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Simon K. Ngugi, Prof. Roselyn W. Gakure, Dr. Geoffrey Mouni Gekara, Dr. James K. Kahiri

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INFLUENCE OF POLICIES ON ACCOUNTS RECEIVABLES MANAGEMENT IN THE HOTEL INDUSTRY IN KENYA

[1*]Simon K. Ngugi
Post Graduate Student,
Jomo Kenyatta University of Agriculture and Technology
*Corresponding Author's E-mail:smnngugi@yahoo.com

[2]Prof. Roselyn W. Gakure
Lecturer, JKUAT
[2]Dr. Geoffrey Mouni Gekara
Lecturer, East African University, Kenya
[2]Dr. James K. Kahiri
Lecturer, Kenyatta University

Abstract

Purpose*:* The purpose of the study was to determine the influence of policies on accounts receivables management in the hotel industry in Kenya.

Methodology*:* The target population of the study was 47 hotels and lodges in Kenya. A sample of 141 respondents was selected using stratified random sampling in each hotel and lodge to group respondents into three strata. The strata were that of top management, finance staff and credit control staff. This study used both primary and secondary data. Data collection methods used included: questionnaires and secondary data collection guide**.** Secondary data was collected for all variables for a period of three years (2007 to 2010). Data was analyzed quantitatively and presented descriptively and illustrated by use of tables and charts. Information was sorted, coded and input into the statistical package for social sciences (SPSS) for production of graphs, tables, descriptive statistics and inferential statistics. In particular, means, standard deviations, and frequencies. Inferential statistics such as factor analysis and odd ratio regression were also used.

Results*:* Based on the findings, the study concluded that management policies are a key driver to accounts receivables management in hotel industry in Kenya. It was possible to conclude that the hotels had put into place strict management policies and internal operating procedures approved by the senior management on accounts receivables.

Unique contribution to theory, practice and policy: Based on the findings, the study recommends that that hotel management should ensure that they employ workers who can follow orders with minimum supervision and reward them well in terms of compensation to avoid cases of theft, complaints from customers and endorse a heavy penalty for any employee who provide substandard service.

Keywords: *policies, accounts receivables management, hotel industry in Kenya*

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1.0 INTRODUCTION

1.1 Background of the Study

The hotel industry constitutes an idiomorphic (having its own characteristics) tourist product, offering some of the most fundamental services in the tourism industry (Mihail, 2011).Trade credit occurs when there is a delay between the delivery of goods or the provision of services by a supplier and their payment. For the seller this represents an investment in accounts receivables, while for the buyer it is a source of financing that is classified under current liabilities on the balance sheet (Pedro & Martínez, 2010). When goods and services are sold under an agreement permitting the customer to pay for them at a later date, the amount due from the customer is recorded as accounts receivables (Joy, 1978); Receivables are asset accounts representing amounts owed to the firm as a result of the credit sale of goods and services in the ordinary course of business. The value of these claims is carried on to the assets side of the balance sheet under titles such as accounts receivables or customer receivables. This term can be defined as debt owed to the firm by customers arising from sale of goods or services in ordinary course of business (Joy, 1978).

According to Robert (2001), accounts receivables are amounts owed to the business enterprise, usually by its customers. Managing accounts receivables involves five steps: determining to whom to extend credit, establishing a payment period, monitoring collections, evaluating the liquidity of receivables accelerating, and eventually cash receipts from accounts receivables holders. A critical part of managing accounts receivables is determining to whom credit should be extended and to whom it should not. Many companies increase sales by being generous with their credit policy, but they may end up extending credit to risky customers who do not pay. If the credit policy is too tight, sales will be lost. Particularly risky customers might be required to pay cash on delivery. In addition, companies should ask potential customers for references from banks and suppliers, to determine their payment history. It is important to check these references on potential new customers as well as periodically check the financial health of continuing customers (McKesson, 2011).

For many companies, accounts receivables are also one of the largest assets. For example, receivables represented 11% of the current assets of pharmacy giant Rite Aid in 2007. Receivables as a company percentage of total assets of General Electric was 52%, Ford Motor Company 42%, Minnesota Mining and Manufacturing Company, (3M) 14%, DuPont Co. 17%, and Intel Corporation 5% (Kimmel, Weygandt & Kieso, 2008). The relative significance of a company's receivables as a percentage of its assets depends on various factors: its industry, the time of year, whether it extends long-term financing, and its credit policies (Kimmel et al., 2008). A review of literature reveals that little research has been done in the hospitality business and even less on their role in the hotel industry, compared to surveys of traditional manufacturing industries (Burgess, 2006 and 2007; Drury & Tayles, 2006; Mattimoe, 2008).

