MAKERERE UNIVERSITY

MAKERERE UNIVERSITY BUSINESS SCHOOL

WORKING CAPITAL MANAGEMENT, INTELLECTUAL CAPITAL AND FINANCIAL PERFORMANCE OF HOTELS IN KAMPALA

BY

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A DISSERTATION SUBMITTED TO MAKERERE UNIVERSITY BUSINESS SCHOOL (FACULTY OF GRADUATE STUDIES AND RESEARCH) IN PARTIAL FULLFILLMENT OF THE REQUIREMENT OF AWARD OF A DEGREE OF MASTER OF SCIENCE IN ACCOUNTING AND FINANCE OF MAKERERE UNIVERSITY KAMPALA

PLAN, A

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DECLARATION

I Atai Petrolina, declare that this dissertation is a result of my own independent effort and investigation; it is my original work, which has not been submitted to any other institution of higher learning for any award.

Signature; ..... Date; 13/11/2023

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APPROVAL

This is to certify that this dissertation has been submitted for examination with our approval as university supervisors.

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Supervisor

DEDICATION

I dedicate this dissertation to the Almighty God and for his abundant grace and blessings, my loving and wonderful family, and all those who have been inspiring and supporting me morally and financially.

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LIST OF ABBREVIATIONS

A-VAIC	Adjusted Value Added Intellectual Coefficient
IGC	International Growth Centre
ROA	Return on assets
ROE	Return on Equity
UHOA	Uganda Hotel Owners Association
VAIC	Value-Added Intellectual Coefficient

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ABSTRACT

The study was carried out was to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Kampala. The study objectives were; to examine the relationship between working capital management and financial performance of hotels in Kampala, to examine the relationship between intellectual capital and financial performance of hotels in Kampala, to examine the combined relationship between working capital management, intellectual capital and financial performance of hotels in Kampala. The study used the cross- sectional and quantitative research design. Data was collected using a self-administered questionnairefrom104 hotels. The Statistical Package for Social Scientists was used in analyzing the data. Correlation and regression analysis was also used.

The study found out that the results in table 4.4 indicate that there is a positive and significant ($r= .505$, $p<.01$) relationship between working capital and financial performance. This implies that improving working capital management practices through having proper records on all working capital items, utilization of cash discounts when making purchases and putting in place proper safeguards against inventory will be associated with an improvement in the profitability and liquidity of hotels.

The purpose of this research was to report results of a study carried out to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Kampala. The findings from the study revealed that working capital management and intellectual capital positively and significantly influence financial performance. Intellectual capital has a higher prediction rate as compared to working capital management implying that more emphasis should be put on Intellectual Capital to have a greater improvement in financial performance. For effective running of hotels, having employees who are knowledgeable about their work and maintaining good business relationships with customers will attract more customers to the hotels who will be willing to make payments for the services offered thus improving financial performance. In recommendation Hotel managers need to be trained and coached in financial management as this enabled them to be knowledgeable on how to manage hotel finances and gain basic accounting practices.

CHAPTER ONE

INTRODUCTION

1.0Introduction

This section covers the background to the study, statement of the problem, purpose of the study, objectives of the study, scope of the study, significance of the study and the conceptual framework.

1.1 Background of the study

In the current post Covid 19 era, it is fundamental for organizations to adopt effective and efficient operating techniques in order for them to achieve their set objectives thus achieving the desired financial performance. Since hotels are centers of sociability and vacation spots, (Uganda Hotel Owners Association (UHOA), 2020) their financial performance is important for continuity. Financial performance can be measured in terms of growth in profitability and liquidity (Prempeh and Peprah-Amankona, 2018; Kwatiah and Asiamah, 2020; Reid and Joshua, 2004; Veliu and Manxhari, 2017) and it is important because it influences shorter decisions and strategic planning. It is also used in assessing an organization's ability to utilize its resources in order to generate revenue (Kwatiah & Asiamah, 2020).

Financial performance can be influenced by variables such as working capital management and intellectual capital. Prempeh and Peprah-Amankona (2018) conducted a study and found out that there exists a significant positive relationship between working capital management and firms' profitability. In the study of Lihandah, Bogonko and Ongi'yo (2018), it was established that working capital management is positively and significantly related to financial performance of hotels. In addition, Sardo, Serrasqueiro and Alves (2018) examined the relationship between intellectual capital and financial performance and found a positive significant relationship

between intellectual capital and financial performance. Bayraktaroglu, Calisir and Baskak (2019), established that intellectual capital and firm performance are positively related implying that an improvement in the intellectual capital is associated with an improvement in firm performance.

UHOA (2020) noted that the hotel sector plays an important role in the development of Uganda's Tourism sector. Currently in Uganda, the financial performance of the hotel sector is still low as it is still trying to recover from the Covid-19 pandemic effects and it is estimated that the hotel sector lost $320 million since March 2020 due to the Covid-19 pandemic. Even before the Covid 19 pandemic the financial performance of hotels was on the down trend and was worsened by the occurrence of the Covid 19 pandemic. As a result, many hotels are facing liquidity challenges as they struggle to pay suppliers, rent and salaries.

Busingye (2021) emphasizes that in the hotel sector, the occupancy rate is a very good indicator of a hotel's profitability. A high rate indicates high profitability levels. According to the Tourism Sector profile (2022) hotels in Kampala achieve an average occupancy rate of 45% which is below the average global occupancy rate of 67% (Amadeus, 2022). This implies that the profits made by hotels in Kampala are so low. According to (IGC, 2020), profitability levels of hotels have also deteriorated by at least 50% and their liquidity as well (International Growth Centre (IGC), 2021).This performance could be attributed to working capital management and intellectual capital of these hotel and therefore, the motivation of this study is to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Kampala.

1.2 Statement of the problem

Although hotels are seen as centers of sociability, vacation sports, places of public assembly and deliberation leading to economic growth, their financial performance has been deteriorating over time (UHOA, 2020). The International Growth Centre (IGC) (2020) noted that the profitability levels of hotels in Kampala reduced by over 50% starting January 2020. The Tourism sector profile (2022) emphasizes that hotels in Kampala achieve an average occupancy rate of 45%which is below the average global occupancy rate of 67% (Amadeus, 2022) resulting in low liquidity and profitability. This performance challenges could be attributed to working capital management and intellectual capital. Therefore, the study sought to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Uganda.

