

**THE EFFECT OF CREDIT MANAGEMENT ON THE
LIQUIDITY OF FIVE STAR HOTELS IN KENYA**

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DECLARATION

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

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DEDICATION

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LIST OF ABBREVIATIONS

GDP	Gross Domestic Product
KNBS	Kenya National Bureau of Statistics
SME	Small and Medium Enterprises
SPSS	Statistical Package for Social Sciences
UK	United Kingdom

ABSTRACT

Credit deals constitute a significant portion of current resources in five star lodgings in Kenya. Administration along these lines needs to detail techniques of adequately dealing with this essential yet delicate resource. The reason for this study was to examine the impact of credit administration on the liquidity of five star lodgings in Kenya. The concentrate encourage went for looking at the qualities and shortcomings of the different techniques utilized by the lodgings and counsel on the best systems and practices for successful and effective credit administration in the inn segment. The study was spellbinding in nature and focused on a populace of 33 five star inns in Kenya. Information was gathered utilizing semi organized surveys controlled to the key credit control office staff in the lodgings to gather both subjective and quantitative data. Information was broke down utilizing distinct insights where measures of focal propensity and measures of scattering were processed to give comes about. The outcomes from the study uncovered a few variables that influenced acknowledge administration, for example, absence of a formal credit strategy, deferred or non-survey of the credit approach manual, irregularity using a loan chance examination methods and heedless variety of credit terms. The study uncovered whimsical variance in the normal gathering time frame and critical measures of terrible obligations discounted. The study suggests that five star lodgings in Kenya ought to make a credit augmentation arrangement which ought to be stuck to dependably and intermittently check on to see when it ought to be changed to coordinate with monetary conditions. Five star inns ought to make a credit accumulation arrangement setting out the systems and practices to be utilized by the lodging to gather past due or reprobate records receivable. Administration ought to affirm the development of a well-run independent credit office that will permit the burden of an extensive arrangement of working strategies and methodology. Credit observing ought to be upgraded to assess the nature of credit deals to diminish over-interest in records receivable. The lodgings ought to mechanize their invoicing framework to eliminate the time taken to present solicitations to clients.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Credit administration is a champion among the most vital activities in any association and can't be disregarded by any money related undertaking possessed with credit autonomous of its business nature. Credit organization suggests the path toward ensuring that customers will pay for the things passed on or the organizations rendered. Myers and Brealey (2003) depict recognize organization as methods and systems grasped by a firm to ensure that they keep up a perfect level of credit and its capable administration. Sound credit administration is an essential for any business venture's money related solidness and proceeding with productivity, while decaying credit quality is the most continuous reason for poor monetary execution and condition. Credit administration is an essential part of corporate fund since it straightforwardly influences the liquidity and benefit of an organization (Pandey, 2010). The procedure includes adjusting recoverability and liquidity and in this way, fumble can be unfortunate, prompting to liquidity issues.

Credit administration is one of the numerous components that can be utilized by a firm to impact interest for its items. As indicated by Horne and Wachowicz (1998), firms can simply benefit by credit if the productivity created from expanded deals surpasses the additional expenses of receivables. Offering using a loan has swung up to be a temptation for clients in holding the business association with the organization and in time expanding the organization's benefit in the end advancing the organization's benefit (Barad, 2010). The motivation behind offering credit is to amplify benefit (Damilola, 2005).

The real sympathy toward the majority of today's associations' administration is to stay pertinent in the market by endeavoring to adapt to the focused market. In the meantime, chiefs are confronted with the difficulties of accomplishing ideal benefits, enhancing the organization's execution and augmenting the shareholders riches which must be accomplished through increment in income acquired from deals and cost cutting on costs. These difficulties have driven firms to utilize all types of strategies and procedures to charm new clients to their items, or to keep up their current piece of the overall industry. One such methodology is offering their items using a credit card. Ramesh (1987) recommends that progressive credit administration is moored on the standards of credit expansion strategy; credit accumulation arrangement; credit control and observing and estimating organization, arrange preparing and invoicing.

Inquire about which have been led both locally and universally have been in the relationship between working capital and cash related execution of firms. Others were on the relationship between working capital and profit. Considers utilizing a credit card administration on Kenyan firms particularly in the administration division and specifically, the lodging business that is center to the Kenyan economy, are not unequivocal. It is thusly, critical to think about the credit administration in the inn business in these creating economies given their questionable business environment.

1.1.1 Credit Management

Nelson (2002) sees recognize organization as essentially the strategies by which a component manages its credit deals. Credit administration work radiate from setting up suitable strategies for amplifying the estimation of the firm (Hrshikes 2002). It involves dealing with the association's stock and receivables keeping in mind the end goal to accomplish a harmony amongst hazard and returns and consequently

contribute emphatically to the production of a firm esteem. Unreasonable interest in stock and receivables decreases the benefit, though too little venture builds the danger of not having the capacity to meet duties as and when they get to be expected (Harris, 2005).

There are four strategies that influence credit administration. These are credit expansion approach; credit gathering strategy; credit control and observing and estimating organization, arrange preparing and invoicing (Ramesh, 1987). Scheufler (2002) proposes that a credit system makes a run of the mill game plan of goals for the affiliation and sees the recognize and assembling division as a basic supporter to the affiliation's philosophies. An OK credit arrangement ought to pull in and hold great clients without negatively affecting the income. A credit gathering arrangement alludes to the strategies utilized by an organization to gather past due or reprobate records receivables (Megginson and Scott 2008).

The productivity of records receivable in definition and execution of credit and accumulation approaches to a great extent relies on the area of the credit division in the authoritative structure of the firm. Valuing precision is potentially the most critical determinant of administration achievement (Salek, 2005). Inaccurate solicitations coming about because of value inconsistencies will make client decline to pay, every now and again requesting redressed solicitations. The targets of credit administration can be communicated as ensured guarding of the associations' advantages in record holders and progressing operational cash streams. Techniques and procedure must be associated for yielding credit to customers, gathering portion and decreasing the danger of non-installments.

1.1.2 Liquidity

Liquidity is the capacity to settle obligations as they fall due. Therefore credit administration is basic for achievement or disappointment of a firm. There ought to be a match amongst deals and exchange receivables development. At the point when a firm makes deals, income is perceived and a borrower's record is made. To lessen accounts receivables, there should be an inflow of money to the organization consequently change of liquidity. Liquidity expect an immense part in the successful working of a business firm. A firm should ensure that it doesn't encounter the evil impacts of nonappearance of or excess liquidity to meet its temporary driving forces. An examination of liquidity is of genuine importance to both the internal and the outside analysts in light of its comfortable relationship with regular operations of a business (Raheman and Nasr 2007). Liquidity essential of a firm depends on upon the difficult to miss nature of the firm and there is no specific keep running on choosing the perfect level of liquidity that a firm can keep up with a specific end goal to guarantee smooth running of its business.

Opportune ID of potential acknowledge default is essential as high default rates prompt to diminished money streams, bring down liquidity levels and monetary trouble. Conversely, bring down credit presentation implies an ideal debtors' level with diminished odds of terrible obligations and in this way money related wellbeing. As indicated by Scheufler (2002), in today's business environment chance organization and change of cash streams are outstandingly trying. Sollenberg and Anderson (1995) pronounce that, execution is measured by how successful the wander is being utilized of benefits as a part of achieving its goals. Hitt, et al (1996) assumes that various associations' low execution is the outcome of incapably

performing resources. Inappropriate use of credit administration strategies will prompt to liquidity issues, as so much finances held in records receivables will prompt to aggregate fall a firm since it can no longer meet its money related commitments, which in outrageous cases may prompt to indebtedness. Eventually, the firm might be twisted up.