According to recent figures from the American Bankruptcy Institute, business failures are raising throughout the country in every major industry sectors. Accounts receivables represent a large portion of firms' assets worldwide. Using 1986 Compustat data, Mian & Smith (1992) reported that accounts receivables account for 21% of U.S. corporations' assets. More recently, Molina & Preve (2009) used a sample from Compustat that covered the 1978–2000 periods and found that, on average, the ratio of accounts receivables to assets is 18%, which corresponds to 55 days of sales financing. Note that these studies focus on large corporations. Petersen & Rajan (1997), in contrast, used a dataset from the 1987 National Survey of Small Business Finance and reported that whereas large firms show accounts receivables to sales ratio of about 18.5%, the same figure for small firms is lower, at 7.3%. According to Petersen & Rajan (1997), small firms provide less commercial credit to their customers than do large firms in the United States.

Such a large amount of money invested in providing client financing presents an interesting puzzle. Why would a firm that is not in the business of lending money be interested in extending financing to other firms? Moreover, why would clients be willing to obtain financing from these non-financial institutions, particularly if banks are known to have clear scale and information advantages in lending money? This puzzle has triggered an interesting body of research that seeks to explain the existence and main patterns of trade credit. The use of trade credit can help firms fight for market share - a firm that seeks to grow at the expense of another firm's business may seek to increase its sales by increasing the financing it offers clients. Similarly, firms facing profitability problems may seek to increase sales or market share by increasing the provision of commercial credit to clients (Petersen & Rajan, 1997; Molina & Preve, 2009)

The hotel industry has gone through turmoil between 1996 during the Likoni clashes and 2008 during the Post-Election Violence (PEV). Various other events have occurred in between these events including the bombing of the American Embassy in Kenya and the Global Economic crisis in 2006 (ROK, 2011). All these events have negatively impacted on the hotel industry in Kenya which remains very volatile and susceptible to such events. The Kenyan hotel industry has also suffered heavily from negative advisories originating from various countries like USA and Britain. These advisories are intended to warn citizens of the countries issuing them, from visiting Kenya. Kenya, as a tourist destination traditionally enjoys the patronage of USA and Europe, which regions contribute nearly 70% of the total tourist arrivals (ROK, 2011). Once such advisories are issued, tourist numbers decline and therefore hotels tend to employ marketing strategies geared to ensure survival rather than long term sustainability.

Inspite of the foregoing, the Kenyan hotel industry has recorded growth in the number of beds available. Investors have resorted into this sector which has profitability potential despite its culpability. This has not helped the industry since the growth in the tourism arrivals has not matched the growth in the number of beds. Due to the sluggish economic growth of the country, the growth in the domestic tourism has not been encouraging. The middle class, which would be the potential domestic tourists, have been declining in numbers and more citizens in Kenya tend towards below the poverty line. Domestic tourism has therefore not grown as it should have (ROK, 2011).

1.2 Problem Statement

Accounts receivables management is important to the profitability of an organization. Hotels in Africa and more so in Kenya, have limited access to capital markets. There are five hotel groups listed in the Johannesburg Stock Exchange, four hotel groups listed in Nigeria Stock Exchange and one hotel group listed in Nairobi Stock Exchange (NSE, 2013). This shows the limitation of financing from the capital markets and therefore hotels tend to rely more heavily on owner financing, trade credit and short-term bank loans to finance their operations.

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An analysis of groups of hotels in Kenya shows that total debtor's portfolio represents 13% of the balance sheet size of the firm. The analysis also shows that the average value of debtors is 50% of the total borrowing. As shown in appendix VII, the average borrowing as per the analysis, is sh 1,291 million mainly to finance accounts receivables (57%) among other industry requirements. The profitability of the groups would have improved by 23% if the groups had not incurred the cost of borrowing. Teruel and Solan (2005) suggested that managers can create value by reducing their firm's number of days of accounts receivables. The hotel industry has huge accounts receivables and would have been more profitable if they were to be reduced significantly and the funds applied towards other cash flow requirements. According to Kwansa and Parsa (1991) quoted in a study by Gu and Gao (2000), loan default was found to be one of the events unique to bankrupt companies.