1.3 Purpose of the study

The purpose of the study was to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Kampala.

1.4 Objectives of the study

i) To examine the relationship between working capital management and financial performance of hotels in Kampala.

ii) To examine the relationship between intellectual capital and financial performance of hotels in Kampala

iii) To examine the combined relationship between working capital management, intellectual capital and financial performance of hotels in Kampala.

1.5 Research Questions

i) What is the relationship between working capital management and financial performance of hotels in Kampala?

ii) What is the relationship between intellectual capital and financial performance of hotels in Kampala?

iii) What is the combined effect of working capital management and intellectual capital on the financial performance of hotels in Kampala?

1.6 Scope of the study

1.6.1 Geographical scope

The study was conducted in Kampala district being the central business district of Uganda and has the highest number of hotels in Uganda (UHOA, 2020).

1.6.2 Subject scope

This study was on working capital management, intellectual capital and financial performance.

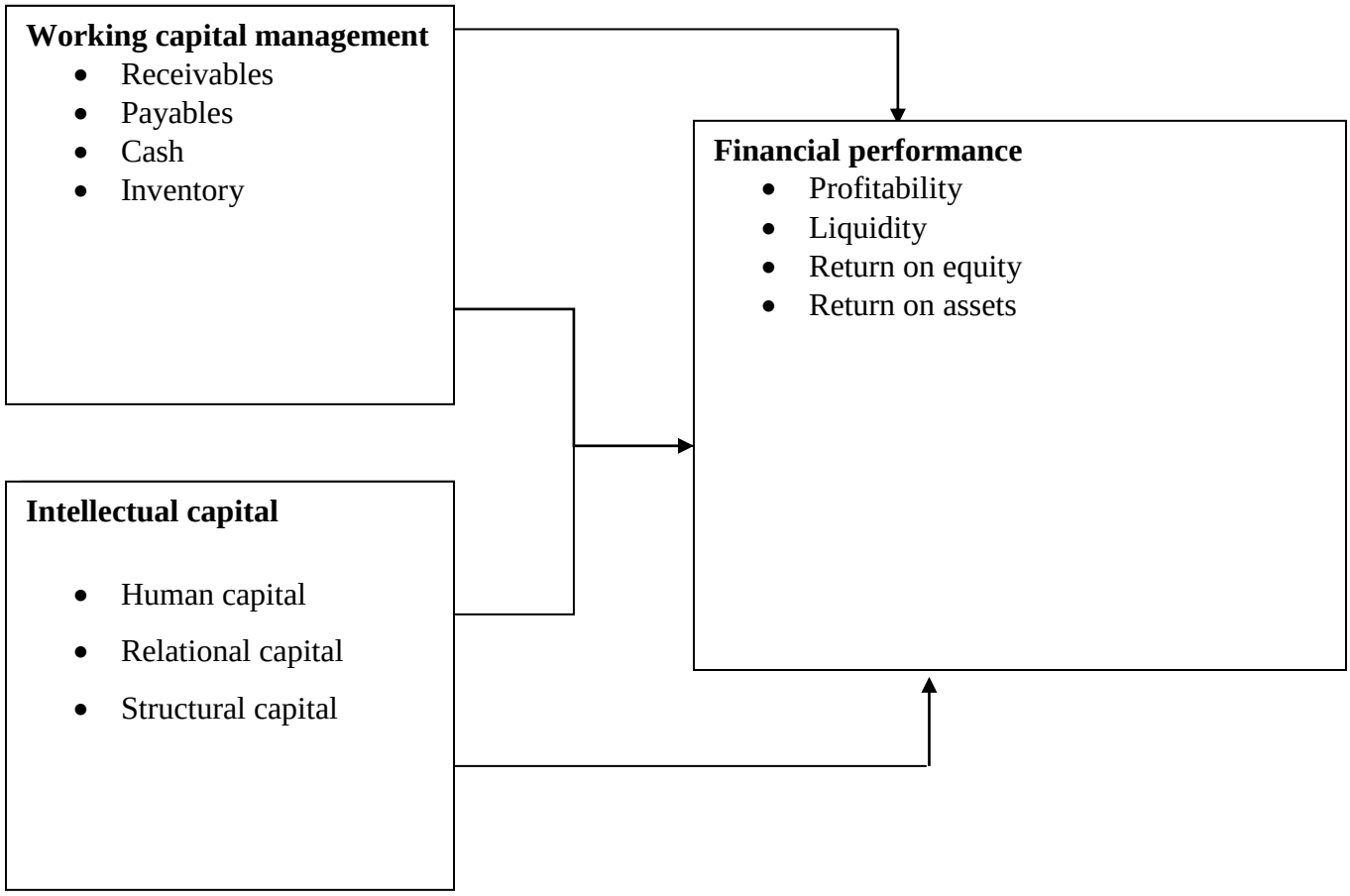
1.7Significance of the study

i. The findings of the study are intended to provide grounds for future studies, therefore, facilitating future researchers' understanding of the relationship between working capital management and financial performance of hotels.

ii. The study findings provided hotel managers with knowledge on how to maintainoptimal level of inventories and receivables which are useful in inventory and receivables control management. It will also guide them on how to improve human and relational capital.

iii. The findings of the study guided policy makers in the development of policies for improving the financial performance of hotels and their relational capital.

1.8 Conceptual Framework



Source;Kwatiah and Asiamah, 2020; Reid and Joshua, 2004; Hassan, Mberia & Muturi, 2017; Muya and Gathogo, 2016; Kaawaase, Bananuka, Kwizina, & Nabaweesi, (2020); Nkundabanyanga (2016); Iazzolino, Chiappetta, & Chiappetta, 2018; Neves and Proença, 2021

1.8.1 Description of the conceptual frame work

The conceptual framework consists of working capital management and intellectual capital as the independent variables and financial performance as the dependent variable. Working capital management was measured using receivables management, cash management, inventory management and payables management (Hassan *et al*., 2017; Muya and Gathogo, 2016).

Intellectual capital was measured using relational, human, structural capital Iazzolino et al., 2018; Neves and Proença (2021). Financial performance was measured using profitability, liquidity, return on equity and return on assets (Kwatiah and Asiamah, 2020; Reid andJoshua, 2004). According to the conceptual framework, there is a relationship between working capital management and financial performance, there is a relationship between intellectual capital and financial performance and there is a combined effect of intellectual capital and working capital management on financial performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter presents a comprehensive discussion regarding the literature reviewed from various scholars, about the theories, the study variables and the relationships to the study variables. The presentation in this section is in conformity with the conceptual framework and its variables.