1.1.3 Credit Management and Liquidity

The higher the measure of records receivables and their age, the higher the back expenses realized to care for them. On the off chance that these receivables are not collectible on time and critical money needs emerge, a firm may come about to obtaining and the open door cost is the premium cost paid. In the event that deals are regular, the occasional way of offers will damage the congruity of offers in the middle of the year. So the offers of such a business in a specific season would be huge requiring an extensive size of records receivables (Barad 2010). A firm may offer its deals either on money premise or on conceded installment premise. The bigger the volume of offers made using a loan the higher the volume of receivables will be and the other way around. Foundations of credit office and its capacity of working effectiveness in documenting, record continuing, examining the credit value of clients, update or follow-up later are vital viewpoints in assurance of the extent of receivables (Barad, 2010).

A firm honing tolerant or moderately liberal credit strategy will have a similarly bigger size of receivables and consequently a higher normal accumulation period than a firm with a more stringent or prohibitive credit arrangement. This is a result of two reasons; Firstly, a permissive credit strategy prompts to more prominent defaults in installments bringing about greater volume of records receivable and besides, a

merciful credit approach has a tendency to energize even monetarily stable clients to postpone installments again bringing about the expansion in the extent of receivables (Periasamy, 2009). Firms may offer money rebates to borrowers to urge them to pay their duty early; this aides in diminishment of interest in records receivable (Periasamy, 2009). Also, the impact of cash discounts offered when accepted by the customers, is immediately felt by the quickening of cash inflows and reduction in the size of accounts receivables.

A firm that offers competitive discount rates has a comparatively smaller size in receivables (Hrshikes, 2002). Extending credit period increases the possibility of increasing sales associated with increases in both its collection costs and bad debts loss may occur. Thus a firm with long or extended credit periods will tend to have a large size of receivables; leading to higher average collection periods and therefore low liquidity (Periasamy, 2009). A firm with a weak or lax collection policy will tend to have high levels of investment in accounts receivables.

1.1.4 Five Star Hotels in Kenya

The inn business in Kenya assumes a critical part as far as making of work and commitment to the national financial development. 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. According to cleartrip.com, tripadvisor.com and expedia.com, there are 33 five star hotels in Kenya.

As indicated by the Kenya National Bureau of Statistics (2015) data, the industry contributes 11% of the gross domestic product (GDP) and employs 18% of Kenya's

workforce. This industry is regulated by hotels and restaurant authority, ministry of East Africa Affairs, Commerce and Tourism with the help of other stakeholders in the tourism sector. Examples of these are airlines, travel agents and taxi operators. The industry has been hit hard by terrorism which resulted to the issuance of advisories which impacted negatively in the earnings and employment in the industries contributions towards GDP. However, there is still hope that Kenyan vision 2030's strategy known as diversification of Kenya source advertises still figure out how to acquire 3 million guests into the nation henceforth fortifying the lodging business' income. However chiefs of lodgings, little or huge are relied upon to work with the quantity of guests or customers who went to their inns so as to produce riches for the shareholders.

1.2 Research Problem

Sound credit administration is an essential for any business endeavor's budgetary soundness and proceeding with benefit, while decaying credit quality is the most incessant reason for poor money related execution and condition. As per Gitman (1997), the likelihood of terrible obligations increments as credit benchmarks are casual. Firms should in this way guarantee the administration of receivables is productive and compelling. Delays on gathering money from account holders as they fall due have genuine monetary issues, expanded awful obligations and influences client relations. With lodging industry in Kenya being occasional in nature there ought to be adequate arranging and proficient administration of the working money to guarantee that overabundance stores produced amid the pinnacle season are ideally contributed as this will keep the conclusion of the business, improve gainfulness which will in the meantime guarantee that estimation of the firm is expanded. Receivables are significant interests in affiliation's advantage, which are, like capital

arranging wanders, measured similarly as their net present qualities (Emery et al., 2004).

Raheman and Nasr (2007) finished a study on the effects of different elements of working capital organization and found that wise organization of working capital is crucial in enhancing advantage of bleeding edge firms, Deloof, M. (2003) did a study on whether working capital administration influences the gainfulness of firms, Ngugi, S. (2014) did an examination on the determinants of records receivables organization in the hotel business in Kenya. The study found that these variables; development, affiliation measure, advancing channels, organization structures and methodologies affect obligation claims organization, in this way the need strong organization structures and courses of action set up. In a study by Sharma and Kumar (2011) on the relationship among profit and credit period assessed that there exists a positive relationship among advantage and number of days of records receivables. This concentrate fundamentally varies from those led by Deloof, M. (2003) and Raheman and Nasr (2007).

Credit administration is essential to the liquidity of an association. Inns in Africa and more so in Kenya, have confined access to capital markets. There are five hotel groups recorded in the Johannesburg Stock Exchange, four motel clusters recorded in Nigeria Stock Exchange and one hotel amass recorded in Nairobi Stock Exchange (NSE, 2013). This exhibits the repression of financing from the capital markets and in this manner inns have a tendency to depend all the more intensely on proprietor financing, exchange credit and fleeting bank advances to back their operations in this manner demonstrating the significance of good credit administration.

The examination which has been directed has been on the relationship between working capital and productivity of firms. Inquire about on the relationship between the four credit administration approaches and liquidity, with normal gathering period as the interceding variable, has not been extensive. Furthermore, there appears to do not have an agreement on the impacts of credit period on liquidity and benefit of firms, subsequently this exploration addresses that crevice. The study tries to answer the examination address: What is the effect of credit organization on the liquidity of five star hotels in Kenya?

1.3 Research Objective

To investigate the effect of credit organization on the liquidity of five star lodgings in Kenya.

1.4 Value of the Study

The results of this study will be productive to masters and specialists, as it would outline an explanation behind further research. Scientists would use this study as an explanation behind talks on the effect of credit organization on the liquidity of five star lodgings in Kenya. It will outfit the specialists with observational studies that they will use in their studies.

The discoveries of this study will help potential speculators to comprehend the lodging business and how to oversee accounts receivables in a manner that shareholders riches increments. The study is likewise expected that it will help strategy creators in their push to patch up the area and it should be of extraordinary importance to the associations under study and in addition other monetary organizations. This study will moreover add to the collection of learning in the store prepare by associating openings in credit organization investigate with everything

taken into account. The monetary and non-money related business firms, whether assembling or administration arranged might likewise profit by the exploration discoveries. This is on the grounds that the consequence of the study might empower the clients particularly the inns to evaluate their credit arrangements and to survey their operations basically for more result situated approach in managing their credit offices.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section reviews the literature relating to credit management that forms the basis of the study. It has been organized into five sections namely: theoretical review, determinants of liquidity, empirical review, conceptual structure and outline of writing survey.

2.2 Theoretical Review

There are a few hypotheses that relate to credit management especially in firms operating in highly volatile business environments like the Kenyan hotel industry. These include the operating theory, transactions cost theory, price discrimination theory, financial market theory and agency theory as explained below.

2.2.1 Operating Theory

This hypothesis expects that organizations with higher stock stockpiling expenses will dependably need to give credit so they exchange these expenses onto the purchaser by giving the item using a loan. The firm subsequently will have the upside of partitioning the stock cost into an operational stockpiling to be acquired by the purchaser furthermore as a money related open door cost prompted by the installment delay offered by the merchant. As indicated by Emery (1998) firms with occasional deals have a vital preferred standpoint in amplifying exchange credit and their favorable position can increment when a purchaser has storage room for the merchandise conveyed and firms with semi-completed items are more averse to outsource their records receivables since they have to screen their control on the semi-completed items.

Without trade credit, firms would need to pay for their purchases on transport. This makes it possible to decrease helplessness about the level of cash that ought to be held to settle portions (Ferris, 1981) and gives more versatility ahead of the pack of operations, since the capacity to respond to changes is given elsewhere (Emery, 1984, 1987). This was reinforced by Long, Malitz and Ravid (1993), who found that associations with variable demand permitted a more drawn out trade recognize period than firms for stable demand. The nearness of offers improvement in a firm is moreover a variable that positively impacts the enthusiasm for back with everything taken into account, and for trade credit particularly.