According to Upneja and Dalbor (2001), the reliance on debt financing by the hotel industry in the United States was significant. Due to poor management of accounts receivables, hotels in Kenya, suffer financial distress resulting to change of ownership of various hotels or hotel chains as a measure to prevent the foreclosure from heavy indebtedness. The study research gap is demonstrated by the scarcity of empirical studies on determinants of account receivable management. Empirical studies (Kwansa and Parsa, 1991; Gu and Gao, 2000; Upneja and Dalbor, 2001 and Teruel and Solan, 2005) were inadequate as they concentrated on other industries in developed and emerging economies. None of these studies focused on developing economies such as Kenya. Therefore, this study sought to to determine the influence of policies on accounts receivables management in the hotel industry in Kenya.

1.3 Research Objectives

To determine the influence of policies on accounts receivables management in the hotel industry in Kenya

2.0 LITERATURE REVIEW

2.1 Theoretical Review

2.1.1 Transactions Cost Theory

Ferris, (1981) in transactions cost theory of trade credit argues that trade credit reduces transactions costs by allowing the parties to separate payment and delivery cycles when delivery is uncertain. The customer can lower the transactions demand for cash if payment can be separated from delivery. Bougheas, Mateut & Mizen (2009) incorporate this basic idea in a formal two period model which incorporates the trade-off between inventories and trade credit under conditions of stochastic demand. Using this model they derive empirically testable propositions with respect to accounts payable and accounts receivable and their relationship with changes in costs of inventories, profitability, risk profile, liquidity position of firms and bank loans. Brick & Fung (1984) argued that, all other things being equal, buyers with low effective tax rates would prefer trade credit and therefore are more likely to have higher levels of accounts payable relative to similar buyers with a higher effective tax rate.

2.1.2 Price Discrimination Theory

Brennan, et al (1988) argue that if the product market is non-competitive and there exists an adverse selection problem in credit markets then this makes price discrimination through trade credit potentially profitable. An empirical implication that arises from the price discrimination arguments is that more profitable firms are more likely to grant more trade credit. Petersen & Rajan (1997) found support for the price discrimination theory in a study that showed that firms with higher profit margins have more interest in raising their sales. This is due to the fact that the marginal earnings they obtain are high, allowing them to incur additional costs to generate new sales. Price discrimination occurs when a firm sells two identical units of a good or offers the same homogenous service at different prices either to two different customers or to the same customer (Miravete, 2005). Price discrimination being illegal in many countries, firms may choose to discriminate between buyers using trade credit. Some firms may choose to make early payments to take advantage of discounts while others may have an incentive to pay towards the end of the credit period (Vaidya, 2011). Wilner (2000), advances a theory of trade credit that is similar in spirit to the price discrimination theory; however, it is based on the idea that a customer can exploit its bargaining advantage with the supplier to obtain concessions when in financial distress.

2.2 Empirical Review

Afza and Nazir (2009) investigated the traditional relationship between working capital management policies and a firm's profitability for a sample of 204 non-financial firms listed on the Karachi Stock Exchange (KSE). Using regression analysis technique and data from 1998-2005, the study relates a significantly negative relationship between the profitability of firms and degree of aggressiveness of working capital investment and financing policies. The study further indicates a significant difference among the working capital requirements and financing policies across different industries. The authors suggest that managers can create value if they adopt a conservative approach towards working capital investment and working capital financing policies.

Lazaridis and Tryfonidis (2006) examined the relationship between profitability and working capital management of 131 firms listed on the Athens Stock Exchange. Using regression estimation approach and data covering the period from 2001-2004, the authors find a statistically significant inverse relationship between profitability, measured as gross operating profit and the cash conversion cycle, accounts receivables days and inventory days. They also observe a significantly positive association between profitability and accounts payable days. This study re-emphasizes that, firms can enhance profitability by prudently keeping their working capital management components (accounts receivables, accounts payables, and inventory) within optimal levels.

According to a study done by Ayub (2005) in Pakistan, working capital management is one of the important areas of financial planning and control. This broad area covers the management and control of cash and banking transactions, short term investments, receivables from debtors, credit analysis, inventories and current liabilities

The study by Ayub (2005) was based on three behavioral equations. Closing inventories (CLSTOCK), accounts receivable (DEBTRS) and sales revenue (SALES) are the dependent variables of the equations. The equations were estimated by a three-stage least square (3SLS) estimation technique. The model was estimated from the pooled data of the annual audited accounts of 225 companies listed on the Karachi Stock Exchange from the period 1980 to 1994. The accounts covered the period of 1980-1994, giving us 3375 observations (225 companies and 15 years). The data for the model had been extracted from the annual reports of the listed companies. They applied the standard definitions of accounting variables as mentioned by the State bank of Pakistan in the 'Balance Sheet Analysis' (State Bank of Pakistan: 1995-1996, 1990-1991, 1986-1987, 1982-1983).