2.2 The Balanced Scorecard Theory

The study is anchored on the balanced scorecard theory, which is a framework that focuses on measuring an organization's performance. It puts into consideration both financial and non-financial aspects that contribute to an organization's long-term success. The Balanced Scorecard is composed of four perspectives; financial, customer, internal processes, and learning and growth perspectives. However, the study only concentrated on the financial perspective. The financial perspective relates to the traditional financial performance measures such as profitability, liquidity, return on assets, and return on equity. Financial perspectives are used in assessing an organization's ability to achieve the set financial objectives (Hasan & Chyi, 2017). The customer perspective examines an organization's ability to meet different customer needs and expectations. By assessing whether an organization is in position to meet customer expectations, organizations get to identify areas for improvement, and develop strategies to enhance customer value. The dimensions related to the customer perspective include customer satisfaction, customer retention, customer loyalty and market share (Benková, Gallo, Balogová, & Nemec, 2020).

The internal processes perspective examines the significant organization procedures that an organization undertakes to maximize customer value. Examples of metrics in this perspective

include cycle time, process/service quality, and cost efficiency. By optimizing internal processes, organizations can enhance their ability to meet customer demands and achieve strategic objectives. The learning and growth perspective examines an organization's ability to adapt, innovate, and improve over time. This enables them to improve performance over time. The dimensions here include employee training and development, employee satisfaction, knowledge management, and the use of technology (Syahdan, Munawaroh, & Akbar, 2018).

In the context of the balanced scorecard, working capital management may be addressed under two perspectives; the financial and the internal processes perspectives. Financial metrics such as liquidity can be used to measure a hotel's ability to pay its debts whenever due. The current ratio and quick acid test ration can be used to measure a hotel's ability to manage its working capital (Hasan & Chyi, 2017). The internal process dimensions related to inventory management, accounts receivable/payable turnover, and cash management can be used to evaluate the efficiency of working capital management processes. Intellectual capital is catered for under the learning and growth perspective of the Balanced Scorecard. Dimensions like customer loyalty, innovation and employee turnover are used in assessing and measuring intellectual capital in hotels (Syahdan et al., 2018). By incorporating financial performance, working capital management, and intellectual capital into the Balanced Scorecard framework, hotels can adopt a broad approach to management of organization performance. This enables them to put into consideration various factors that impact the success of hotels and make informed decisions to improve performance across different dimensions (Malagueño, Lopez-Valeiras, & Gomez-Conde, 2018).

2.3 Working Capital Management

According to Hassan *et al.,* (2017), working capital management involves the activities undertaken by an organization to ensure that its current assets and current liabilities are properly managed. Therefore, organizations need to develop and implement policies to enable them achieve their working capital management objectives and overall organization goals. For this study, working capital management was measured in terms of cash management, inventory management, receivables management and payables management (Hassan *et al*., 2017; Muya & Gathogo, 2016).

Effective cash management is essential for all organizations regardless of their nature and size as it enables them to properly plan for their funds and always be in position to make payments whenever required. Cash includes cash at hand, cash at bank and petty cash (Abor, 2016). Sufficient cash is required in hotels as it enables them to pay workers, buy food stuffs and pay off creditors whenever due. Proper cash management is essential for an organization in achieving its liquidity objectives. For this to be achieved, clear cash budget allocations need to be made for easy planning and will result into growth of business. Where cash management is not given priority, various challenges are likely to emerge like misappropriation of cash and failure to pay creditors on timely basis (Naidu & Sri, 2020).

Inventory management is concerned with ensuring that a firm maintains adequate levels of inventory to enable it satisfy the demands of customers while minimizing the associated costs like the holding, administrative and stock out costs. Inventory management involves the coordinating of materials, availability, controlling, utilizing and procuring of materials held by a business organization to facilitate operations in the production process (Abor, 2016). Organizations do not have to hold too much inventory as it increases tied up capital which may

lead to deterioration, obsolescence and loss of inventory through theft and pilferage. Inventory is fundamental for the survival of hotels. It is important to hold inventory at optimal levels to avoid incurring costs of over or under stocking (Ajayi, Olutokunbo, Obafemi, & Araoye, 2021).

Proper accounts payable management is necessary for an entity as it prompts them to always pay their creditors on time and enables them to develop suitable controls in order to avoid issues that could result from improper payables management. Accounts receivables are as a result of selling goods and services on credit terms. It is important for hotels to develop and implement policies that enable them to minimize the receivables and at the same time keep track of them. Organizations need to keep a low level of receivables to avoid incurring bad debts which would automatically affect their performance (Kwatiah & Asiamah, 2020).

2.4 Intellectual Capital

Intellectual capital is referred to as the sum of all knowledge and knowing capabilities that will be crucial for organizations in gaining sustainable competitive advantage (Zafer, Gurka, & Ozge, 2020). It is the result of human knowledge and therefore needs to be developed well in order to improve firm performance and achieve sustainable competitive advantage (Sherif and Elsayed, 2016). For this study, intellectual capital was looked at in terms of structural, human and relational capital. Structural capital is concerned with the innovative capacity of a firm which aids it in having unique production processes. This is because whenever firms are innovative their products are usually distinct from their competitors' products which enable them to achieve sustainable competitive advantage. It is imperative for firms to have excellent research and development units so as to spearhead innovation which eventually leads to an improvement in firm performance. Structural capital may include databases, organizational processes, and strategies (Soewarno & Tjahjadi, 2020).

Human capital is an amalgamation of genetic inheritance, attitude, education and people experience in their life and business. Itenables firms to take advantage of all opportunities that come by thus, enabling them to improve performance. It is basically concerned with the managerial competences and abilities of employees. Therefore, an improvement in human capital could lead to better firm performance (Zafer et al., 2020).Relational capital is "the value generated by inter-organizational relations or relations existing between the firms; for example suppliers, customers, shareholders and other institutions and individuals". It is also knowledge that relates to external parties of the company, such as customers, shareholders, competitors, society. These are all part of the environment in which firms operate and it is important for them to maintain good relationships especially with customers because without them, then the business will be no more. Without customers no one will buy organizations products or use their services, therefore a good relationship with customers is important. They also help in creating awareness of organizations products especially if they were of good quality (Iazzolino et al., 2018).