2.2.2 Transaction Costs Theory

The hypothesis concentrates on the exchanges did by a firm. It is considered as the focal column for progression of exchange credit. What's more, it contends that credit ought to be progressed to clients and they ought to be permitted to pay at a later date consequently lessening the exchange expenses and foundation of moderate installment design. Three wellsprings of cost great position were described by Petersen and Rajan (1997) as takes after: information getting, controlling the buyer and protecting regard from existing assets. The principle wellspring of cost favored point of view can be cleared up by the way that sellers can get information about buyers speedier and at lower cost since it is procured in the normal course of business. That is, the repeat and the measure of the buyer's solicitations give suppliers a thought about the client's condition; the buyer's expulsion of discounts for early portion may serve to alert the supplier of an incapacitating in the credit-estimation of the buyer, and traders usually visit customers more routinely than money related establishments do.

As per Ferris (1981), firms that keep up low level of money parities have a tendency to keep up solid liquidity position and shirking of misappropriation of assets which is accomplished through credit deals. Installment delays additionally offers the purchaser bigger open doors in checking the products, this is likewise bolstered by Lee and Stowe (1993) and Emery and Nayar (1994) that exchange credit is an assurance for the nature of the merchandise conveyed.

2.2.3 Price Discrimination Theory

The speculation focuses on the trades did by a firm. It is considered as the central section for movement of trade credit. Besides, battles that credit should be advanced to customers and they should be allowed to pay at a later date thus reducing the trade costs and establishment of direct portion outline. Three wellsprings of cost extraordinary position were depicted by Petersen and Rajan (1997) as takes after: data procuring, controlling the purchaser and protecting respect from existing resources. The guideline wellspring of cost favored perspective can be lit up by the way that dealers can get data about purchasers speedier and at lower cost since it is picked up in the ordinary course of business. That is, the rehash and the measure of the purchaser's requesting give providers a pondered the customer's circumstance; the purchaser's dismissal of discounts for early part may serve to alarm the provider of a debilitating in the credit-estimation of the purchaser, and merchants expectedly visit clients more reliably than cash related foundations do.

According to Ferris (1981), firms that keep up low level of cash equalities tend to keep up strong liquidity position and avoiding of misappropriation of advantages which is expert through credit bargains. Portion delays moreover offers the buyer greater open entryways in checking the items, this is in like manner reinforced by Lee

and Stowe (1993) and Emery and Nayar (1994) that trade credit is a confirmation for the way of the stock passed on.

2.2.4 Financial Market Theory

Money related market hypothesis acknowledges the nearness of market flaws and data asymmetries. Because of this nearness in the market, costs of items and administrations are profoundly charged therefore huge firms which have the budgetary muscles can direct and give accounts to little organizations and get to both the capital and currency markets. Rajan and Petersen (1997) found that the merchant is an imperative player in the inventory network administration, and has earlier data hence has capacity to impact clients over the budgetary foundations.

This hypothesis was produced by Schwartz (1974) and Chant Walker (1988) who contended that organizations with prepared access to extra financing will amplify exchange credit for firms confronting higher financing costs or limited financing choices, consequently the built up offering firms can help back the development of their littler and more powerless clients. Binks et al (1992) call attention to that apparent data asymmetry postures two issues, moral danger (observing entrepreneurial conduct) and antagonistic choice (settling on mistakes in loaning choices). Monetary administrators will think that its hard to conquer these issues since it is not sparing to give assets to evaluation and checking where loaning is for moderately little sums. This is on the grounds that information expected to screen credit applications and to screen borrowers are not unreservedly accessible.

2.2.5 Agency Theory

The office hypothesis at first set forward by Berle and Means (1932) additionally adds to credit administration. As indicated by the hypothesis, organization clashes emerge from the conceivable disparity of interests between shareholders (principals) and directors (operators) of firms. The essential obligation of supervisors is to deal with the firm in a manner that it produces comes back to shareholders in this manner expanding the benefit figures and income. Due to a non-balanced and entrepreneurial conduct of specialists (Jensen, 1994), the interests and choices of supervisors are not generally adjusted to the shareholders' advantages, bringing about office expenses or office issues.

Fama and Jensen (1983) proposed that the organization issues could be minimized through the partition of the approval and observing of choices from the start and execution of choices. These choices can be reflected in a moderate credit administration, diminishing the hazard required in the business operation, for example, to keep abnormal state of inventories past the procedure cycle needs, to offer credit terms over the item turnover, to acknowledge low installment terms not adjusted to the market rehearses, and so on. All things considered, these venture choices would be interpreted in abundance of records receivables.

2.3 Determinants of Liquidity

There are four variables that influence credit administration and henceforth liquidity and that ought to be the fundamental center in credit administration. These are the credit expansion approach, credit accumulation strategy, credit control and observing and estimating organization, arrange preparing and invoicing (Ramesh,1987). So as to include benefit, soundness and adequacy to credit administration, a venture must

make it an indicate take after certain entrenched and bluntly perceived standards of credit.

The first of these standards identify with the portion of power relating to credit augmentation and gathering to a particular administration. The second standard puts weight on the credit augmentation approach. The third guideline stresses a careful credit examination and investigation before a choice on conceding a credit is taken. Furthermore, the last rule touches upon the foundation of sound gathering approaches and techniques (Mishra, 2012). In the light of these citations the standards of credit administration are examined beneath.

2.3.1 Credit Extension Policy

A credit approach is the plan utilized by a business as a part of settling on its choice to stretch out credit to a client. The essential objective of a credit arrangement is to abstain from stretching out credit to clients who can't pay their records. The credit approach for bigger organizations can be very formal while that of a private company has a tendency to be entirely casual with various independent venture proprietors depending on their impulses (Miller, 2002).

A decent credit arrangement ought to pull in and hold great clients without negatively affecting the income. Mill operator (2002) advocates no less than four motivations to have a composed credit arrangement and that they add to the efficiency of the whole association. These reasons are reality of this endeavor, requirement for consistency among divisions, requirement for steady treatment towards clients lastly it gives acknowledgment to the acknowledge offices as a different element.

A company's credit arrangement is the essential determinant of records receivable and it is under the managerial control of the central fund officer. Additionally credit strategy is a key determinant of offers, so deals and showcasing officials are worried by this approach (Houston, 2009). Assurance of credit approach includes an exchange off between the benefit and extra deals that emerge because of credit being stretched out from one viewpoint and the cost of conveying those indebted individuals and misfortunes endured by virtue of awful obligations then again. A credit augmentation strategy has the accompanying vital factors.

2.3.1.1 Credit Standard

It alludes to the required monetary quality of worthy credit client (Brigham, Houston, Eugene, 2009). Additionally, credit standard alludes to the base nature of credit value of a credit candidate that is worthy to the firm (Periasamy, 2009). An association's credit standard can either be liberal or prohibitive. In a liberal or indulgent credit standard the firm unwinds its base conditions to be met by the credit candidate. A firm with a liberal credit standard may likely portray the following indicators. The firm stimulates sales and attracts more customers; increased sales may be accompanied by added costs such as clerical expenses involved in investigating additional accounts; It involves a larger working capital investment in receivables; There is a higher rate of default because of the powerlessness of the client to pay their records and augmentation of credit office to less credit commendable clients; The normal gathering time frame might be long and ultimately expanded benefit because of expanded deals (Periasamy, 2009).

In a restrictive or strict credit standard, the firm raises the minimum required condition for the credit applicant. A firm adopting a stricter credit standard is likely to

be faced by the following effects: Decrease in sales as few customers are attracted; Reduced incidences of bad debt loss; decrease in the amount of working capital requirement to finance receivables; credit standards of the firm are normally high; Low costs of maintaining accounts receivable; Extension of credit facilities to more credit worthy customers only; Decrease in profit due to decreased sales (Periasamy, 2009). From these dimensions, it is observed that if credits standards are relaxed, the volume of sales are expected to increase. On the other hand, if credit standards are tightened, the expected volume of sales will decline. The effect of liberalizing the credit standard on profit may be estimated on the basis of matching between the profits or incremental earnings resulting from increased sales and the costs to be incurred or associated with relaxation of the credit standards. Accordingly, with the help of analysis of profitability versus required return in assessing a credit standard change, then the budgetary director ought to endeavor to decide the proper credit standard for the firm (Periasamy, 2009).