The study by Ayub (2005) concluded that accounts receivable (DEBTRS) are a substitute for closing inventories (CLSTOCK). This was reflected by the highly significant beta attached to accounts receivable in the first equation. Closing inventories is less for those products, which are sold on credit. It is obvious that sales volume affects the size of inventories. If products are perishable or proper storage facilities are not available, the producer prefers to sell the products at the earliest possible time. In this case, he will expand his credit facility. An increase in credit sales will be a cause of a decrease in inventories. The incremental receivables will be 5% of the incremental sales revenue.

The study by Ayub (2005) also found that internally generated capital also proves to be a significant determinant of accounts receivables (DEBTRS). Accounts receivables (DBTRS) increases significantly with the growth of the outstanding balance of retained earnings (SURPLUS). The same is shown for current liabilities (CURLIBL). The volume of accounts receivables will increase by 27% of the increment in current liabilities (CURLIBL) and reserves and surplus funds (SURPLUS). A negative relation between accounts receivables (DBTRS) and liquid assets (LASST) has been found. Accounts receivables will decrease by 42% of the additional liquid assets. The study concludes that a firm will not adopt a soft credit policy if it has a good liquidity position. It is a common observation that companies in the utility sector (Energy, Fuel, and Communication industries) have good liquidity position because of the inelastic demand for their products.

2.3 Conceptual Framework

Independent Variable		**Dependent Variable**
Policies Operation procedures Billing systems Billing remittances	→	**Account Receivables Management** Profitability Borrowing Written manual Competent employees

Figure 1: Conceptual Framework

3.0 RESEARCH METHODOLOGY

The study adopted a descriptive survey design with constructivism (experiential learning) as its epistemology (ground of knowledge). The population of this study is all the hotels and lodges in Kenya which is star rated by Hotels and Restaurants Authority in the range of 3 to 5 star. The sampling frame for this study consisted of all three, four and five star hotels and lodges in Kenya as they appear in the gazette notice of June 2003 and supplement gazette notice of July 2004. This study used random sampling procedure to identify the sample units. The sample size for the study was 47 units of analysis derived from hotels, restaurants and lodges in the country. Proportional allocation was in the 3 star strata, the sample size was 28 units, in the 4 star stratums, the sample size was 10 units and in the 5 star stratums, the sample size was 9 units. This study used stratified random sampling method on all the hotels and lodges in Kenya. The strata were that of top management, finance staff and credit control staff. Stratified random sampling was used in each hotel to group respondents into three strata. Data collection methods used included questionnaires and secondary data collection guide**.** After data was obtained through questionnaires, interviews, observations and through secondary sources, it was prepared in readiness for analysis by editing, handling blank responses, coding, categorizing and keyed in using SPSS statistical package (version 20). Factor analysis was used to establish the appropriateness of the questionnaire constructs. Specifically factor loadings were used to establish the weights of the various statements on extracted factors. The binary logistic regression equation was applied to establish the effect of technology on accounts receivables management.

4.0 RESULTS AND DISCUSSIONS

4.1 Demographic Information

4.1.1 Response Rate

The number of questionnaires, administered to all the respondents, was 141. A total of 103 questionnaires were properly filled and returned from the hotel employees. This represented an overall successful response rate of 73%. According to Mugenda and Mugenda (2003), a response rate of 50% or more is adequate. Babbie (2004) also asserted that return rates of 50% are acceptable to analyze and publish, 60% is good and 70% is very good.

Table 1: Response Rate

Response	**Total**	**Percent**
Returned	103	73%
Unreturned	38	27%
Total	141	100%

4.1.2 Gender of the Respondents

The respondents were asked to indicate their gender. Table 2 shows that majority (81.6%) of the respondents was male and 18.4% were female. The findings imply that the hotel industry is a male dominated field. According to Ellis et al. (2007), in spite of women being major actors in Kenya's economy, and notably in agriculture and the informal business sector, men dominate in the formal sector citing the ratio of men to women in formal sector as 0.74 : 0.26.