2.5 Financial Performance

Financial performance is the measurement of an organization's financial outcomes with a view to establish its overall financial strength. It enables an organization to establish whether it is using the resources available to it efficiently and effectively (Paulinus & Jones, 2017). According to Kabuye, Kato, Akugizibwe, and Bugambiro (2019), financial performance involves an organization's ability to generate revenues from the existing resources and assets. They add that whenever the financial performance of an organization is established, it helps the stakeholders to assess and ascertain whether the organization has met its objectives as had been planned and enables them to make decisions as to whether they should continue investing in a

given organization or not. Hamidah, Iswara, and Mardiyati (2016), note that financial performance may be measured using profitability and liquidity. In this study, financial performance was measured using profitability and liquidity (Kwatiah and Asiamah, 2020; ReidJoshua, 2004; Kabuye et al. 2019). For an organization to increase their profitability, they need to employ business practices that enable them to operate efficiently, effectively, achieve and maintain an optimal working capital management level.

According to Anggraini and Tanjung (2020), profitability is the end result of a number of policies and decisions made by an organization. Profit maximization the main objective of all profit making organizations; the main reason as to why most studies regarding financial performance have always concentrated on it. An organization that registers an increase in its profits annually is considered to be performing well and shareholders will always be ready to invest in it because it maximizes returns. Kwatiah and Asiamah (2020) emphasize that profitability measures a firm's ability to achieve its financial objectives.It is therefore imperative for an organization to follow its policies if it is to achieve its financial objectives (Anggraini & Tanjung, 2020). Profitability can be measured using return on assets, return on equity, and growth in turnover. It shows the level of management effectiveness of a company thus assessing its success. In addition, profitability is also used by creditors to assess whether a company has the capacity to repay its debts. A company with high levels of profitability is usually presumed to be able to meet the creditors' expectations (Preuss, 2018).

Abdi and Kavale (2016) refer to liquidity as the ability of an organization's current assets to meet current liabilities and important for hotels because it enables them to meet their day to day obligations as and when due. Putra and Sedana (2019) emphasize that liquidity is indicated by the size of current assets and it is assessed by an organization's ability to fulfill its short term

obligations. Organizations that maintain high liquidity levels are in position to pay their short term obligations whenever due and such organizations take advantage of the cash discounts that may be offered to them by suppliers (Reschiwati, Syahdina & Handayani, 2020). Therefore, liquidity is fundamental for hotels and it enables them to meet their financial objectives. Organizations that maintain optimum levels of liquidity are considered to be good performers.

Return on equity (ROE) is a financial metric which measures how profitable and productive a company is at returning capital to its owners. In financial analysis and appraisal, it is one of the most important and frequently applied criterions. ROE is expressed as a percentage and is calculated by dividing net income by shareholders' equity. It sheds light on how well a business makes use of the money invested by its shareholders to produce profits. It displays a company's capacity to make money from the equity that its shareholders have invested. A greater ROE shows that a business is more effective at using its resources to produce profits (Amelia & Sunarsi, 2020).

Return on assets (ROA) is a financial metric that gauges a company's profitability in relation to its total assets. Investors, analysts, and financial decision-makers frequently use ROA as a crucial indicator to evaluate a company's performance and benchmark it against competitors. The ROA calculates the amount of profit an organization makes for each unit of used assets. It shows how well the business can make money from its existing assets. A greater ROA indicates that a business is making better use of its resources to produce profits. ROA provides a comprehensive picture of a company's profitability by taking into account both income and assets. It takes into account how well a business operates to turn its assets into profits and is helpful for assessing how well management makes use of the resources at hand (Husna & Satria, 2019).

2.6 Working capital management and financial performance

Prempeh and Peprah-Amankona (2018) conducted a study on the relationship between working capital management and profitability of firms in the context of developing economies. In their study, they found that there exists a significant positive linear relationship between working capital management and firms' profitability. This implies that firms that develop good working capital management policies will eventually improve performance over time.

Laghari and Chengang, (2019) carried out a study about the investment in working CapitaLand financial constraints with empirical evidence on corporate performance and found an inverted U-shaped relationship between working capital and corporate performance. The study findings are an indication that for firm value maximization to be achieved, they need to maintain an optimal level of working capital.

A key (2019) conducted a study examining the effect of working capital management on the performance of some selected listed manufacturing companies in Ghana. The study adopted a panel regression analysis for analyzing the data and the sample for the study was 10 manufacturing firms. The study findings revealed that there was a positive and significant relationship between the average collection and return on equity and a negative and significant relationship between average collection period and return on assets.

Abdallahi, Garba and Abubakar (2020) carried out a study investigating the effect of working capital management on financial performance of listed oil and gas firms in Nigeria. The ex-post factor (non-experimental) research design was adopted in this study with a study population of 6 oil firms. The study findings revealed that inventory management has no significant effect on the financial performance; account receivables management has significant negative effect on the

financial performance and account payables management has significant and positive effect on the financial performance proxy by return on equity.

Tingbani, Tauringana, Damoah and Sha'ven (2020) carried out a study investigating how the relationship between working capital management and financial performance is affected by the firms' environment, resources and management capability. The study findings revealed that the impact of working capital management on financial performance changes to reflect number contingency variables such as environmental, resources and management capabilities of the firm. Therefore working capital management has a positive influence on financial performance.

2.7 Intellectual capital and financial performance

Neves and Proença (2021) carried out a study investigating the relationship between intellectual capital and financial performance among Portuguese Banks. In this study, panel dynamic models were used and the value added intellectual coefficient model was used to measure intellectual capital. The components of intellectual capital were human, structural and relational capital whereas those for financial performance were return on equity, return on assets and net interest margin. The study findings revealed a positive and significant relationship between intellectual capital and financial performance. Therefore, for banks to achieve the desired level of financial performance, they need to properly manage intellectual capital.

Xu and Liu (2021) conducted a study investigating the impact of intellectual capital on financial performance for manufacturing listed companies in the Chinese context. The study adopted four levels of analysis starting with the analysis using descriptive statistics, spearman's correlation test, kruskal-wallis' test and lastly the regression analysis. In this study, financial performance was measured using firm profitability and corporate return. The study findings revealed a positive relationship between net profit margin, gross profit margin, return on investment, return

on assets, return on equity and intellectual capital. The study provided more evidence that higher investment in Intellectual Capital(IC) can improve value creation in the emerging economies.