2.3.1.2 Credit Terms

This refers to the stipulations under which the firm offers using a credit card to clients. In this manner the span of the records receivable is likewise influenced by the terms of credit (Periasamy, 2009). Credit period is the time traverse buyers are given to pay for their purchase. Really customers incline toward longer credit periods; so extending the period will sustain bargains. However a more amplified period extends the cash change cycle, in this manner it ties up more capital in receivables which is extravagant (Brigham and Houston, 2009). Also, the more amplified a receivable is momentous the higher the probability that the customer will default and that the record will end up as a horrendous commitment. To keep up the tradeoff among costs

and benefit the budgetary head should detail on perfect credit period for the firm. Offering rebates has two advantages; to begin with, the markdown adds up to value lessening which animates deals. Furthermore, rebates urge clients to pay sooner than they generally would, which abbreviates the money change cycle (Houston 2009). Notwithstanding, rebates mean lower costs and lower income unless the amounts sold increments by enough greatness to counterbalance the value lessening. The advantages and expenses of rebate must be adjusted while building up the credit strategy (Periasamy 2009).

2.3.1.3 Credit Risk Analysis and Evaluation

The main point of indebted individuals' administration is to guarantee least or ideal interest in records receivable and impressive decrease in terrible obligation misfortunes. To accomplish this, the budgetary administrator ought to take after obvious standards and systems to assess the credit value of the candidates with respect to how much credit can be developed and for to what extent (Periasamy, 2009). Allowing credit is an adventure, the achievement of which relies on upon the approach connected to assess and to concede credit. The voyage begins from the application for credit through obtaining of credit deals and finishes at the time the obligation is completely paid (Clerke, 1999). Credit giving exists to encourage deals however credit deals are pointless without due installment (Morgan, 2002). To assess the credit hazard, credit supervisors in any industry ought to consider the Five C's of credit which are character, limit, capital, security and conditions (Weston and Coperland, 1995).

Character alludes to the candidates record of meeting past commitments. The loan specialist would consider the candidates installment history, and any pending or uncertain lawful judgments against the candidate. The question tended to here is whether the candidate will pay his record, if capable, inside the predefined credit terms (Megginson and Scott 2008). Limit is the candidate's capacity to reimburse the asked for credit. The bank normally surveys the candidate limit by utilizing budgetary articulations investigation concentrated on income accessible to administration obligation commitment (Megginson and Scott 2008). Capital alludes to the budgetary quality of the candidate as reflected by its capital structure. The loan specialist much of the time utilizes investigation of the candidates' obligations in respect to value and benefit proportions to evaluate its capital. The investigation of capital figures out if the candidate has adequate value to survive a business down turn (Megginson and Scott 2008).

Collateral is the benefit the candidate has accessible for securing the credit. All in all, the more significant and more attractive these advantages are the more credit loan specialists will amplify. Be that as it may, exchange lenders are once in a while secured credits as generally are open record in nature (Megginson and Scott 2008). Conditions need to do with the effect of general monetary patterns on the firm or unique advancements in specific regions of the economy that may influence the customers' capacity to meet the obligation commitment (Weaver and Weston, 2008). Credit approach is essential for three fundamental reasons. To begin with, it majorly affects deals, also it impacts the measure of assets tied up in receivables and ultimately it influences terrible obligation misfortunes (Brigham et al., 2009). To ensure that the credit policy is being followed and it is achieving the desired

objective, a firm's credit policy should be monitored. Moreover when customers' payment patterns change significantly, the firm should consider changing its credit policy. Proposed credit policy changes should be evaluated using Net present value approach to ensure the firm is maximizing its value (Brigham et al., 2012).

2.3.2 Credit Collection Policy

Credit collection policies are the procedures utilized by an organization to gather past due or reprobate records receivables (Megginson and Scott 2008). Credit gathering strategy manuals are the methods used to gather past due records including the strength or laxity utilized as a part of the procedure. At one extraordinary, the firm may compose a progression of amiable letters after a genuinely long postponement; at the other outrageous, reprobate records might be swung over to a gathering organization moderately rapidly (Brigham et al., 2012). Poor income administration keeps on bringing about the crumple of business ventures, expansive and little around the world. A standout amongst the most widely recognized money traps is uncollected deals, i.e. accounts receivables (Richard 2008).

An organization can enhance its income by decreasing its normal gathering period which is accomplished via preparing clients to pay on time. This requires steady consideration and follows up. Firms ought to be to some degree firm, yet over the top weight can lead clients whose business is gainful to take their business somewhere else. Hence an adjust must be struck between the expenses and advantages of various gathering strategies (Brigham et al., 2009). An organization must figure out what its accumulation approach will be and how it will be actualized. Just like the instance of credit principles and credit terms, the approach might be an element of the business and the focused environment (Megginson and Scott, 2008).

2.3.3 Credit Control and Monitoring

The productivity of records receivables in plan and execution of credit and accumulation arrangements to a great extent relies on the area of the credit division in the authoritative structure of the firm. The part of power assignment can be seen from two points of view. Firstly it ought to be set under the immediate duty of the main fund officer for it being a capacity fundamentally of back in nature. Further, credit and gathering approaches lay direct impact on the dissolvability of the firm and along these lines ought to be put under the immediate supervision of the people who are in charge of the company's money related position. Furthermore, business firms ought to entirely uphold upon their business offices that deals are insolate until the esteem thereof is acknowledged (Curtis, 1959). The duty to direct credit and gathering arrangements might be allotted either to a budgetary official or to a showcasing official to them two mutually relying on the hierarchical structure and the destinations of the firm (Chambers, 1969).

A made credit approach offers affirmation to the recognize division as an alternate substance (Miler, 2002). It is in this way crucial for a relationship to set up an independent recognize division arranged for present day advancement and continue running by work drive qualified in credit organization who are fit for tending to the prerequisites of the diverse interrelated limits professionally. This will ensure that there is adequate coordination that will provoke to agreeable vitality in the three divisions. An organization offers on layaway with a specific end goal to build deals and credit deals make the requirement for a credit division to examine FICO assessments, favor augmentation of credit and endeavor to gather reprobate records (Nikolai and Bazley, 2010). If an organization chooses to offer using a credit card and

sets up a credit office, it must introduce a successful inside control framework for handling credit deals and money accumulations. These controls highlights incorporate firstly, pre-numbered deals solicitations with the goal that all solicitations are represented and besides the detachment of the business work from the money accumulation duties so robbery ought not to happen unless there is plot amongst employees (Nikolai and Bazley, 2010).

Credit observing includes the progressing audit of an association's records receivable to figure out whether clients are paying as per the expressed credit terms. In the event that they are not paying on time, credit checking will caution the firm to the issue (Meggnison and Scott, 2008). Associations must screen credit on both an individual and on aggregate commence. Particular watching is critical to make sense of whether each customer is paying in a favorable route and to review if the customer is inside its credit limits. Customer screening should be steady, not just a for the last time evaluation (Fleming, 1991). Associations which were once prosperous can quickly end up being amazingly unsafe and if the seller is clueless of this, over the top credit may be conceded (Fleming, 1991).

2.3.4 Pricing Administration, Order Processing and Invoicing

Evaluating precision is conceivably the most essential determinant of administration achievement (Salek, 2005). There are some major practices that advance evaluating and invoicing exactness. They include: Keeping the estimating plan as basic as it can be; intricate evaluating structure muddles receivable administration; for instance, an expansive firm offering various distinctive items whose costs change sporadically.

Prior to a request can be directed to satisfaction it must be looked into to guarantee it meets the states of an adequate request. Such conditions are components, for example, value, cargo terms (which party pays cargo changes), installment terms, conveyance date, clear depiction of the item requested, amounts of item or administration requested and a buy arrange number (most organizations won't pay a receipt unless it references a substantial buy arrange number). The reason for displaying a receipt to a client is to secure installment for having given an item or administration; it might likewise be as a store on the future arrangement of an item or administration. The two key destinations of invoicing are precision and speed. Speed in any case, is less essential than exactness as an erroneous receipt will ordinarily defer installment by a few weeks

2.4 Empirical Review

As per Kothari (2004), experimental writing audit involves the survey of studies made before which are like the one proposed in a view to obtain more information concerning what information and different materials are accessible for operational purposes which will empower the scientist to determine his own exploration issue in a significant setting.

