

**EFFECTS OF SELECTED FINANCIAL MANAGEMENT PRACTICES ON  
FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA**

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**A Thesis Submitted to the Graduate School in Partial Fulfillment of the Requirements  
for Master of Business Administration Degree of Egerton University**

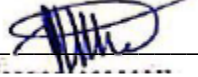
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**NOVEMBER, 2021**

## DECLARATION AND RECOMMENDATION

### Declaration

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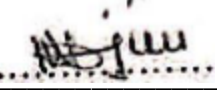
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### Recommendation

This research thesis has been submitted for examination with our approval as University supervisors.

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## **DEDICATION**

I dedicate this study to my family, husband Kariuki and children Joy and Alex, for their unrelenting support in my life.

## **ACKNOWLEDGEMENTS**

I take this opportunity to thank the Almighty God for His grace in my entire study period. I also thank my supervisor Dr. Monica Muiru for her effective supervision, guidance, availability and assistance as I undertake this work. I also extend my gratitude to all my lecturers who taught me in the master's programme for enriching my study with knowledge. My appreciation also goes to my family, friends and colleagues for their moral support during my entire studies.

## ABSTRACT

The aim of the study was to determine effects of selected financial management practices on financial performance of commercial banks in Kenya. The research was guided by the following specific objectives; to determine the effects of liquidity, capital structure management, credit risk management and working capital management practices on the financial performance of commercial banks in Kenya. The research employed a descriptive research design. Census method of sampling was employed, all the 43 commercial banks formed the study units. Secondary data was used, It was obtained from the audited annual financial reports of the commercial banks in Kenya. Descriptive and inferential statistics were used to analyse the data. Data was presented in form of tables, mean and standard deviation. Correlation analysis was performed to examine the relationship between the financial management practices and financial performance of the commercial banks. The study found a positive relationship between liquidity and financial performance of commercial banks (Beta coefficient value = 0.385. p- value =0.012). Inferential statistics also revealed a positive link between capital structure management and the financial performance of commercial banks (Beta Coefficients = 0.472, P-value 0.030), on the other hand, credit risk management had a positive influence on financial performance (Beta coefficient value = 0.534 p- value =0.010). Similarly, working capital management had a positive on financial performance (Beta coefficient value = 0.321, p- value =0.001). Regression results indicated that R square value of liquidity and financial performance is 0.355 which means that liquidity explains 35.5% of variation in financial Performance, capital structure management explains 23.2% of variation in financial performance, on the other hand, R square value for the regression of credit risk management and financial performance of the commercial banks in Kenya was 0.162 which means that credit risk management explains 16.2% of variation in financial performance of the commercial banks in Kenya. Working capital management explains 20.4% of variation in financial performance of the commercial banks in Kenya. In conclusion it is evident that all the variables had a statistically positive significant effects on the financial performance. The research recommends that banks management should make sure that they maintain substantial levels of liquidity, so as to maintain competitive performance. Commercial banks must have a feasible capital structure management in place that addresses issues such, as flexibility where changes in the capital market should be well adapted to the capital structure management. Further studies should also be carried out on other variables not studied to determine whether they have a significant influence on the financial performance.

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## **LIST OF ABBREVIATIONS**

<b>CAPM</b>	Capital Asset Pricing Model
<b>CBK</b>	Central Bank of Kenya
<b>CRM</b>	Credit risk Management
<b>CSM</b>	Capital structure Management
<b>DAR</b>	Debt Asset Ratio
<b>DER</b>	Debt Equity Ratio
<b>ICT</b>	Information and Communication Technology
<b>KBA</b>	Kenya Bankers Association
<b>LM</b>	Liquidity Management
<b>NPL</b>	Non performing loan
<b>NSE</b>	Nairobi Securities Exchange
<b>ROA</b>	Return on Assets
<b>ROE</b>	Return on Equity
<b>SPSS</b>	Statistical Package for Social Services
<b>UK</b>	United Kingdom
<b>US</b>	United States
<b>WCM</b>	Working capital Management

## **CHAPTER ONE**

### **INTRODUCTION**

#### **1.1 Background of the Study**

Financial management practices is an important element in the performance and management of the banking industry (Alnajjar, 2016). Therefore, it is vital that banks' management seek strategic ways of enhancing profitability in order to realize sustained growth and stability of the financial institutions. Today, all forms of businesses, banks included, are under constant pressure to develop, implement and rapidly revise their financial management strategies (Kirkpatrick, 2009). To do this, commercial banks need to develop and implement sound financial strategies that would help them manage their business risk and improve their financial performance (Devi, 2013). Financial management is a discipline that deals with the financial decisions corporations make, and the tools and analysis they use to make the decisions (Cockcroft & Russell, 2018).