Nawaz and Ohlrogge (2022) conducted a study clarifying the impact of corporate governance and intellectual capital on financial performance focusing on the Deutsche bank. Financial performance was measured using return on assets and return on equity whereas intellectual capital was measured using human capital efficiency, structural capital efficiency and capital employed efficiency. According to the study findings, human capital is the main source of profitability at the Deutsche Bank implying that it greatly influences the financial performance. Therefore, there is a significant relationship between intellectual capital and financial performance; it is imperative to develop intellectual capital as it is associated to an increase in financial performance.

Soewarno and Tjahjadi (2020) conducted a study investigating the relationship between intellectual capital and financial performance of banking firms in Indonesia. The study adopted the quantitative research design and the multiple regression analysis for analysis. In this study two models were used that is, the Value-Added Intellectual Coefficient (VAIC) model and the Adjusted Value Added Intellectual Coefficient (A-VAIC) model. The study findings revealed that there is an association between intellectual capital and financial performance. The study revealed that structural capital generates higher profitability in organizations.

2.8 Working capital management, intellectual capital and financial performance

Studies linking working capital management, intellectual capital and financial performance are scarce. According to Zafer *et al.*, (2020), if an organization pays attention to human capital and comes up with measures of improving all the human capital aspects of its organization, staff will be in position to develop and implement good working capital management policies and this will

lead to an improvement in performance. Maintaining good relational capital ensures that good relationships with stakeholders like creditors are created. Such good relationships with creditors enable an organization to always get goods on credit whenever there is a chance and this will result into good performance as the organization can benefit from short term credit(Kwatiah & Asiamah, 2020).

Maintaining a good relationship with organization stakeholders like customers is very important for an organization's success (Xu & Liu, 2021). A receivables management policy helps to ensure that all customers pay their debts on time so as to achieve the desired financial performance. An organization that maintains a good relationship with customers will in most cases have its customers paying their debts quickly because of the good relationship that was established with them. This will mean that the bad debts are reduced and liquidity improved (Iazzolino *et al*.,2018).

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter presents the methodology that was adopted for the study. It describes the research design, study population, sample size and sampling technique, data collection methods, measurement of variables, reliability and validity of the instrument, data processing and analysis, and ethical considerations of the study.

3.2 Research design

The study adopted a cross sectional survey design because it enables the researcher to collect data within a short period of time and it is economical. The quantitative research design was also used as it aids in presenting data numerically while during data collection and analysis (Zangirolami-Raimundo, Echeimberg, & Leone, 2018).

3.3 Study population

The study population was 104 hotels operating in the greater Kampala Metropolitan Area (Kampala Capital City Authority statistical abstract, 2020).

3.4 Sample size and sampling techniques

In this study, a sample of 80 hotels was selected as per Krejcie and Morgan (1970) table. In addition, a simple random sampling method was used because it gives the respondents an equal chance of being selected (Kassu, 2019). The names of all the hotels were written on small pieces of paper, placed in a box and shaken .The hotels were then picked without replacement until the sample size of 80hotelswas reached. The unit of analysis was hotels in Kampala because it is the commercial centre of Uganda and has the highest number of hotels in Uganda. The unit of inquiry was the finance manager or general manager because they have sufficient knowledge

about the subject under study. They were purposively selected because they were in position to give information of financial performance of hotels.

3.5 Data source

The date source for this study was based on primary data that was got directly from the respondents using self-administered questionnaires. The primary data was collected using a questionnaire measured on a Likert scale (1932) of five points where the respondents were asked to tick the most appropriate box depending on the extent to which they agreed or disagreed with the statements on the questionnaire.

3.6 Data Collection instrument

Primary data was collected using a self-administered questionnaire from the respondents. It was close ended and was measured on a five point likert scale with responses ranging from strongly disagree (1) to strongly agree (5). The questionnaire was used because it enables researchers to collect a lot of data from a large sample within a short period of time.

3.7 Measurement of Variables

The study utilized established measurement items by earlier researchers to measure the variables under the study.

Working capital management was measured using receivables management, cash management, inventory management and payables management (Hassan *et al*., 2017; Muya and Gathogo, 2016) using a 5 point Likert scale.

Intellectual capital was measured using relational, human, and structural capital (Nkundabanyanga (2016); Kaawaase et al. (2020)) using a 5 point likert scale.

Financial performance was measured in terms of profitability, return on assets, return on equity and liquidity (Kwatiah & Asiamah 2020) using a 5 point likert scale.

3.8 Reliability and Validity of the Instrument

Reliability is the ability of an instrument to produce the same results whenever it is used and was tested using the Cronbach's Alpha Coefficient. Validity refers to whether an instrument measures what it was designed to measure and was measured using the Content Validity Index (CVI).10 experts who are accountants, finance experts, business consultants in practice and academia were asked to rate the relevancy of the items in the instrument as measures of the variables. Coefficients of a minimum of 0.70 are considered appropriate while those less than 0.7 are unacceptable (Sekaran, 2003). For both validity and reliability, each variable scored above 0.70 thereby making all of the variables in the study reliable and valid. Results are presented in table 3.1

Table 3.1; Reliability and Validity Results

Variable	**Cronbach's Alpha**	**Content Validity Index (CVI)**	**Number of Items**
Working Capital Management	0.754	0.763	13
Intellectual Capital	0.804	0.752	11
Financial Performance	0.721	0.726	10

Source; Primary data

3.9 Data Processing and Analysis

Primary data was sorted, edited and coded into a coding sheet, processed and analyzed using a Statistical Package for Social Scientists (SPSS) for descriptive and inferential analysis of measurable relationships between study variables. According to the study objectives, Pearson`s correlation analysis was used for associations and a regression analysis was carried out to determine the predictive power of the independent variables on the dependent variable.

3.10 Ethical Considerations

The researcher got an introduction letter from the Faculty of Graduate Studies and Research (FGSR) which was presented to the respondents for proper identification. Confidentiality and privacy were valued throughout the study.

