board of director that would ensure efficiency in cash flow. The directors' compensations would translate to the amount of money flowing out in form of allowances and monthly compensations.

Karpavicius and Yu (2014) analyzed the indirect role of institutional investors in monitoring firm managers and in the process of shareholder wealth maximization. The study found that institutional monitoring reduces the agency problem of free cash flow. Controlling for reverse causality, the study found that increased institutional ownership results in lower leverage and dividend payout that consequently lead to greater cash holdings and firm value. The results are consistent with the free cash flow hypothesis and provide an alternative explanation for why firms hold so much cash and why debt and dividends have decreased during the last thirty years.

Parsian and Koloukhi (2014) investigated the effects of various factors on dividend payout ratio of Tehran Stock Exchange (TSE) listed companies. The study used time series regression (panel data) in order to test the hypothesis of the study. The study provides empirical evidences by choosing a sample of 102 companies over the time span of 2005-2010. The result showed that independent variables of free cash flow and profitability current ratio had negative and significant impact on dividend payout ratio; whereas, the independent variable of leverage ratio has a positive and significant impact on dividend payout ratio. The other independent ratio such as size of the company, growth opportunities and systematic risk do not have any significant influence on dividend payout ratio.

Sindhu (2014) examined the relationship between free cash flow and dividend in presence of a moderator firm size. The results indicate proxies of free cash flow have positive and highly statistically significant relationship with free cash flow. Second model of moderator showed results insignificant with relationship between FCF and dividend. In simple regression of free cash flow and dividend, results were also insignificant which also indicate that there is no relationship in these variables. Panel data analysis was used to check the time and cross sectional effect, dummies has used. The results were highly statistically significant across the mostly companies and free cash flow but only two companies showing insignificant results. The results were insignificant across different periods. Our hypothesis was rejected under moderator but acceptable in fixed effect model.

2.5 Summary of Literature Review

From the empirical research, it can be observed that very little has been done on the subject of free cash flows in Kenya. The review shows that two studies have been done on this area. The studies however failed to explicitly link free cash flow with performance and the one that attempted to do so relied on primary data.

Further, the empirical review has shown that studies in these area are predominantly done in the developed world or Asia. These were therefore conducted in different environment and the results cannot be generalized to Kenya. There is therefore a gap in literature which the present study seeks to bridge.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The purpose of this chapter is to analyse the research methodology adopted in this study. The chapter describes the research design, the population, data collection process, and data analysis model and techniques adopted for the study.

3.2 Research Design

This was a descriptive research. A descriptive research is defined as a research that describes the characteristics of a population or phenomena (Zikmund, 2003). Such studies aim at answering who, what, when, and where questions (Coldwell and Herbst, 2004). Since this study sought to describe the effect of free cash flows on profitability, a descriptive design was the most appropriate one for the study.

3.3 Population

The population of this study was the 32 five star hotels in Kenya as rated by cleartrip.com, tripadvisor.com, and expedia.com. These are shown in appendix 1. Since this number is not large and the present study seeks to come up with a predictive model for how cash flow affects profitability, all the 32 hotels were sampled. Thus, this was a census study of all the five star hotels in Kenya.

3.4 Data Collection

This study used secondary data. These were collected from the financial statements of the hotels. Free cash flow was collected from the cash flow statement and measured as shown in Table 3.1. Net profit and total assets were also collected from the annual reports to model profitability measured as the return on assets (ROA) as shown in Table 3.1. The

data was sourced from the annual reports of the hotels. The data was collected on the variables of interest for three year period beginning 2011 to 2013. This period gave enough data that was used in the analysis.

3.5 Data Analysis

First, descriptive analysis was used to describe the data in terms of mean scores and standard deviations among other descriptive statistics. Secondly, to examine the level of free cash flow among the hotels, the mean values used to interpret the results. In order to examine the effect of free cash flow on profitability, a multiple regression analysis was carried out with the aid of SPSS version 22 analysis software.