2.4.1 Global Studies

In a consider by Sharma and Kumar (2011) the example included 263 associations, all from Bombay Stock Exchange (BSE) 500, wide market records of the Indian capital market. The Index secured 20 significant organizations of the economy and was moved on 9 August 1999. The example associations included 15 ventures with full yearly data of eight elements in the midst of the period 2000–08. A positive relationship was found among advantage and number of days of records receivables.

In corporate back speculation, the lesser the amount of days of records receivables, the more it will add to the formal of the association. This study refutes the speculation of beneficial organization of working capital and distinctive studies drove by Deloof (2003), Raheman and Nasr (2007). This reveals in Indian associations, administrators can enhance benefit by expanding the credit time frame allowed to their clients.

Chatterjee (2010) examined the relationship between working capital organization practices and the profitability of recorded firms on the London Stock Exchange. Using a case of 30 UK firms and using the Pearson association data examination framework. Specifically, the study watches a basically negative relationship among benefit and liquidity besides on a very basic level negative relationship between total commitment and efficiency. This proposes, efficiency of firms augmentation when they improve their working capital organization.

A study by Pedro and Martínez (2010) used a firm-level database to break down the trade credit decisions of SMEs in a case of seven European countries (Belgium, Finland, France, Greece, Spain, Sweden and the UK). The inspiration driving this study was twofold: to begin with, to give demonstrate with respect to trade credit in European little and medium-sized firms, and second, to dismember whether the components that choose the level of trade credit differentiate among the European countries. The results demonstrated that the level of trade credit permitted and got shifted between countries. As regards the records receivable, it was watched this addressed a fundamental degree of the advantages of the case firms.

Falope and Ajilore (2009) investigated the effects of working capital organization on the advantage of 50 referred to non-cash related Nigerian firms. Using board data procedure and data from 1996-2005, the makers watch an inside and out negative

relationship between networking advantage and working capital organization elements, to be particular: typical social affair period, stock days, and cash change cycle. Regardless, the study sees no basic assortments in the effects of working capital organization among immense and little firms. A fundamental lesson along these lines is, sensible working capital organization is essential for the productivity of firms of all sizes.

Raheman and Nasr (2007) analyzed the effect of different components of working capital organization including typical aggregation and stock days, cash change cycle, and current extent on the networking efficiency of 94 recorded Pakistani firms. Using backslide examination and data covering the period from 1999-2004, the makers found that reasonable organization of working capital, sensible levels of commitment use and addition arrangements are all outstandingly basic in enhancing the profitability of the propelled firm. The study by Deloof (2003), states that supervisors can increment corporate gainfulness by decreasing the normal accumulation time frame. Jarvis and Berry (2006) distributed that organizations foundation exchange receivables' arrangements and they consider the accompanying as basic. Firstly, with respect to obligation control and gathering periods, the more extended the period, the more the exchange receivable levels hence a firm confronts liquidity issues. Also, exchange – off between exchange receivables levels, benefits and income.

2.4.2 Local Studies

A study on the determinants of records receivables organization in the hotel business in Kenya revealed that there is need strong organization structures and credit systems set up. Specifically, the study attempted to develop how advancement impacts accounts receivables organization in the hotel business in Kenya, to choose the effects

of size of the relationship in records receivables organization in the motel business in Kenya, to set up the impacts of advertising diverts in records receivables administration in the inn business in Kenya, to decide the impacts of administration structures in records receivables administration in the lodging business in Kenya and decide how arrangements impacts accounts receivables administration in the inn business in Kenya. The objective populace of the study was 47 inns and hotels in Kenya. The study found that these factors impact records of sales administration, in this manner the need solid administration structures and strategies set up (Ngugi, 2014).

The study on the impacts of receivable administration on the budgetary execution of Technical, Industrial, Vocational, and Entrepreneurship Training (TIVET) organizations in Kenya built up that there is a positive relationship between receivable administration and the money related execution of TIVET foundations. The concentrate additionally settled that a greater part of the organizations (77%) had embraced formal receivables administration strategies (Nyaga, 2011).

Mathuva (2009) investigated the effect of working capital organization parts on corporate advantage of 30 Kenyan recorded firms. Using board data system and data covering the period from 1993-2008, the study finds an in a general sense negative relationship between records gathering days and profitability, a basically positive relationship between stock change period and advantage and an out and out positive relationship between ordinary portion days and productivity. The disclosures of this move in this way certify the standard viewpoint of capable working capital organization and its effects on efficiency.

2.5 Conceptual Framework

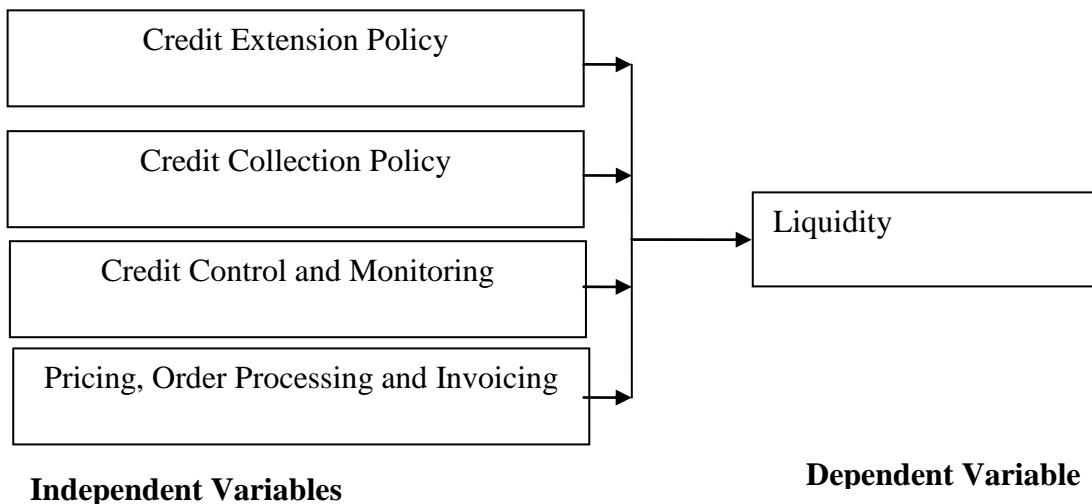


Fig 2.1 Conceptual Framework

Source: Author 2016

From the calculated structure display the autonomous variable are the four approaches that influence credit administration. These are credit augmentation arrangement; credit accumulation strategy; credit control and checking and valuing organization, arrange preparing and invoicing. An organization ought to guarantee a legitimate credit augmentation strategy that aides it in settling on its choice to stretch out credit to a client. A decent credit accumulation strategy will guarantee that an organization enhances its income by diminishing its normal gathering period. Proficient and viable credit control and observing, evaluating organization, arrange handling and invoicing are essential for the money related strength of a firm.

2.6 Summary of Literature Review

Composing exhibits that credit organization is a key driver to working capital organization in business substance. There is an impressive measure of concentrate on the relationship of organization of records receivables and advantage of business affiliations. Most of the studies done, have overviewed a humble pack of information

of trade credit and their impact on business execution. This study will have a broadened review of records receivables and their quick and roundabout effect on execution of the hotel business.

From the previous audit of significant writing, it is apparent that examination in the range of records receivables has not been done in a more thorough approach. The study examine hole is exhibited by the shortage of exact studies on the impact of credit administration on the liquidity of five star lodgings in Kenya. Observational studies were deficient as they focused on different ventures and also different factors influencing credit administration in created and rising economies. There is likewise no accord on the impact of credit administration on the liquidity of firms as different experimental studies negate each other. From the study of applicable writing, it has been found that there are no studies particular to Kenya in connection to liquidity of the five star inns and inn industry when all is said in done. This concentrate accordingly expects to fill these appropriate holes in writing by examining the impact of credit administration in the five star lodgings in Kenya.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section sets out the technique that will be received in finishing the study. This will incorporate the exploration plan, target populace, information gathering strategies, systems and information investigation.