CHAPTER FOUR

PRESENTATION, ANALYSIS AND INTERPRETATION OF RESULTS

4.1 Introduction

This chapter contains the results and the interpretation of the survey findings. The presentation is guided by the research objectives and the statistics were generated with the aim of generating responses for the research questions. The chapter begins with the presentation of general information and statistical tools such as, aggregated frequencies and percentages summarized in form of tables. Inferential statistics such as correlations and multiple regression analysis were used to generate the results for this chapter. The findings are presented in line with the stated objectives.

4.2 Response Rate

Table 4.1: Response rate

Targeted responses	Attained responses	Response Rate (%)
80	74	93%

***Source**: Primary Data*

The response rate was determined by (Total number of Respondents divided by the Sample size) * 100 = (74/80)*100 = 93%

4.3 Demographic Characteristics of the Respondents

The respondents were asked to provide information about their demographic profile which included gender, age bracket, education level, years of experience and position held in the hotel. The findings are shown in table4.2;

Table 4.2 Demographic characteristics

		Frequency	Percent
Gender of respondents	Male	34	45.9
	Female	40	54.1
	Total	**74**	**100.0**
Age of respondents	25 - 29 years	11	14.9
	30 - 34 Years	23	31.1
	35 - 39 Years	20	27
	40 – 44 Years	11	14.9
	45 – 49 Years	7	9.5
	50 years and above	2	2.7
	Total	**74**	**100.0**
Respondents' level of education	Certificate	1	1.4
	Diploma	19	25.7
	Bachelors	52	70.3
	Masters' degree	2	2.7
	Total	**74**	**100.0**
Respondents' Position	Finance Manager	37	50
	General Manager	37	50
	Total	**74**	**100**
Experience of the Respondent	Less than 5 Years	6	8.1
	5 – 10 Years	17	22.9
	11 – 15 years	25	33.8
	16 – 20 years	19	25.7
	More than 20 years	**7**	9.5
	Total	**74**	**100**

***Source**; Primary data*

To get divergent views, a question on gender was asked and results show that out of the 74 respondents, majority 40 (54.1%) were females while 34 (45.9%) were males. This gave the researcher an opportunity to interact and discuss different views with both men and women concerning working capital management, Intellectual Capital and financial performance at different levels hence the comprehensiveness of the study.

Results further indicate that of the 74 respondents, most of them 23 (31.1%) are aged between 30 – 34 years, these were followed by 20 (27%) aged 35 – 39 years, 11 (14.9%) between 25 – 29 years and 40 – 44 years each, 7 (9.5%) were between 45 – 49 years while only 2 (2.7%) were 55 years and above This means that the views obtained in this study were represented by all age groups and were diverse.

Out of 74 respondents, majority 53 (70.3%) were Bachelor's degree holders, 19 (25.7%) Diploma holders, 2 (2.7%) Master's degree holders while only 1 (1.4%) had a Certificate. Since more than 70% of the respondents had a Bachelor's degree and above, this implies that they had wide scope of knowledge about the study variable hence more reliable responses generated from them.

On the issue of position held by the respondents, results indicate that out of the 74, they equally interviewed the finance managers and general managers each contributing 37 (50%).

Lastly, in regards to the experience of the respondents, majority 25 (33.8%) had experience between 11 – 15 years, 19 925.7%) had experience between 16 – 20 years, 17 (22.9%) had experience between 5 – 10 years, 6 (8.1%) had experience of less than 5 years, and 7(9.5%) had experience of more than 20 years.

4.4 Demographic of hotels

The respondents were asked to provide information about the demographics of the hotels which included questions on whether the hotels had a website, the years of operation of the hotel, the number of employees in the hotel, and the number of rooms in the hotel. The findings are shown in thetable4.3 below;

Table 4.3 Hotel's demographic characteristics

		Frequency	Percent
The hotel has a website	Yes	56	75.7
	No	18	24.3
	Total	**74**	**100.0**
Years of Operation	Less than 5 years	14	18.9
	5 - 10 Years	33	44.6
	More than 10 years	27	36.5
	Total	**74**	**100.0**
Number of employees	Less than 10	8	10.8
	10 - 19	31	41.9
	20 - 29	28	37.8
	More than 29	7	9.5
	Total	**74**	**100.0**
Number of rooms	Less than 10	2	2.7
	10 – 19	10	13.5
	20 – 29	23	31.1
	30 – 39	21	28.4
	More than 39	18	24.3
	Total	**74**	**100**

Source; *Primary data*

The results from table 4.3 indicate that 75.7% had websites whereas 24.3% did not have websites. In addition, majority of the hotels 33 (44.6%) had been in operation between a period of 5 – 10 years, 27 (36.5%) had been in operation for more than 10 years while only 14 (18.9%) had worked for less than 5 years. Majority of the hotels out of 74 studied, 31 (41.9%) had between 10 – 19 employees, 28 (37.8%) had between 20 – 29 employees, 7(9.5%) had more than

29 employees while only 8 (10.8%) had less than 10 employees. Lastly, majority of the hotels out of 74 studied, 23 (31.1%) had between 20 – 29 rooms, 21 (28.4%) had between 30 – 39 rooms, 18 (24.3) had more than 39 rooms, 10 (13.5%) had between 10 – 19 rooms 2 (2.7%) had less than 10 rooms.

4.5 Pearson's correlation analysis

Pearson's correlation analysis was carried out to measure the statistical relationship or association between the study variables. The Pearson's correlation coefficient has valuesrangingfrom-1to+1.Avaluethatisgreaterthan0indicatesapositiveassociation whereas a value lessthan0indicatea negative association. Table4.4belowshowsthe correlation results of this study.

Table 4.4: Correlation Analysis

		1	2	3
Working Capital management (1)		1.00		
Intellectual Capital	(2)	.419**	1.00	
Financial Performance	(3)	.505**	.537**	1.00

***. Correlation is significant at the 0.01 level (2-tailed).*
Source: Primary data

4.5.1 Working Capital Management and Financial Performance

The first objective was to examine the relationship between working capital management and financial performance. The results in table 4.4 indicate that there is a positive and significant (r= .505, p<.01) relationship between working capital and financial performance. This implies that improving working capital management practices through having proper records on all working capital items, utilization of cash discounts when making purchases and putting in place proper safeguards against inventory will be associated with an improvement in the profitability and liquidity of hotels.