3.5.1 Analytical Model

Based on other models that have been used to test the effect of free cash flow on profitability of firms, the present study adopts the following model:

$$PROF = \alpha + \beta_1FCF + \beta_2SIZE + \beta_3LEV + \beta_4FOR + \beta_6AGE + \varepsilon$$

This model stemmed directly from the literature review on the determinants of financial performance where these determinants are used in the model as a control variable. Under this model, the dependent variable is profitability (*PROF*) which is measured using the profitability index of return on assets (ROA). The independent variable is free cash flow (*FCF*). The control variables are size of the firm (*SIZE*) which is used to control for the size of the firm, leverage (*LEV*) used to control for capital structure decisions of a firm, foreign ownership (*FOR*) used to control ownership structure, and age of the firm (*AGE*) used to control for the differences in age of the firms, The model also controls for the effects year in the model. These variables are defined in Table 3.1.

Table 3.1: Operationalization of Variables

Variable	Definition
<i>PROF</i>	Profitability measured as return on assets (ROA)
<i>FCF</i>	Free cash flow measured as net operating income before depreciation expenses, less tax expenses, interest expenses, and dividends, scaled by net sales
<i>FOR</i>	An indicator variable equal to one if a firm is controlled by foreign owners and zero otherwise.
<i>SIZE</i>	The natural logarithm of the book value of total assets at the end of the year
<i>LEV</i>	Total liabilities divided by total assets at the end of the year
<i>AGE</i>	Age of the firm measured by difference between current year and the year of incorporation

Source: Researcher

3.5.2 Tests of Significance

Correlation analysis was used to examine the inter-relationships between the variables in the study. This showed if there are any serial correlations within the independent variables before a regression analysis is carried out. A multiple regression analysis was then performed using the model above. The F-test was used to show the strength of the model. The coefficients were interpreted to show how each of the independent variables affect performance as measured by ROA. The significance was tested at 5% level.

CHAPTER FOUR

RESULTS AND DISCUSSION OF FINDINGS

4.1 Introduction

This chapter presents the results of the study. The chapter first presents the descriptive analysis results followed by the correlation analysis results and then the regression analysis results. Finally, the chapter presents the summary and interpretation of findings.

4.2 Descriptive Analysis

Table 4.1 shows the summary descriptive analysis results. These are shown in terms of the number of observations, the mean, and the standard deviation.

Table 4.1: Summary Descriptive Statistics

	N	Mean	Std. Deviation
Return on Assets	17	.0400	.14663
Free Cash Flow	17	.0318	.32041
Size of the firm	17	20.1582	1.76222
Leverage	17	.5676	.41065
Age	17	32.0000	15.47983

Source: Research Findings

Table 4.1 shows that ROA was 4% with a standard deviation of 0.1466. Free cash flow had a mean of 0.0318 with a standard deviation of 0.320. Size of the firm had a mean of 20.158 with a standard deviation of 1.762. Leverage had a mean of 0.5676 with a standard deviation of 0.41. Age of the firms averaged 32 years with a standard deviation of 15 years.

4.3 Correlation Analysis

Table 4.2 shows the correlation analysis results for all the variables used in the model.

The reason for this analysis was to test for the presence of multicollinearity in the data.

Table 4.2: Correlation Matrix

	ROA	FCF	FOR	SIZE	LEV
Return on Assets	1.000				
Free Cash Flow	.732**	1.000			
Foreign ownership	.018	.225	1.000		
Size of the firm	-.267	-.366	-.863**	1.000	
Leverage	.143	-.307	-.268	.116	1.000
Age	.449	.534*	-.103	-.207	-.388

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

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

Source: Research Findings

Table 4.2 shows that except for size and foreign ownership, all the other independent variables were lowly correlated with each other. This suggests that size and foreign ownership variables needed to be transformed before they could be included in a regression analysis. Both were therefore transformed using differences and were found to be fine at their second differences. The results of the regression analysis are shown in the next section.

4.4 Regression Analysis

Table 4.3 presents the results of the OLS regression analysis in terms of the model summary. This shows the results of Pearson correlation, R , R^2 , and adjusted R^2 together with the standard error of estimate.