Regulations in the banking sector is an approach used by the government to control the behaviour of the banks. The bank regulations encourage transparency since they direct on the limitations, requirements and guidelines that need to be followed in the banking sector. Effective and successful bank regulations aim to accomplish two goals; to protect the depositors, creditors and investors private interests, investors and creditors; and to protect the interest by endorsing good reputation and integrity of financial markets. Rezvani (2013) posits that banks are important players in the economy of any nation implying that banks need to be supervised and controlled to not only protect the clients and investors but also to attain stability in the banking sector.

Financial management is one of the several functional areas of management but it is the center to the success of any business. Inefficient financial management practices, combined with the uncertainty of the business environment often leads business enterprises to serious problems (Chandra, 2011). According to Karimu *et al.* (2021) careless financial management practices are the leading cause of failure for banks in Sub-Saharan Africa. Javed *et al.* (2020) observes that if the financial decisions of a firm are wrong, profitability of the company will be adversely affected. Consequently, a business organization's performance could be damaged because of improper financial management practices. Business enterprises have often failed due to lack of knowledge of efficient financial management practices.

Edem (2017) in Canada noted that financial risk in commercial banks arises from possible losses in financial markets due to movements in financial variables. It is usually associated with leverage with the risk that obligations and liabilities cannot be met with current assets. Financial risk may be caused by variation in interest rates, currency exchange rates, variation in market prices, default risk and liquidity gap that affect the cash flows and therefore its financial performance and competitive position in product markets. Most of the Kenyan Commercial banks outline credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk as the most important types of financial risks they face.

In Europe Jelgo and Obwogi (2018) found that Liquidity Risk arises due to insufficient liquidity for normal operating requirements reducing the ability of banks to meet its liabilities when they fall due. Tiwary (2019) noted that foreign exchange settlement risk as the risk of loss when a bank in a foreign exchange transaction pays the currency it sold but does not receive the currency it bought. Foreign exchange settlement failures can arise from counterparty default, operational problems, market liquidity constraints and other factors. Market risk is the risk originating in instruments and assets traded in well-defined markets.

Zada (2021), in Nigeria on the significant effect of financial management practices on profitability of SMEs in Nigeria. They analyzed the relationship between financial Structure management practices, management of working capital, management of financial reporting and analysis, management capital budgeting and Working capital management with Profitability using the Finally they found the positive relationship between the existing practices and the profitability of the SMEs. They reason out that, because of the owner / manager regularly pay attention and review the financial activities, financial ratios, there was good practices in these entities. The more efficient financial management practices the higher profitability.

Locally, Kithinji (2017) found that most of the Kenyan Commercial banks outline credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk as the most important types of financial risks they face. The banking sector in Kenya, over the last three years, has been under a crisis related to financial management with one bank being put under statutory management, two other banks being put under receivership with several other banks issuing profit warnings. Regrettably, there is dearth of local research on the influence of financial management practices on the banks' financial performance which is the area that this study seeks to contribute. Ongore (2016) on the other hand argued that the financial performance of

commercial banks in Kenya was driven mainly by board and management decisions, while financial management practices had insignificant contribution.

### **1.1.1 Financial Management practice**

According to Jain *et al.* (2014) financial management are the duties performed by the accounting officer, the chief financial officer and other managers of a firm in the areas of budgeting, supply chain management, financial structure, asset management and control. The goal of financial management is enhancing a firm's value by ensuring that a firm's return on capital exceeds its cost of capital, without taking excessive financial risks (Arnold, 2014). At an individual's level, financial management involves tailoring one's expenses according to one's financial resources while from the organizational perspective the process of financial management is associated with financial planning and financial control (Gitman & Zutter, 2011). Modern financial management practices basically provide a conceptual and analytical framework for financial decision making and emphasize on effective use of organizational financial resources (Brigham & Houston, 2012). The most common financial management practices applied in the banking industry include Liquidity (LM), Capital structure management (CSM), Credit risk management (CRM) and Accounting Information Systems (AIS) (Asuquo, 2016).

Liquidity refers to the ability to trade an asset, such as a stock or bond, at its current price. (Graham & Bordeleau, 2010). This involves managing the relationship between a firm's short-term assets and short-term liabilities. Working capital management is a part of a firm's current assets. Working capital management is defined as a company's total investment in current assets or assets that a company expects to be converted into cash within a year or less (Lartey, 2013). The investment in working capital management involves carrying costs and shortage costs, so the firms have to find the tradeoff between them (Jain, *et al.*, 2015)

Capital structure management, according to Arnold (2014) means overseeing the capital structure management of a financial institution. A company's capital structure management refers to the mix of its various sources of funding. Most companies are funded by a mix of debt and equity. Capital structure management is defined as the relative amount of debt and equity used to finance a firm. It is the relative amount of permanent short term debt, long term debt, preferred stock and common equity used to finance a firm (Shubita & Alsawalhah, 2012). The capital deposited in banks is mostly unused for financial activities but act as a shield against risk-bearing active assets. The amount of equity resource that banks must save

are specified by the regulatory authorities and their standards are strictly complied with (Jain *et al.*, 2015). Foreign resources are basically composed of deposits and national/international loans. They account for a large part of the total resources of banks.