Table 2: Gender of the Respondents

Gender	**Frequency**	**Percent**
Male	84	81.6
Female	19	18.4
Total	**103**	**100**

4.1.3 Age Bracket of the Respondents

The respondents were asked to indicate their age brackets. Results in Table 3 revealed that majority (58%) of the respondents were aged between 31 to 45 years and 42% were aged between 21 to 30 years. The findings imply that most of the respondents were at their career peak. The findings also imply that a significant number of the respondents were youths hence young work force which can cope with long working hours in the hotel industry.

Table 3: Age Bracket

Age	Frequency	Percent
21-30	43	41.7
31-45	60	58.3
Total	**103**	**100**

4.1.4 Department of the Respondents

The respondents were asked to indicate the departments they worked in at the various hotels. Table 4 shows that 45% of the respondents were in finance department, 40% were in credit control department and 15% of the respondents were from executive department. The findings imply that most the respondents, 85% were working in the finance departments hence accurate responses about accounts receivables.

Table 4: Respondent's Department

Department	Frequency	Percent
Executive	16	15.5
Finance	46	44.7
Credit Control	41	39.8
Total	**103**	**100**

4.1.5 Period Worked in Hotel

The respondents were asked to indicate the length of period they have worked in the hotel industry. Table 5 illustrates that 42.7% of the respondents had worked for a period of between 7 to 9 years, 23.3% indicated 10 to 15 years and 14.6% indicated over 15 years. This also indicates that 66% of the respondents have worked in the hotel industry for between 7 years and 15 years. The findings imply that the respondents had worked long enough in the hotel industry and hence had knowledge about the issues that the researcher was looking for.

Table 5: Period Worked in Hotel

Period worked in Hotel	Frequency	Percent
1-3 yrs	13	12.6
4-6 yrs	7	6.8
7-9 yrs	44	42.7
10-15 yrs	24	23.3
over 15 yrs	15	14.6
Total	**103**	**100**

4.1.6 Period Working With Accounts Receivables

The respondents were asked to indicate the period they have been working with accounts receivables. Results in Table 6 illustrate that 39% of the respondents indicated between 4 to 6 years, 23% indicated 7 to 9 years and 19% indicated10 to 15 years. The findings imply that

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www.ajpojournals.org

the respondents had worked long enough in the accounts receivables hence accurate responses.

Table 6: Period Working with Accounts Receivables

Period	Frequency	Percent
1-3	5	4.9
4-6	40	38.8
7-9	24	23.3
10-15	20	19.4
over 15	14	13.6
Total	**103**	**100**

4.1.7 Average Hours Worked

The study sought to find out how many hours (average) each week do the respondents work with issues related to accounts receivables. Table 7 shows that an equal share of 24.3% of the respondents indicated 20 hours and 15 hours per week, 19.4% indicated 5 hours and 18.4% indicated 10 hours per week.

Table 7: Average Hours Worked

Average Hrs	Frequency	Percent
30 hrs	14	13.6
20 hrs	25	24.3
15 hrs	25	24.3
10 hrs	19	18.4
5 hrs	20	19.4
Total	**103**	**100**

4.1.8 Accounts Receivables Tools

The respondents were asked to indicate how much they work with the different aspect of accounts receivables. Table 8 indicates that 67% of the respondents used reminder letters extensively between 21-40%, 54% of the respondents indicated they used reminder phone calls extensively, 41% indicated they used credit control to a higher percentage. Fifty seven percent indicated that they sent invoices to a greater extent and 61% indicated that they sent interest invoices between 21% to 40% percentage. The findings imply that the hotel management used various accounts receivables tools in reminding their clients. These are letters, phone calls, credit control, sending invoices and sending interest invoices.

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Vol.1, Issue 1 No.5, pp93-115, 2017

www.ajpojournals.org

Table 4.8: Accounts Receivables Tools

Accounts receivables	1% - 20%	21% - 40%	41% - 60%	61% - 80%
Reminder letter	14.6%	67.0%	7.8%	10.7%
Reminder phone calls	19.4%	54.4%	8.7%	17.5%
Credit control system	19.4%	40.8%	18.4%	21.4%
Sending invoices	23.3%	57.3%	9.7%	9.7%
Sending interest invoices	24.3%	61.2%	5.8%	8.7%
Other	17.5%	41.7%	8.7%	32.0%

4.1.9 Payment Terms for Important Customers

The study sought to establish the terms of payment the respondents allow to their most important customers. Results in Table 9 shows that 43.7% of the respondents indicated 30 days, while 40.8% indicated 90 days and 10.7% indicated 14 days. The findings imply that the customers were given enough duration to clear their debts.