Table 4.3: Regression Model Summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.904	.817	.715	.08363

Source: Research Findings

The results in Table 4.3 show that the variables had a large influence on profitability, $R = 0.904$. The model accounted for 81.7% of the variance in profitability, $R^2 = 0.817$. Thus, the model accounted for most of the variance in profitability of firms.

Table 4.4 presents the results of analysis of variance. More specifically, the table shows the results of F -statistic and the significance of F -statistic.

Table 4.4: Analysis of Variance (ANOVA)

	Sum of Squares	df	Mean Square	F	Sig.
Regression	.281	5	.056	8.034	.004
Residual	.063	9	.007		
Total	.344	14			

Source: Research Findings

The results in Table 4.4 show that the F -statistic was 8.034 and was significant at 5% level, $p = 0.004$. This means that the model used was fit to predict the relationship between free cash flows and profitability.

Table 4.5 presents the results of the OLS regression coefficients for the independent variables in the study. The t -values and p -values are also shown.

Table 4.5: Regression Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-.106	.073		-1.458	.179
Free Cash Flow	.371	.079	.791	4.714	.001
Size of the firm	-.049	.026	-.726	-1.905	.089
Foreign Ownership	-.191	.111	-.650	-1.715	.120
Leverage	.140	.057	.388	2.463	.036
Age	.002	.002	.201	1.161	.276

Source: Research Findings

The results in Table 4.5 show that free cash flow has positive and significant effect on profitability, $\beta = 0.371$, $p = 0.001$. The study found that size of the firm had a negative but insignificant effect on profitability, $\beta = -0.049$, $p = 0.089$. The results showed that foreign ownership had a negative but insignificant effect on profitability, $\beta = -0.191$, $p = 0.120$. The results show that leverage had a positive and significant effect on profitability, $\beta = 0.140$, $p = 0.036$. The results also show that age of the firm had a positive but insignificant effect on profitability, $\beta = 0.002$, $p = 0.276$.

4.5 Interpretation of the Findings

The study examined the effect of free cash flow on the profitability of hotels in Kenya. Free cash flow was measured as net operating income before depreciation expenses, less tax expenses, interest expenses, and dividends, scaled by net sales. The results showed that free cash flow has positive and significant effect on profitability, $\beta = 0.371$, $p = 0.001$. This shows that a unit increase in free cash flow leads to 0.371 increase in profitability of hotels. Thus, higher levels of free cash flows also lead to higher profitability in hotels in Kenya.

The study examined the effect of size of the firm on the profitability of hotels in Kenya. Size of the firm was measured as the natural logarithm of total assets. The study found that size of the firm had a negative but insignificant effect on profitability, $\beta = -0.049$, $p = 0.089$. This means that the profitability of hotels in Kenya is not influenced by the size of hotels. Thus, no hotel will gain any significant value by its sheer size.

The study examined the effect of foreign ownership on the profitability of hotels in Kenya. Foreign ownership was measured as an indicator variable equal to one if a firm is controlled by foreign owners and zero otherwise. The results showed that foreign ownership had a negative but insignificant effect on profitability, $\beta = -0.191$, $p = 0.120$. This means that the profitability of hotels is not influenced by the foreign ownership.

The study examined the effect of leverage on the profitability of hotels in Kenya. Leverage was measured as the ratio of total liabilities and total assets at the end of the year. The results show that leverage had a positive and significant effect on profitability, $\beta = 0.140$, $p = 0.036$. This means that a unit increase in leverage leads to a 0.14 unit increase in profitability. Thus, higher leverages lead to higher profitability of hotels in Kenya.

The study examined the effect of age on the profitability of hotels in Kenya. Age was measured as the difference between the present year and the year the hotel was established. The results show that age of the firm had a positive but insignificant effect on profitability, $\beta = 0.002$, $p = 0.276$. This means that the profitability of hotels in Kenya is not influenced by their ages.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents the summary of findings, conclusion of the study, limitations of the study, recommendations for policy, and suggestions for further research.

5.2 Summary

The study sought to examine the effect of free cash flow on profitability of hotels in Kenya. Secondary data was collected from five star hotels in Kenya for a three year period. The data was organized and entered into SPSS version 22 for analysis using descriptive, correlation, and regression analyses.