Credit risk management relates to a bank's policies against the risk that a borrower will default on any type of debt/loan by failing to make required payments as agreed (Kargi, 2011). According to Saeed and Zahid (2016) the goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining its credit risk management exposure within acceptable parameters. Caouette *et al.* (2011) noted that credit risk management refers to the probability of loss due to a borrower's failure to make payments on any type of debt on time. Credit risk management is the practice of mitigating those losses by understanding the adequacy of both a bank's capital and loan loss reserves at any given time. Credit risk management thus refers to the identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Golda, 2013).

Accounting information system relates to the use of Information and Communication Technology (ICT) based platforms to transform economic data into financial information for conducting the firm's business operations, and providing information concerning the entity to a variety of interested users. Caouette *et al.* (2011) purported that the biggest advantage of computer-based accounting reporting systems is that they automate and streamline financial reporting. However, the recording and organizing of the financial information through the accounting reporting systems will not meet objectives unless the financial reports from systems are analyzed and used in making managerial decisions (Gitman & Zutter, 2011).

### **1.1.2 Financial Performance**

Financial performance is a subjective measure of how well firms use their assets from their primary mode of business to generate revenue (Kirkpatrick, 2009). According to Yusuf *et al.* (2014) financial performance is explained as the degree to which an organization's financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Alnajjar, 2016).

The financial performance of a commercial bank is of vital interest to different stakeholders. For instance, lenders are concerned with the bank's ability to repay borrowed funds as well as whether it is abiding by loan contracts (Agbaje *et al.*, 2014). Bank's customers are concerned with the safety of their deposits as well as the going concern ability of the bank as an important source of loan funds (Masli *et al.*, 2018). Potential investors are interested in determining the financial strength of the entity as an element in assessing its value in their investment decisions. The shareholders are interested in deriving a good return on their investment; the government is interested in the soundness and stability of the financial sector as well as whether the banks are meeting their tax obligations while the general public are interested with the corporate social responsibility of the banks (Roberts, 2015).

In common practice, accounting ratios are employed in determination of an entity's financial performance. Among the common accounting ratios used to measure a firm's profitability are: return on assets (ROA) and return on equity (ROE). Return on assets is an indicator of how profitable a company is relative to its total assets. It gives an idea as to how efficient management is at using its assets to generate earnings and is calculated by dividing a company's annual earnings by its total assets and is shown as a percentage. Return on equity is an indicator of how profitable a company is relative to its shareholders' equity. It gives an idea as to how efficient management is at using its shareholders' invested amounts to generate earnings. It is calculated by dividing a company's annual net earnings by its shareholder's equity and it is also shown as a percentage (Chandra, 2011). For the purpose of this study, the return on assets ratio will be used to evaluate the financial performance of the commercial banks in the country. ROA is used in this study because it gives commercial banks an idea as to how efficient a financial institution management is at using its assets to generate earnings.

### **1.1.3 Financial Management Practices and Financial Performance**

The ultimate goal of financial management is to maximize the financial wealth of the business owner(s). This general goal can be viewed in terms of more specific objectives: profitability and liquidity. Profitability management is concerned with maintaining or increasing a business's earnings through attention to cost control, pricing policy, sales volume, inventory management and capital expenditures. Liquidity ensures that the business's obligations (wages, bills, loan repayments, tax payments) are paid (Hunjra 2010). Matz (2011) viewed growth as another objective of financial management in relation to

liquidity, growth and profitability. He further noted that financial management also aims to maximize the share price in the securities market and enhancing long-term value of the firm.

Brigham and Houston (2012), observes that financial management will be one of the key challenges for corporations in the next decade and only those institutions that have sound financial structures and stable income flows will be able to fulfil their organizational missions and respond to the current challenges in an increasingly complex and global environment. Indeed, financial management is not an end in itself; it aims to ensure organization's goals are reached by guaranteeing that the institution produces sufficient income to enable it to invest in its future. Unsustainable firm operations can be accommodated by either developing sustainable operations or by planning for a future lacking in resources currently required. In practice organizations mostly tend to aim towards sustainability by increasing efficiency in the way in which resources are utilized (Jain *et al.*, 2014).