Table 9: Payment Terms for Important Customers

Payment Terms for Important Customers	Frequency	Percent
14 days	11	10.7
30 days	45	43.7
60 days	5	4.9
90 days	42	40.8
Total	**103**	**100**

4.1.10 Payment Terms for Usual Customers

The study sought to establish the terms of payment the respondents allow to their usual customers. Results in Table 10 shows that 34% of the respondents indicated 30 days, while 30.1% indicated 90 days and 24.3% indicated 14 days. The findings imply that the customers were given enough duration to clear their debts.

Table 10: Payment Terms for Usual Customers

Payment Terms for Usual Customers	Frequency	Percent
14 days	25	24.3
30 days	35	34
60 days	8	7.8
90 days	31	30.1
other	4	3.9
Total	**103**	**100**

4.2 Descriptive Statistics

The objective of the study was to determine the effect of policies on accounts receivables management in the hotel industry in Kenya. Results in Table 11 shows that 65% of the respondents agreed that there are written policies and internal operating procedures that have been approved by the governing body or senior management on accounts receivables, 81%

agreed that roles and responsibilities are clearly defined in writing and communicated regarding issues on accounts receivables management and 89% agreed that there are procedures in place to ensure that billings are prepared and sent as soon as possible after the sale of goods or provision of services, not less frequently than monthly unless another interval is specified in a written contract.

Furthermore, 62% agreed that remittance advices and billings are maintained to support accounts receivable entries in the general ledger, 75% agreed that subsidiary accounts receivable journals are maintained and reconciled at least monthly with the general ledger and 62% agreed that cash receipts are properly and promptly documented, posted to accounts receivable records, and deposited. In addition, 60% agreed that the hotel has adequate segregation of duties to ensure that different individuals prepare billings, collect and deposit cash, and reconcile accounts receivable and cash receipts entries to the general ledger and 70% agreed that bank deposit slips have the official depository bank number pre-printed on the document and cheques deposited are noted on the deposit slip by maker and amount. Finally, 66% agreed that the pre numbered receipts issued for all cash currency receipts are accounted for. The mean score for the response for this section was 3.66 which indicates that majority of the respondents agreed that management policies was a key determinant of accounts receivables.

The findings corroborates with those of Hagit (2011) who did a study in US to investigate the effect of information asymmetry between managers and outsiders on the use of accounts receivables in financing the firm's operations. The information impounded in receivables pertains to the firm's customers rather than the firm and therefore differs from the information embedded in other assets. It was established that the unique information content of accounts receivables makes it a likely candidate to use as a financing tool for highly information asymmetric firms.

The findings are also Consistent with Francisa et al. (2005) and Bhattacharya, Daouk and Welker (2007) who found that the innate component is more influential in explaining the decision to use AR financing. These results are robust to an alternative method of decomposition of the information environment proxy which relies on the principal component analysis and the use of two additional accounting measures that have been found to be correlated with the discretionary component of the information environment; earning volatility and abnormal accruals.

The findings imply that the hotels had put into place strict management policies and internal operating procedures approved by the senior management on accounts receivables. The policies are well written down and roles and responsibilities clearly defined and communicated for accounts receivables management. The findings further imply that management policies affect accounts receivables; if the policies are well governed they affect accounts receivables positively.

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www.ajpojournals.org

Table 11: Management Policies and Accounts Receivables

Statement	Strongly disagree	Disagree	Neutral	Agree	Strongly agree	Likert Mean
There are written policies and internal operating procedures that have been approved by the governing body or senior management on accounts receivables	11%	17%	7%	39%	27%	3.53
Roles and responsibilities are clearly defined in writing and communicated regarding the issue of accounts receivables management	6%	7%	7%	40%	41%	3.99
There are procedures in place to ensure that bills are prepared and sent as soon as possible after the sale of goods or provision of services, not less frequently than monthly unless another interval is specified in a written contract	3%	6%	3%	52%	36%	4.09
Remittance advices and bills are maintained to support accounts receivable entries in the general ledger	10%	24%	5%	46%	16%	3.27
Subsidiary accounts receivable journals are maintained and reconciled at least monthly with the general ledger	3%	17%	8%	42%	33%	3.79
Cash receipts are properly and promptly documented, posted to accounts receivable records, and deposited	10%	20%	8%	33%	29%	3.48
The hotel has adequate segregation of duties to ensure that different individuals prepare billings, collect and deposit cash, and reconcile accounts receivable and cash receipts entries to the general ledger	9%	22%	9%	37%	23%	3.44
Bank deposit slips have the official depository bank number pre-printed on the document and cheques deposited are noted on the deposit slip by maker and amount	6%	17%	8%	36%	34%	3.68
The pre numbered receipts issued for all cash currency receipts are all accounted for	5%	21%	8%	31%	35%	3.66
Mean						**3.66**