4.5.2 Intellectual Capital and Financial Performance

These and objective was to examine the relationship between intellectual capital and financial performance of hotels in Kampala. The results in table 4.4indicatethatthere is a positive and significant relationship between intellectual capital and financial performance(r= .537, p<.01). This means that improving intellectual capital aspects of a hotel by maintaining good network systems with customers and ensuring that employees at the hotel are result oriented and highly qualified will be associated with proper decision making leading to an increase in financial performance.

4.6 Regressions Analysis

The regression model was employed to test the combined relationship between working capital management, Intellectual Capital and financial performance of hotels in Kampala. The findings are shown in table 4.5 below;

Table 4.5: Regression analysis

Model 1		**Unstandardized Coefficients**		**Standardized Coefficients**	**T**	**Sig.**	**Collinearity**	
		B	**Std. Error**	**Beta**			Tolerance	VIF
	(Constant)	.943	.434		2.175	.003		
1	Working Capital management	.289	.087	.339	3.305	.000	.874	1.145
	Intellectual Capital	.507	.132	.395	3.846	.000	.880	1.136
a. Financial Performance								
R = .619			**F Statistic = 22.049**					
R Square = .383			**Sig. =.000**					
Adjusted R Square = .366								

Source; Primary data from research findings

The results in table 4.5 above reveal that Working Capital management and Intellectual Capital are significant predictors of financial performance. Further still, the model was found to be well specified and the model's predictive power is 36.6%, an implication that working capital and Intellectual Capital together **c**an explain financial performance by 36.6% whereas the remaining 63.4% could be explained by factors that were not part of the study. Furthermore, results indicate that, Intellectual Capital emerged a better predictor of financial performance ($\beta = .395$, $p < 0.05$) than working capital management (Beta =.339, P<.005). Therefore, if hotels pay more attention to improving intellectual capital, their financial performance will improve more than if more attention was paid to working capital management.

CHAPTER FIVE

DISCUSSION OF FINDINGS, RECOMMENDATIONS AND CONCLUSION

5.1 Introduction

This chapter presents the discussion of findings in regards to the objectives of the study, the conclusion, the recommendations, limitations and further areas of the study

5.2 Discussion of findings

5.2.1 Working capital management and financial performance

The study findings revealed that there is a positive and significant relationship between working capital management and financial performance. This implies that when working capital management policies are properly formulated and implemented, it will lead to an improvement in the financial performance of hotels. When cash is kept safely and accounted for regularly; inventory is properly safeguarded and stock taking is done regularly; and lastly proper records are kept for all the working capital items, it will result into an improvement in financial performance of hotels. The value of the hotels is maximized when the optimal working capital management is maintained. These study findings are in agreement with Prempeh and Peprah-Amankona (2018) whose study findings revealed that developing and implementing efficient working capital management policies will eventually lead to an improvement of company profitability over time. They are also in agreement with Kwatiah and Asiamah (2020) who emphasized that maintaining a low level of receivables is vital if an organization is to increase its profitability because it will lead to a reduction in bad debt occurrence. They are also in agreement with the cash conversion cycle theory which argues that reducing the cash conversion cycle will lead to an increase in a company's financial performance. However, the results are in contradiction with Bagchi and Khamrui (2012) study who found out that there exists a strong negative relationship between working capital management and profitability

5.2.2 Intellectual capital and financial performance

Objective two looked at the relationship between intellectual capital and financial performance of hotels in Kampala. The study findings revealed that there is a positive and significant relationship between intellectual capital and financial performance. When hotels have sound knowledge of managing hotel finances including basic accounting procedures, hire employees who are knowledgeable about their work and are self-driven, have good network systems with their customers, encourage team work amongst staff and ensure that their online information systems are always stable and available; they will achieve an increase in their financial performance. These findings are in agreement with Neves and Proença (2021) who argued that organizations always achieve an increment in their financial performance whenever they pay attention to intellectual capital. They are also in agreement with (Iazzolino et al., 2018) who stated that maintaining good relationship with a firm's stakeholders eventually leads to an increase in financial performance since an organizations gets an opportunity to maintain the existing customers it has over time who become repeat customers.

5.2.3 Working capital management, intellectual capital and financial performance

The study findings revealed that Working Capital management and Intellectual Capital are significant predictors of financial performance. This implies that the effective management of working capital and intellectual capital has a direct impact on the financial performance of hotels. Working capital management that optimizes liquidity, reduces costs, and ensures efficient cash flow can positively influence financial performance of hotels by improving profitability, cash availability, and overall financial stability Prempeh and Peprah-Amankona (2018). Intellectual capital, when effectively leveraged, can enhance a hotel's competitiveness, brand value, and customer loyalty, ultimately leading to increased revenues and profitability.

Therefore, there is a relationship between working capital management, intellectual capital, and financial performance in hotels (Iazzolino et al., 2018).

5.3 Conclusion

The purpose of this research was to report results of a study carried out to examine the relationship between working capital management, intellectual capital and financial performance of hotels in Kampala. The findings from the study revealed that working capital management and intellectual capital positively and significantly influence financial performance Intellectual capital has a higher prediction rate as compared to working capital management implying that more emphasis should be put on Intellectual Capital to have a greater improvement in financial performance .For effective running of hotels ,having employees who are knowledgeable about their work and maintaining good business relationships with customers will attract more customers to the hotels who will be willing to make payments for the services offered thus improving financial performance. Formulation, implementation and monitoring of working capital management policies in regards to cash, inventory, payables and receivables enables hotels to improve the management of their financial resources thus leading to an improvement in the financial performance.

5.4 Recommendations

Hotel managers need to be trained and coached in financial management as this will enable them to be knowledgeable on how to manage hotel finances and gain basic accounting practices. This will improve their knowledge and provide them with the necessary expertise and competences to successfully manage the hotel business.

The hotel managers should establish a good networking system that will help them to always be in touch will their customers. This will create a good business relationship which will enable them to always get new ideas from the customers.

The hotel managers need to create a system that makes it easy for the customers to access relevant information about their services. In addition, team work needs to be emphasized among the employees. This will enable the customers to get the best experience.

5.5 Limitations of the study

i. The study was limited to hotels from Kampala.

ii. The study was only limited to financial performance implying that aspects of non-financial performance were left out.

iii. Thestudyadoptedacrosssectionaldesignwheredataiscollectedatonepointintime and the findings from such studies are always limited to the current period.

5.6 Further areas of the study

Thestudyemployedacrosssectionaldesignwheredataiscollectedatonepointintime and the findings from such studies are always limited to the current period. Further studies should be carried out using the longitudinal research deign since perceptions changeover time.