Good financial management is essential for the expansion of business. Getting your finances in order means the business can work more efficiently and puts you in a better position when seeking funding for growth. Financial management plays an essential role in the planning and controlling of the firm's financial resources. Without proper financial management practices, the firm cannot be able to optimally utilize its financial resources in turn adversely affecting the firm's performance (Brigham & Houston, 2012). Good financial management practices are paramount: it is essential that the management has current, accurate, and relevant financial data to ensure sound organizational decision-making (Gitman & Zutter, 2015). The study selected the four variables (liquidity management, capital structure management, credit risk management and working capital management) since they are the most key and major variables that do affect financial performance according to (Asuquo, 2016).

#### **1.1.4 Commercial Banks in Kenya**

The banking sector in Kenya is regulated by the Central Bank of Kenya (CBK). Commercial banks in Kenya are licensed and regulated under the Banking Act cap 488. According to the Central Bank of Kenya Report of June 2016, the banking sector in Kenya comprises of 43 institutions, 42 of which are commercial banks and one mortgage finance company. Out of the 42 commercial banks, 24 are locally owned with the remaining 18 being foreign owned. Further, of the 24 locally owned institutions, 3 were not in operation - one was under statutory management and two were in receivership, as at the end of June 2016. According to the Nairobi Securities Exchange records there are 11 commercial banks that are listed. As

depicted from the CBK reports, local banks dominate the Kenyan banking sector in terms of numbers, but only account for 48.2% of the sector's total assets, closely followed by the foreign owned banks with 43% of the sector's assets (CBK, 2016). The commercial banks in Kenya have formed the Kenya Bankers Association (KBA) which works as the lobby for the local banking industry while at the same time providing a forum to address issues affecting the local banking sector (Mwangi, 2014).

Commercial banks are further classified into three different classes depending on the market share by net assets, advances, customer deposits and pre-tax profits by Central Bank of Kenya. Large banks have asset size of over 15 billion shillings, medium more than 5 billion shillings and small with asset size of less than 5 billion shillings. Six banks are classified as large, fifteen as medium and twenty one as small (CBK, 2014). According to CBK Bank Supervision Annual Report (2015) Kenyan banks over the last few years have exponentially embraced the use of information and communication technologies in their banking service provision with the objective of improving the quality of customer service and enhancing their competitive edge. The adoption of the various ICT-based products and services is expected to decongest banking halls while at the same time enhancing the banks' efficiency and effectiveness in serving their clients (CBK, 2014). This study will target the 43 commercial banks in Kenya as the study units.

## **1.2 Statement of the Problem**

The collapse of Continental Bank of Kenya and Trust bank of Kenya are largely attributed to ineffective financial management, so is the the act of putting Imperial and Chase banks under receivership hence poor performance (Kithinji, 2017). The rapid non-performing loans growth rates recorded in 2016 dissipated in second half of 2017 through 2018 (CBK,2019). However, the ratio of gross NPLs to gross loans has maintained a steady upward trend, signifying elevated credit risk management in the banking industry. The banks' assets quality reflected by nonperforming loans deteriorated in 2018 compared to 2017. The gross non-performing loans (NPLs) rose by 19.69 percent to Ksh.316.7 billion in December 2018 from KSh 264.6 billion in 2017 (CBK,2019). Similarly, gross NPLs to gross loans rose from 12.3 percent by end 2017 to 12.7 percent by end 2018. From the performance trend, the practice and requirement of the financial management is vital to regain financial health.

Empirical scrutiny of previous studies outcome on effects of financial management practices on financial performance has been empirically inconclusive. Previous studies have produced

mixed outcomes regarding the effects of financial management practices on financial performance. Girmay (2016) carried out a study on relationship between financial management practices on profitability on selected private manufacturing companies in Mekelle City. The research found that profitability was inversely related with age of the company, capital budgeting and capital structure management practices. Abaniset (2015) conducted a study in Western Uganda aimed at determining the influence of financial management practices on financial performance of SME and found out a positive effect existed. Mensa, (2016) investigated the financial management practices adopted by SMEs in Ghana and also established a positive relationship existed. Saah (2016) on the other hand conducted a study on how SMEs in Tamale region in Ghana conducted their financial management practices and established that accounting, reporting and investing had a positive impact on financial performance.

On the other hand, Odongo (2018) studied the effects of financial management practices on financial performance of large construction companies in Nairobi County, Kenya. The research revealed that financial reporting, working capital management, internal control and financial planning had a positive and significant effect on performance of construction companies in Kenya. Addo (2017) established the effect of financial management practices on the financial performance of top 100 small and medium enterprises in Kenya.

There is limited empirical evidence on the influence of financial management practices on the financial performance of commercial banks in Kenya. