ABSTRACT

In Kenya, small scale enterprises are contributors to economic development by providing employment opportunities and reducing poverty levels. Despite their significance to economic development, small scale enterprises rate of startup is 40% with 60% of them collapsing within the first two years of their operations causing retrenchment of human resources, high level of loan defaulters, and inadequate services delivery to the community. Previous researches reveal that small-scale enterprises face challenges of keeping accounting records, financial statements and working capital management. Past studies have also shown mixed results on the relationship between WCM and profitability. Previous studies have failed to capture influence of liquidity ratio on the relationship between WCM and profitability. The current study focused on the influence of liquidity ratio on relationship between WCM and profitability of small scale hotels along Lake Victoria beaches in Kisumu County, Kenya. The objectives were to: determine influence of liquidity ratio on the relationship between working capital management and return on assets of small scale hotels; establish influence of liquidity ratio on the relationship between working capital management and return on equity of small scale hotels and examine influence of liquidity ratio on the relationship between working capital management and return on capital employed of small scale hotels. The study was anchored on pecking order theory and trade off theory. The study adopted correlational research design. The target population was 276of small scale hotels and sample size of 163 of small scale hotels was arrived by using Yamane (1967) formula. The sampling techniques comprised stratified random, purposive, and simple random sampling. Primary data was gathered by using semi-structured questionnaire administered personally by drop and pick technique, interview schedule and document analysis. Mean, standard deviation, Pearson correlation, multiple linear regression, ANOVA as well as thematic were used in data analysis. The major finding showed that the model was statistically significant (F ratio= 38.971; $p=0.000<0.05$) causing rejection of null hypothesis, approximately 53.0% of the variation in profitability was attributed to variation in working capital management. When liquidity ratio was introduced, the overall model was highly statistically significant (F-ratio =242.467; $p=0.000< .05$). The null hypothesis was rejected. The study also showed that approximately 89.8% of the variation in profitability was attributed to variation in working capital management variables and liquidity ratio. The study therefore, concludes that liquidity ratio had a moderating influence on the relationship between working capital management and profitability of small hotels. The contribution for the study is that liquidity ratio has moderating influence on the relationship between working capital management and profitability, furthermore multiple linear regression analysis is ideal where ROA, ROE and ROCE are used as proxy for profitability. The study recommends to small hotels to delay paying suppliers using cash so that the cash inflow can be invested into the business to improve slow pace of growth and profitability, researcher recommends further research on relationship between working capital management, innovations and productivity among female owned SMEs in Kenya. The beneficiary of the findings are hotel industry, small scale enterprises and County government ministry of tourism.