3.2 Research Design

As indicated by Lavrakas (2008), an examination outline is a general arrangement or system for leading an exploration study to look at particular testable research inquiries of intrigue. The exploration outline is the fundamental arrangement of leading the study for the reasons for accomplishing the expressed target. This study utilized an unmistakable research outline where information was gathered with a specific end goal to build up the ebb and flow status of the populace. This examination plan was proper in light of the fact that the study tried to explore the standards and practices embraced by five star inns in Kenya in dealing with their records receivables.

As indicated by Schindler (2003) an elucidating research outline is appropriate where the study tries to portray attributes of a specific gathering in the populace and gauge the number of inhabitants in individuals with specific qualities of a specific gathering in the populace and gauge the number of inhabitants in individuals with specific attributes keeping in mind the end goal to make an expectation. As indicated by Mugenda (2003) unmistakable research plan is a methodical, experimental investigation into which the specialist has no immediate control of the needy factors as indicated by what has happened or in light of the fact that the autonomous variable can't be innately controlled. The study picked the ebb and flow inquire about in light of the fact that it was not limited to the accumulation and depiction but rather looked

to set up the presence of the impact of occasional credit deals on the normal gathering time of five star inns in Kenya.

3.3 Population

Blazes and Grove (2003) states that people consolidates all parts that meet certain criteria for thought in a study. Target masses involves all people from an authentic or theoretical course of action of people events or dissents from which a pro wishes to aggregate up the eventual outcomes of their examination while open people includes the significant number of individuals who sensibly could be fused into the example (Borg & Gall, 2007).

The population of this study was the 33 five star hotels in Kenya as rated by cleartrip.com, tripadvisor.com, and expedia.com (Appendix 1). This was a census study of all the five star hotels in Kenya.

3.4 Data Collection

Burns and Grove (2003) characterize information accumulation as the exact, deliberate social affair of data pertinent to the examination sub-issues, utilizing techniques, for example, interviews, member perceptions, center gathering discourse, accounts and case histories. In this study, essential information will be gathered utilizing semi-organized poll, controlled to the key credit control division work force in the inns to gather both subjective and quantitative data. Likert scale, open and shut finished inquiries were utilized as a part of the poll where the respondents was requested that assess by giving quantitative qualities to the predetermined measures of the autonomous factors. Messages were sent to the faculty concerned and normal phone calls made to guarantee fulfillment of surveys. The concentrate likewise utilized the utilization of auxiliary information. This information was acquired from

the evaluated proclamations for the year 2015. Information was gathered for every variable for the year under survey. Likert items were used in the questionnaires where the respondents were asked to evaluate by giving quantitative values to the specified measures of the independent variables.

3.5 Data Analysis

Information Analysis is the handling of information gathered to make significant data out of them (Sounders, Lewis and Thornhill, 2009). This is imperative as crude information pass on small intending to the vast majority. Information gathered from the essential and optional sources was examined by method for illustrative insights where measures of focal inclination, for example, mean, mode and weighted midpoints were figured to give come about, which was then contrasted and the discoveries from writing audit. Outlines, diagrams and tables were utilized to display the discoveries.

Keeping in mind the end goal to look at the impact of credit administration on the liquidity of five star inns in Kenya, a numerous relapse investigation was done with the guide of SPSS variant 22 examination programming. In view of different models that have been utilized to test the impact of credit administration on the liquidity of five star inns in Kenya, the present study received the following model:

$$Y=\beta_0+\beta_1X_1+\beta_2X_2+\beta_3X_3+\beta_4X_4+\epsilon_t$$

Where:

Y is Liquidity of firm

β_0 is constant term

$(\beta_i; i=1, 2, 3, 4)$ are the coefficients representing the various independent variables

X1 is value of Credit Extension Policy

X2 is value of Credit Collection Policy

X3 is value of Credit Control and Monitoring

X4 is value of Pricing Administration, Order Processing and Invoicing

ϵ_t is Error Term

3.5.1 Tests of Significance

Connection examination was utilized to analyze the between connections between the factors in the study. This would help show if there were any serial correlations within the independent variables before a regression analysis was carried out. A multiple regression analysis was then performed using the model above. The coefficients were interpreted to show how each of the independent variables affect liquidity. The significance was tested at 5% level.

CHAPTER FOUR: PRESENTATION OF RESULTS AND DISCUSSION

4.1 Introduction

The goal of the examination was to research the impact of credit administration on the liquidity of five star lodgings in Kenya. This section exhibits the examination and discoveries as to the goal and dialog of a similar where examples were explored, translated and deductions drawn on them.

4.2 Demographic Information

4.2.1 Response Rate

The quantity of polls, directed to every one of the respondents, was 33 Five Star Hotels. An aggregate of 26 polls were appropriately filled and came back from the lodging representatives. This spoke to a general fruitful reaction rate of 79%. As per Mugenda and Mugenda (2003), a reaction rate of half or more is sufficient. Babbie (2004) additionally affirmed that arrival rates of half are adequate to break down and distribute, 60% is great and 70% is great.

Table 4.1: Response Rate

Response	Total	Percentage
Returned	26	79%
Unreturned	7	21%
Total	33	100%

Source: Author

4.2.2 Sampling Adequacy

To inspect whether the information gathered was sufficient and proper for inferential factual tests, for example, the variable examination, numerous direct relapse investigation and other factual tests, two fundamental tests were performed

specifically; Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Bartlett's Test of Sphericity. For an information set to be viewed as satisfactory and proper for factual examination, the estimation of KMO ought to be more prominent than 0.5 (Field, 2000). Discoveries in Table 4.2 demonstrates that the KMO measurement was 0.538 which is fundamentally high; that is more noteworthy than the basic level of noteworthiness of the test which was set at 0.5 (Field, 2000). Notwithstanding the KMO test, the Bartlett's Test of Sphericity is likewise exceedingly critical (Chi-square = 25.106 with 15 level of flexibility, at $p < 0.05$). The aftereffects of the KMO and Bartlett's Test are condensed in Table 4.12. These outcomes give a magnificent legitimization to advance factual examination to be led.

Table 4.2 KMO Sampling Adequacy and Bartlett's Sphericity Tests

Kaiser-Meyer-Olkin Measure	0.538
Bartlett's Chi- Square	25.106
Bartlett's df	15
Bartlett's Sig.	0.49

Source: Author

After confirming sampling adequacy and reliability of the issued questionnaires, a simple regression analysis was carried out to determine if the variables chosen were significant predictors of liquidity levels in Five Star Hotels in Kenya.

4.3 Research Findings

A sum of 26 respondents took an interest in the study. The initial segment of the auxiliary information touched on the total current assets represented by credit sales in the Hotel and how hotel's credit sale is rated against management policy. The questions were asked directly to the heads of credit departments and their representatives. Of the total 26 respondents, it was established that the managers rate

credit sales high against their credit management policy in place. Precisely 20 out of the total 26 answered that their credit policy was excellent, while the remaining six indicated the policy was good. This was a good score.

4.3.1 Response according to the Questionnaires

An aggregate of 33 surveys were sent and 26 were returned. Table 4.1 reports the response rate and the percentages of the response. Accordingly, this kind of study would attract a large population and sample, however, in Kenya the hotel industry only has 33 established 5-star hotels thereby restricting this study to a smaller population size. The questions were broken down in correspondence to the objective of the study.