The descriptive results showed that the mean ROA was 4% with a standard deviation of 0.1466, free cash flow had a mean of 0.0318 with a standard deviation of 0.320, size of the firm had a mean of 20.158 with a standard deviation of 1.762, leverage had a mean of 0.5676 with a standard deviation of 0.41, and age of the firms averaged 32 years with a standard deviation of 15 years. The correlation results showed that except for size and foreign ownership, all the other independent variables were lowly correlated with each other suggesting that size and foreign ownership variables needed to be transformed before they could be included in a regression analysis. Both were therefore transformed using differences and were found to be fine at their second differences.

The regression results showed that the variables had a large influence on profitability, $R = 0.904$. The model accounted for 81.7% of the variance in profitability, $R^2 = 0.817$. The F-statistic was 8.034 and was significant at 5% level, meaning that the model used was fit to predict the relationship between free cash flows and profitability. The study found that

free cash flow had positive and significant effect on profitability, $\beta = 0.371$, $p = 0.001$. The study found that size of the firm had a negative but insignificant effect on profitability, $\beta = -0.049$, $p = 0.089$. The results showed that foreign ownership had a negative but insignificant effect on profitability, $\beta = -0.191$, $p = 0.120$. The results showed that leverage had a positive and significant effect on profitability, $\beta = 0.140$, $p = 0.036$. The results also showed that age of the firm had a positive but insignificant effect on profitability, $\beta = 0.002$, $p = 0.276$.

5.3 Conclusion

The study examined the effect of free cash flow on the profitability of hotels in Kenya. The results showed that free cash flow has positive and significant effect on profitability, $\beta = 0.371$, $p = 0.001$. The study concludes that free cash flows influence profitability of hotels in Kenya.

The study examined the effect of size of the firm on the profitability of hotels in Kenya. The study found that size of the firm had a negative but insignificant effect on profitability, $\beta = -0.049$, $p = 0.089$. The study concludes that size of hotels do not influence their profitability.

The study examined the effect of foreign ownership on the profitability of hotels in Kenya. The results showed that foreign ownership had a negative but insignificant effect on profitability, $\beta = -0.191$, $p = 0.120$. The study concludes that foreign ownership does not influence the profitability of hotels.

The study examined the effect of leverage on the profitability of hotels in Kenya. The results show that leverage had a positive and significant effect on profitability, $\beta = 0.140$, $p = 0.036$. The study concludes that leverage influences profitability of hotels in Kenya.

The study examined the effect of age on the profitability of hotels in Kenya. The results show that age of the firm had a positive but insignificant effect on profitability, $\beta = 0.002$, $p = 0.276$. The study concludes that age of the hotels do not influence the profitability of hotels in Kenya.

5.4 Limitations of the Study

The study focused on five star hotels in Kenya. This therefore limits the applicability of the findings to other hotels in Kenya. A focus on five star hotels means that the results are limited to the five star hotels and cannot be applied to other firms or hotels in Kenya.

This study used secondary data. As such, it was not possible to evaluate some issues deeper such as reasons why no effects were felt. This can be gathered better qualitatively. Thus, the type of data used in the study limited to scope of data analysis and reporting.

The study further tested a profitability model with free cash flow as the predictor and a few other variables as control variables. Many other variables were not therefore the focus of the study and this may limit the application of the model and the results on the hotels in Kenya.

The study used a three year period to gather secondary data. While this period was sufficient, it may not be long enough to provide reliable data. Thus, this limits the applicability of the findings.

5.5 Recommendations for Policy

The study recommends that hotels in Kenya should use free cash flow as a way of improving their profitability. Maintaining higher free cash flows is preferred as a means to ensure better performance of hotels in terms of their profitability. It is therefore be important that hotels focus on having more revenues and reducing on the expenses in order to have higher operating incomes. This will translate to higher profits.

The study also recommends that there is need for the Government through the agencies and the Ministry responsible for the tourism sector to boost confidence in the tourism industry in order to attract more tourists to the Kenyan hotels. More tourists will lead to more revenues and therefore more free cash flows which can aid in improving the performance of hotels.