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www.ajpojournals.org

4.3 Inferential Statistics

4.3.1 Sampling Adequacy

To examine whether the data collected was adequate and appropriate for inferential statistical tests such as the factor analysis, multiple linear regression analysis and other statistical tests, two main tests were performed namely; Kaiser-Meyer-Olkin (KMO) Measure of Sampling Adequacy and Barlett's Test of Sphericity. For a data set to be regarded as adequate and appropriate for statistical analysis, the value of KMO should be greater than 0.5 (Field, 2000).

Findings in Table 12 showed that the KMO statistic was 0.821 which was significantly high; that is greater than the critical level of significance of the test which was set at 0.5 (Field, 2000). In addition to the KMO test, the Bartlett's Test of Sphericity was also highly significant (Chi-square = 829.842 with 36 degree of freedom, at $p < 0.05$). The results of the KMO and Bartlett's Test are summarized in Table 4.44. These results provide an excellent justification for further statistical analysis to be conducted.

Table 12: Management Policy KMO Sampling Adequacy and Bartlett's Sphericity Tests

Kaiser-Meyer-Olkin Measure	0.821
Bartlett's Chi- Square	829.842
Bartlett's df	36
Bartlett's Sig.	0.000

The extraction of the factors followed the Kaiser Criterion where an eigen value of 1 or more indicates a unique factor. Total Variance analysis indicates that the 9 statements on management policy can be factored into 1 factor. The total variance explained by the extracted factor is 68.1 % as shown in Appendix IX. This is also supported by the Scree Plot in the Principal Components output.

Factor analysis was carried out on statements regarding management policy and accounts receivables and attracted coefficients of more than 0.4 hence all the statements were retained for analysis. Table 13 shows all the coefficients for the nine statements. The statement that bank deposit slips have the official depository bank number pre-printed on the document and that cheques deposited are noted on the deposit slip by maker and amount, had a coefficient of 0.887. Subsidiary accounts receivable journals are maintained and reconciled at least monthly with the general ledger had a component coefficient of 0.859 and that the hotel has adequate segregation of duties to ensure that different individuals prepare billings, collect and deposit cash, and reconcile accounts receivable and cash receipts entries to the general ledger had a coefficient of 0.855.

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Table 13: Management Policy Factor Analysis Component Matrix

Statement	component
Bank deposit slips have the official depository bank number pre-printed on the document and cheques deposited are noted on the deposit slip by maker and amount	0.887
Subsidiary accounts receivable journals are maintained and reconciled at least monthly with the general ledger	0.859
The hotel has adequate segregation of duties to ensure that different individuals prepare bills, collect and deposit cash, and reconcile accounts receivable and cash receipts entries to the general ledger	0.855
The pre-numbered receipts issued for all cash currency receipts are all accounted for	0.851
Roles and responsibilities are clearly defined in writing and communicated regarding the issue of accounts receivables management	0.817
There are procedures in place to ensure that bills are prepared and sent as soon as possible after the sale of goods or provision of services, not less frequently than monthly unless another interval is specified in a written contract	0.816
Cash receipts are properly and promptly documented, posted to accounts receivable records, and deposited	0.814
Remittance advices and bills are maintained to support accounts receivable entries in the general ledger	0.776
There are written policies and internal operating procedures that have been approved by the governing body or senior management on accounts receivables	0.744

The reliability results for management policy attracted a coefficient of 0.939 hence the statements were good for analysis as shown in table 4.46.

Table 14: Reliability Test for Management Policy

Variable	Management Policy
Management Policy	9
Cronbach's Alpha	0.939

4.3.2 Relationship between Management Policy and Accounts Receivable

Table 15 displays the results of correlation test analysis between the dependent variable (accounts receivables) and management policy. The results show that accounts receivables management was negatively correlated with management policies. This reveals that better application of management policies effectively reduced the level of accounts receivables.