(i) Credit Extension Policy (CEP)

The questionnaire sought to establish if the practice of extending credit by the hotel was adequate and hence optimal for credit management and in general current asset management. The questions primarily set to understand if the hotel (s) had a clear basis of credit extension. The first part queried to understand if the hotel had in place credit policy manual. There was overwhelming response as every one of the respondents (26) showed that they had credit arrangement manual by and by. In the question too, the researcher sought to understand the credit period allowed by the hotel. The resounding response was that majority allowed credit for 30 days (23 out of 26). The credit limit was also understood by the researcher to be a crucial component of credit extension policy. A response of 70% validated that they only allowed between one million to five million shillings of credit in one month. It was however a show of confidence in credit policy as respondents such as Best Western Hotel, GEM,

Mada hotels among others allowed more than 5 million shillings of credit to customers.

On the question of discount rate, a number of respondents indicated that their hotel allowed less than 10% while a number too indicated that they allowed 10% to 20%. This was used as a motivation to customers. The managers also indicated that they used the credit manual always and that in most cases, the Chief Finance Officer (CFO) and credit controller was in charge of implementing the credit policy.

Accordingly, this question also sought to understand the real intention or the credit policy objective emphasized by the hotel. Overwhelmingly majority yielded to using the policy in order to minimize credit cost and eliminate bad customers. The managers also indicated that they put to review the credit policy however with varying frequencies ranging between six months to one year. As a measure of eliminating bad customers and minimizing credit cost, most of the respondents (65%) indicated that they use the policy often as a requirement to evaluate the customer's willingness to pay and as well the financial strength of the customer. A few also indicated that they reviewed the collateral that a customer should put in place in the case of default.

(ii) Credit Collection Policy (CCP)

This part of the questionnaire sought to unravel the action taken by the hotels in dealing with overdue accounts. It was found that majority, 60% often use telephone calls and sending reminder notes to customers, while 20% use collection agencies (rarely) to make sure that the accounts are paid. In few circumstances the respondents indicated that they as well put the accounts on hold and not make any further sales to those customers. It was also established that some of the hotels write off these accounts.

In order to spur their sales and enhance prompt credit collection, the questionnaire sought to understand the incentive methods used, 90% of the respondents indicated that they mostly use trade volume discounts and cash discounts to encourage customers to pay promptly. It was also established that all (100%) hotels have at some point written off bad debts. However, 55% of the hotels had written off below 5% of the total debts. Another group, 30% indicated to have written off 5% to 10% of the total debts. The respondents were nonetheless not categorical on the factors that led to writing off of those accounts. A specific number, 15% were not at ease with revealing this information.

(iii) Credit Control and Monitoring Policy (CCP)

For impartiality, the research sought to understand if the hotel had an independent credit control department. Of the questioned, 70% responded to having this department, but this was confusing as a number of the respondents in this category also did not reveal if they have in place credit committee. In fact, 40% indicated to not having credit committee in place, while having an independent credit control department. For the hotels that had credit control department, 60% indicated that the head of this department reported to the CFO, while 30% revealed that the head reported directly to their managing director. Interestingly, 10% pointed out that head of credit control reported to the sales manager.

In this question, the researcher also queried to know who approves credit application. Great majority (90%) revealed that the head of credit department or the credit controller had the sole approval mandate.

(iv) Pricing and Invoicing Policy (PIP)

This question queried to understand if the hotels vary credit terms. Majority of the respondents (80%) agreed that they only varied terms to particular customers. Another 70% indicated that they varied terms depending on the season, while 30% responded to vary the terms to only particular products.

In terms of processing the invoices after a sale has been made, the respondents, 60% indicated that they processed the invoice after a sales transaction within one month. A staggering 20% revealed to process within one week, while 10% indicated to process within a day.

4.4 Model Results

The variables were coded and run against the dependent variables, Liquidity which was calculated from the Current Assets minus Current Liabilities of all the Hotels that responded to the questionnaire. An average of the liquidity was tested against the corded numbers of the independent objectives. The researcher started by understanding the correlation matrix and descriptive statistics among the variables. This was informed by the statistical requirement that, in order to run a regression analysis, interrelationship among the variables should be below 0.8.

4.4.1 Descriptive Analysis

This analysis is carried out to understand the distribution of the statistical series in then data used. Measures of focal propensity, for example, mean and standard deviation is used. Table 4.3 reveals the mean distribution of the variables. Liquidity of the hotels stood at Ksh. 146,764.72 while its standard deviation was Ksh. 14,628.05.

This represented the precariousness of liquidity in nominal terms to the changes in the independent factors that have been analyzed in the present study.

Table 4.3 Descriptive Statistics

Variable	N	Minimum	Maximum	Mean	Std. Deviation
LIQUIDITY	26	21940	89166	46764.72	14628.050
CEP	26	1	9	4.27	2.308
CCP	26	1	8	4.77	2.197
CMP	26	1	7	3.69	1.761
PIP	26	2	9	4.58	2.082
COLLECTIONPERIOD	26	15	112	67.88	22.189

Source: Author

From the table, the researcher has adopted another variable not clearly asked in the questionnaires that were issued, however the question was implied. The Average collection period which majority of respondents agreed to be within 30 days. Well it is interesting from table 4.3, the average collection period of all the hotels stood at 67.88 days representing a standard deviation of 22.189.

4.4.2 Correlation Analysis

Connection investigation is utilized to check for collinearity between the factors. Multicollinearity is a major issue if the relationship coefficient between two regressors is above 0.8. Multicollinearity alludes to the condition when at least two of the free factors, or straight blends of the autonomous factors, in a various relapse are exceedingly associated with each other. This condition misshapes the standard blunder of assessments thus prompting to issues when transmitting t-tests for measurable importance of parameters. Multicollinearity can be tried by checking for connection among the free factors. Table 4.4 presents the consequences of the relationship examination utilizing Pair-Wise Correlation grid.

Table 4.4: Inter-Item Correlation Matrix

VARIABLE	LIQUIDITY	CEP	CCP	CMP	PIP	COLLECTIONPERIOD
	1.000					
LIQUIDITY						
CEP	.094	1.000				
CCP	.297	.289	1.000			
CMP	-.182	.225	.205	1.000		
PIP	.359	-.258	.336	.159	1.000	
COLLECTIONPERIOD	.227	.416	.277	.265	.222	1.000

Source: Author

Results posted in Table 4.4 reveal that none of the regressors has a strong relationship with one another. It however indicates that except for Credit monitoring policy, all the regressors have a positive relationship with the dependent variable. The negative relationship between credit monitoring policy manifest an anticipated relationship, in effect, it speaks volume of this variable. The results suggest that the policy reduces liquidity. This might remain a matter of empirical questions. It can also be suggesting why some of the hotels did not have credit monitoring committee and that some of the respondents indicated a mixed reaction on how they deal with credit monitoring.

Table 4.5: Model Summary

Model Summary				
Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.799	.638	.567	13497.763

Source: Author

Table 4.5 present the results of the estimated model. The results posted in the table reveal an interesting finding. It can be deduced from this finding summary that in entirety, all the investigated variables account for 56.7% of the changes in the liquidity positions of the surveyed hotels.

Table 4.6: Analysis of Variance

ANOVA						
Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	1523514864.813	4	380878716.203	2.091	.001
	Residual	3825981578.320	21	182189598.968		
	Total	5349496443.134	25			

Source: Author

The model presented in Table 4.5 was not complete as it was a summary of the whole function. We can therefore not take its figures with many prospects. Results presented in Table 4.6 therefore gives validation to the model. According to the Analysis of Variance presented in table 4.6, the whole model in Table 4.5 proves to be stable by significance at 95% confidence. The P vale of 0.01 uncovers that the model is huge at 5% level of importance.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATION

5.1 Introduction

This study tried to examine the impacts of credit administration on liquidity of five star hotels in Kenya. The study adopted four main independent variables to investigate their effects on liquidity of these hotels. These variables were coded from the questionnaires administered by the researcher to the credit departments personnel of the various hotels surveyed.

5.2 Summary

In summary, the study deduced interesting findings from the results presented and analyzed in chapter 4. From the results, 79% of the surveyed population responded giving a strong ground to carry this study. It is reported in chapter 4 that this kind of response rate is well above the minimal requirements for a survey. The study also introduced a variable that was implied from the questionnaires. It is worth to note that the questionnaires were intelligently responded to as they were administered directly to the heads of credit departments giving this finding an upper level of inferential. The study found that the four investigated variables jointly affect liquidity of the organization at 56.7% with a reliable model huge at 5% level of hugeness. The joint P value of 0.001 was significant. Three of the significant variables had a positive effect to the dependent variables, while one, credit control and monitoring policy (CMP) was found to be having negative effect on liquidity.