5.6 Suggestions for Further Research

The study suggests that this study be scaled up to include more hotels in Kenya and not just five star hotels. Such a study would help improve the reliability of the findings as well as applicability to other hotels.

Further studies need to be done on this subject by replicating the study and using both primary and secondary data in order to enhance the quality of data collected and enable the results to be more in-depth. A mixed study methodology of this study is therefore proposed.

More studies should replicate this study and include more firm specific variables to control for the effect of free cash flows on the performance of hotels. Further, a longer data period can be selected, say 10 years, in order to provide more robust and accurate results for the effect of free cash flows on the profitability of hotels in Kenya.

Further studies should also employ panel data analysis techniques rather than the current use of OLS regression techniques to examine how free cash flow affects financial performance of hotels in Kenya. Panel techniques would provide more reliable results.

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APPENDICES

Appendix I:List of Five-Star Hotels in KENYA as at 30th June 2014

1. The Boma hotel
2. Eka hotel
3. Fairmont The Norfolk
4. Travellers Beach Hotel
5. Hilton Hotel
6. Hotel La Mada
7. Intercontinental Hotel
8. Laico Regency hotel
9. Nairobi Serena Hotel
10. Panari Hotel
11. The Sarova Stanley
12. Tribe Hotel
13. Windsor Golf Hotel & Country Club
14. Sankara Hotel
15. Villa Rosa Kempinski
16. Bamburi Beach Hotel
17. Hemingsways Hotel
18. Nairobi Safari Club
19. Crown Plaza Hotel
20. Leisure Hotel
21. Safari Park Hotel
22. Diani Reef Hotel
23. Ole Sereni
24. Southern Sun Mayfair
25. Sarova Panafric
26. The Heron Portico
27. Fairview country Hotel
28. Progressive Park Hotel
29. Palacina Residence and Suites

30. Amani Tiwi Hotel
31. PrideInn Hotel Raphta Suites
32. Mt Kenya Safari Club

Source: Cleartrip.com (2014), Expedia.com (2014), Tripadvisor.com (2014)

Appendix II: Research Data

Hotel	ROA	FCF	FOR	Size	Leverage	Age
A	0.05	0.23	1.00	16.39	0.39	44
B	0.04	0.22	1.00	16.42	0.39	44
C	0.00	0.03	0.00	20.97	0.33	51
D	0.08	0.14	0.00	21.07	0.31	51
E	0.05	0.11	0.00	21.07	0.26	51
F	0.03	0.08	0.00	21.46	0.15	38
G	0.07	0.24	0.00	21.53	0.13	38
H	0.02	0.07	0.00	21.66	0.23	38
I	0.46	0.24	0.00	19.90	1.43	36
J	0.11	0.09	0.00	20.15	1.08	36
K	0.08	0.07	0.00	20.19	0.99	36
L	0.00	0.02	0.00	21.40	0.48	7
M	-0.31	-1.16	0.00	21.76	1.00	7
N	-0.13	-0.09	0.00	22.17	1.25	7
O	0.02	0.03	1.00	18.87	0.36	20
P	0.09	0.17	1.00	18.81	0.35	20
Q	0.02	0.05	1.00	18.87	0.52	20



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DATE 27/8/2014

TO WHOM IT MAY CONCERN

The bearer of this letter Paul Njoro Muthusi

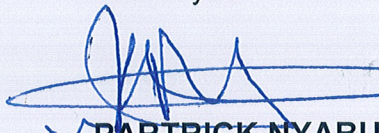
Registration No: 26161 61/61004/2013

Is a Master of Business Administration (MBA) student of the University of Nairobi.

He/she is required to submit as part of his/her coursework assessment a research project report on a management problem. We would like the students to do their projects on real problems affecting firms in Kenya. We would, therefore, appreciate if you assist him/her by allowing him/her to collect data in your organization for the research.

The results of the report will be used solely for academic purposes and a copy of the same will be availed to the interviewed organizations on request.

Thank you.


PARTRICK NYABUTO
MBA ADMINISTRATOR