Table 15: Relationship Between Management Policy and accounts Receivables

Variable		Accounts receivables	Management policy
Accounts receivables	pearson correlation	1	
	sig. (2-tailed)		
Management policy	pearson correlation	-0.611	1
	sig. (2-tailed)	0.000	

Binary logistic regression was used to model relationship between management policies constructs and accounts receivables management**.** Table 16 shows that written policies were statistically associated with accounts receivable management (p<0.000). An increase in having written policies increases the probability of having effective account receivables management by 5.121 times. Procedures were statistically associated with accounts receivable management (p<0.049). An increase in management procedures effectiveness increases the probability of having effective account receivables management by 0.281 times. Remittance advice was statistically associated with accounts receivable management (p<0.002). An increase in remittance advice given increases the probability of having effective account receivables management by 5.491 times.

Table 16: Logistic regression for Management Policy

Construct	Beta	S.E.	Wald	df	Sig.	Exp(B)	95% C.I. for EXP(B)	
							Lower	Upper
Written policies	1.633	0.461	12.534	1	**0.000**	5.121	2.073	12.65
Responsibilities	-0.679	0.41	2.74	1	0.098	0.507	0.227	1.133
Procedures	-1.271	0.647	3.862	1	**0.049**	0.281	0.079	0.997
Remittance advice	1.703	0.559	9.294	1	**0.002**	5.491	1.837	16.414
Subsidiary accounts	0.204	0.366	0.311	1	0.577	1.226	0.599	2.511
Proper documentation	-0.041	0.323	0.016	1	0.899	0.96	0.509	1.81
Duties segregation	0.56	0.377	2.208	1	0.137	1.751	0.836	3.667
Deposit slips	-0.585	0.402	2.113	1	0.146	0.557	0.253	1.226
Pre-numbered receipts	-0.894	0.468	3.643	1	0.056	0.409	0.163	1.024
Constant	2.408	2.545	0.895	1	0.344	11.112		

$$\textit{Odds of AR} = 2.4082 + 1.633X_1 - 0.679X_2 - 1.271X_3 + 1.703X_4 + 0.204X_5 - 0.041X_6 + 0.56X_7 - 0.585X_8 - 0.894X_9$$

Where;

X1 = Written policies

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ISSN xxxx-xxxx (Paper) ISSN XXXX-XXX (Online)
Vol.1, Issue 1 No.5, pp93-115, 2017
www.ajpojournals.org

X2 = Responsibilities

X3= Procedures

X4 = Remittance advice

X5= Subsidiary accounts

X6 = Proper documentation

X7= Duties segregation

X8= Deposit slips

X9 = Pre-numbered receipts

5.0 DISCUSSION CONCLUSIONS AND RECOMMENDATIONS

5.1 Discussion

The objective of the study was to determine the effect of policies on accounts receivables management in the hotel industry in Kenya. Results indicated that there were written policies and internal operating procedures that have been approved by the governing body or senior management on accounts receivables and the roles and responsibilities were clearly defined in writing and communicated regarding the issue on accounts receivables management. The results revealed that shows that written policies were statistically associated with accounts receivable management ($p<0.000$). An increase in having written policies increases the probability of having effective account receivables management by 5.121 times. Procedures were statistically associated with accounts receivable management ($p<0.049$). An increase in management procedures effectiveness increases the probability of having effective account receivables management by 0.281 times. Remittance advice was statistically associated with accounts receivable management ($p<0.002$). An increase in remittance advice given increases the probability of having effective account receivables management by 5.491 times.

5.2 Conclusions

Management policies were a key driver to accounts receivables management in hotel industry in Kenya. It was possible to conclude that the hotels had put into place strict management policies and internal operating procedures approved by the senior management on accounts receivables. The policies are well written down and roles and responsibilities clearly defined and communicated on accounts receivables management. The study further concludes that management policies affect accounts receivables; if the policies are well governed they affect accounts receivables positively.

5.3 Recommendations

The study recommended that hotel management should ensure that they employ workers who can follow orders with minimum supervision and reward them well in terms of compensation to avoid cases of theft, complaints from customers and endorse a heavy penalty for any employee who provide substandard service.

5.4 Areas for Further Research

A replica of this study can be carried out with a further scope to include more hospitality establishments in Kenya other than Three to Five star hotels and lodges. A similar study can

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Vol.1, Issue 1 No.5, pp93-115, 2017

be done on other services oriented institutions and see whether the findings hold true. Future studies should apply different research instruments like secondary data, focus group discussions to involve respondents in discussions in order to generate detailed information which would help improve accounts receivables management in Kenya.

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