5.3 Conclusion

In conclusion, the study found the variables investigated to be significant aspects of credit management except for pricing and invoicing policy.

5.4 Limitations

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.

5.5 Recommendations

5.5.1 Policy Recommendations

With the established fact that the hotel industry in Kenya is purely seasonal, five star hotels need to come up with a policy of incentive that would keep the customer coming other than waiting for some season. It is also noted that the kind of incentives given during these seasons are partly the reason for low turnouts on off pick seasons, therefore the hotels should find an optimal incentive way to encourage customers.

5.5.2 Recommendations for Further Research

This study had a high reaction rate at 79% percent. This sort of study ought to have a bigger populace to derivation a reasonable picture. It is along these lines prescribed that a comparative study ought to be completed to envelop the whole inn industry in Kenya. Another worry that did not turn out clear in this study is the class of the business. It is in this way suggested a study be done to take care of different categories of businesses that the hotels engage in; for instance there is a great deal of conference hotel business that should be investigated separately and thus find out how the liquidity of hotels with this feature of business responds to the same investigated variables.

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APPENDICES

Appendix I: List of Five-Star Hotels in Kenya as at 30th June 2015

1. The Boma hotel
2. Eka hotel
3. Fairmont The Norfolk
4. Gem Suites
5. Hilton
6. Hotel La Mada
7. Intercontinental
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. Sovereign Suites
17. Hemingsways
18. Nairobi Safari Club
19. Crown Plaza Hotel
20. Best Western Premier
21. Meltonia Luxury Suites
22. The Ndemi Place
23. Ole Sereni
24. Southern Sun Mayfair
25. Sarova Panafric
26. The Heron Portico
27. Country Lodge
28. Progressive Park Hotel
29. Palacina Residence and Suites
30. Reata Serviced Apartments

31. PrideInn Hotel Raphta Suites
32. House of Waine
33. Whitesands Hotel

Sources: Cleartrip.com (2015), Expedia.com (2015), Tripadvisor.com (2015)

Appendix II: Questionnaire

1. Name of the Hotel (Optional).....

Part One: Credit Extension Policy

2. How would you generally rate your hotel's credit management policy? Answer by putting a tick () as appropriate.

a) Excellent ()

b) Good ()

c) Average ()

3. Does your hotel have a credit policy manual? Yes () No ()

If yes, then answer the following. Tick () as appropriate

(a) (i) What is the credit period allowed by your hotel?

30 days () 60 days () 90 days () Over 120 days ()

(ii) What is the credit limit allowed by the hotel per year?

Less than sh.1million ()

More than 1million but less than 5million ()

More than 5million ()

(iii)What is the discount rate allowed per annum?

Less than 10% ()

More than 10% but less than 20% ()

Over 20% ()

(b) How often is the credit policy manual used by the management?

(i) Always ()

(ii) Sometimes ()

(iii) Never ()

(c) Who of the following personnel in your hotel is in charge of implementing the credit policy?

(i) Managing director ()

(ii) Chief finance officer ()

(iii) Credit controller ()

(d) Any other, Please specify _____

(e) Which of the following credit policy objectives is emphasized by your hotel?

	Very often	Often	Less Often	Never
Minimizing credit cost				
Elimination of Bad Customers				
Tool to gain competitive advantage				
Earn Interest on overdue account				

(f) Do you review the hotel credit policy Yes () No ()

If yes, how often? Yearly, quarterly, never etc. Please state _____

(g) Which of the following requirements does your hotel consider when appraising credit application by customers?

	Very Often	Often	Less Often	Never considered
Character of the customer				
Capacity of the customer				
Capital				
Collateral				
Condition of the customer				

(h) What is the level of involvement of the following personnel in credit risk assessment?

	Most involved	Averagely involved	Rarely	Never involved
Chairman				
Managing Director/General Manager				
Departmental head				
Credit manager				
Finance manager				
Others (specify)				

Part Two: Credit Collection Policy

4. (a) What action (s) does your hotel take in dealing with overdue accounts?

Use 1 for mostly used, 2 for averagely used, 3 for rarely used and 4 for never used.

- (i) Sending reminder notes ()
- (ii) Making telephone calls ()
- (iii) Use of collection agencies ()
- (iv) Institute legal proceedings ()
- (v) Leave the customer alone to decide when to pay ()
- (vi) Put the Accounts on hold and stop further sales ()
- (vii) Write off the account as bad debt ()
- (viii) Charge interest on overdue amounts ()

(b) Which of the following is the incentive mostly offered by your hotel to encourage customers to pay promptly?

	Mostly used	Averagely used	Rarely used	Never used
Cash discounts				
Trade (volume) discounts				
Giving promotional gifts				
Others (specify)				

Part Three: Credit Control and Monitoring Policy

5. (a)(i) Does your hotel have an independent credit control department?

Yes () No ()

(ii) If No, briefly explain why _____

(iii) Is there a credit committee Yes () No ()

If yes, what is the composition of the credit committee (e.g managing director, finance manager etc?)

(i)

(ii)

(iii)

(b) How frequently does the credit committees meet?

i. Monthly

ii. Weekly

iii. Any other, please specify _____

(c) Briefly state the role played by the credit committee in managing your hotel's accounts receivable

(d) What are the qualifications and experience of the head of the credit control department?

(e) To whom is the head of the credit control department directly answerable to?

(i) Managing director ()

(ii) Chief Finance Officer ()

(iii) Marketing manager ()

(iv) Sales Manager ()

(v) Any other, please specify _____

(f) (i) Who of the following officers in your organization is in charge of approving the customer credit application?

(i) Managing director ()

(ii) Finance control ()

(iii) Credit controller ()

(iv) Sales manager ()

(v) Marketing manager ()

(vi) Any other, please specify _____

(g) Which practices does your hotel use to manage credit risk exposure?

	Very Often	Often	Less Often	Never Considered
Debt Collection Services				
Institute Legal Proceedings				
Use Letters of Credit				
Credit Insurance				
Write off Debts				
Customer to Decide				

(h) Does your hotel review its accounts receivable? Yes () No (), If yes, answer the following.

(i) How often does the hotel review its accounts receivable? Tick (\checkmark) as appropriate

Weekly ()

Monthly ()

Quarterly ()

Any other, please specify _____

(i) Which technique does your hotel use to monitor the quality of its accounts receivable? Tick (\checkmark) as appropriate

Ratio analysis ()

Aging of accounts Receivable ()

Payment pattern monitoring ()

Any other, please specify _____

(j) If your hotel uses ratio analysis technique, please state the ratios used

(i)

(ii)

(iii)

Part Four: Pricing and Invoicing Policy

6. (a) (i) Does your hotel vary its credit terms and /or for

(i) Particular customers Yes () No ()

(ii) Particular products Yes () No ()

(iii) Particular season Yes () No ()

(ii) If your answer to (i) above is yes, please briefly explain

(a)

(b)

(c)

(b) How does your company process invoices?

(i) Manual system ()

(ii) Automated system ()

(c) How long does your company take to invoice a customer after a sales transaction?

(i) Same day ()

(ii) Within one week ()

(iii) Within one month ()

(iv) Any other please specify _____

(d) How do you deal with a disputed invoice?

(i) Make concession to the disputed amount ()

(ii) Draw another invoice correcting the errors ()

(iii) Send the customer a debit note ()

(iv) Any other, please specify _____

8. How often has your hotel experienced the following situations?

Mark with a tick (✓) as appropriate

	Never	Rarely	Often	Very often
Writing off bad debts				
Suing customers for non payment				
Use of collection agencies to collect debt				
Factoring debtors				
Incorrect discount rates				
Incorrect credit period				
Disputed invoices				
Incorrect credit limits				