The study was only limited to financial performance; further studies should be carried out concentrating on non-financial performance.

The study was limited to hotels from Kampala. Therefore, further studies should be carried out in other cities like Jinja, Mbale and Mbarara. The findings from these studies may be compared with those from this study.

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MAKERERE UNIVERSITY
MAKERERE UNIVERSITY BUSINESS SCHOOL
FACULTY OF GRADUATE STUDIES AND RESEARCH

Dear respondent,

I am Atai Petrolina, a student of Makerere University Business School pursuing a Master of Science in Accounting and Finance and am currently carrying out research on "***Working Capital Management, Intellectual Capital and Financial Performance of Hotels in Kampala"***. The study is purely academic and therefore all your responses received will be treated with strict confidentiality, discretion and will in no way be linked to you.

General Information (Please tick appropriately)

1. Gender of the Respondent

Male ☐ Female ☐

2. Age bracket of the Respondent

25 – 29 ☐ 30 – 34 ☐ 35 – 39 ☐

40 – 44 ☐ 45 -49 ☐ 50+ ☐

3. Education level of the Respondent

Certificate ☐ Diploma ☐ Bachelors ☐

Masters ☐

4. The hotel has a website

Yes ☐ No ☐

5. Years of operation

Period	Tick
Less than 5 years	
5 - 10 years	
More than 10 years	

6. Position of the Respondent

Finance Manager ☐ General Manager ☐

7. Number of Employees

Number	Tick
Less than10	
10 – 19	
20 – 29	
More than 29	

8. Number of rooms

Number	Tick
Less than10	
10 – 19	
20 - 29	
30 – 39	
More than 39	

9. Experience of the Respondent

Number of years	Tick
Less than 5	
5 – 10	
11 - 15	
More than 15	

Please indicate to what extent you agree or disagree with the statements below by ticking the appropriate box (where SD is Strongly Disagree, D is Disagree, N is Not Sure, A is Agree and SA is Strongly Agree)

Working Capital Management (WC)

	Cash Management	**SD**	**D**	**N**	**A**	**SA**
WC1	We have a bank account/ mobile money account where payments are made	1	2	3	4	5
WC2	All cash received and paid out by the hotel is properly recorded.	1	2	3	4	5
WC3	All documentation in support of cash transactions are properly kept in a safe place	1	2	3	4	5
WC4	Petty cash is accounted for on a weekly basis	1	2	3	4	5
	Receivables Management	**SD**	**D**	**N**	**A**	**SA**
WC5	We keep proper records on receivables	1	2	3	4	5

WC6	We send reminders to customers to clear their debts weekly	1	2	3	4	5
WC7	The hotel has a maximum period beyond which all customers should have cleared their debts	1	2	3	4	5
WC8	We reconcile debtors accounts on a weekly basis	1	2	3	4	5
	Payables Management	**SD**	**D**	**N**	**A**	**SA**
WC9	We keep proper records on all payables	1	2	3	4	5
WC10	We make payments to credit suppliers one month after we have received the items from the suppliers	1	2	3	4	5
WC11	The hotel utilizes cash discounts offered when purchasing items	1	2	3	4	5
WC12	We have a good relationship with the creditors	1	2	3	4	5
	Inventory Management	**SD**	**D**	**N**	**A**	**SA**
WC13	Periodic summaries of inventory usage are prepared and used	1	2	3	4	5
WC14	There is physical safeguards of inventory against theft and/or fire	1	2	3	4	5
WC15	Stock taking is done every month	1	2	3	4	5
	Intellectual Capital (IC)	**SD**	**D**	**N**	**A**	**SA**
	Human Capital					
IC1	The hotel employees are knowledgeable about their work	1	2	3	4	5
IC2	The hotel usually employs staff who are highly qualified	1	2	3	4	5
IC3	The employees withstand pressure from work	1	2	3	4	5
IC4	We have self-driven employees at the hotel	1	2	3	4	5
IC5	We have sound knowledge of managing hotel finances including basic accounting procedures	1	2	3	4	5
	Relational Capital					
IC6	We have good network systems with our customers	1	2	3	4	5
IC7	Our systems ensure that our customers are always in touch with the hotel	1	2	3	4	5
IC8	Our customers easily access our services online	1	2	3	4	5
IC9	We usually get new business ideas from our customers	1	2	3	4	5
IC10	Our customers are at liberty to report matters that affect them	1	2	3	4	5
	Structural Capital					
IC11	Our staff at the hotel are result oriented	1	2	3	4	5
IC12	Our online information systems are stable and always available	1	2	3	4	5
IC13	Our customers receive the best experience	1	2	3	4	5

IC14	The hotel management emphasizes the spirit of team work	1	2	3	4	5
IC15	The hotel systems make it easy to access relevant information	1	2	3	4	5
	Financial Performance (FP)	**SD**	**D**	**N**	**A**	**SA**
	Profitability					
FP1	The hotel revenues increase every year	1	2	3	4	5
FP2	The hotel profits have been increasing annually	1	2	3	4	5
FP3	The hotel revenues are always greater than the expenses	1	2	3	4	5
FP4	The hotel incurs low operating costs	1	2	3	4	5
FP5	The hotel always registers an increase in assets	1	2	3	4	5
FP6	The hotel has been meeting the target profit over the years	1	2	3	4	5
FP7	The hotel's operating profit is adequate	1	2	3	4	5
	Liquidity					
FP8	We always pay staff salaries on time	1	2	3	4	5
FP9	We always pay our suppliers on time	1	2	3	4	5
FP10	We pay the utility bills for example water and electricity bills on a monthly basis	1	2	3	4	5
FP11	The hotel always has enough cash at hand to meet its day to day obligations	1	2	3	4	5
FP12	We easily obtain cash from external sources through borrowing	1	2	3	4	5
	Return on equity					
FP13	We aim at increasing the wealth of our investors	1	2	3	4	5
FP14	We always exceed our investor's expectations	1	2	3	4	5
FP15	The investor's dividends have been increasing annually	1	2	3	4	5
	Return on assets					
FP16	The total assets of the hotel increase annually	1	2	3	4	5
FP17	The hotel's properly utilizes its assets to generate revenue	1	2	3	4	5
FP18	The hotel's resources are always procured at a low cost	1	2	3	4	5

Thank you for your time.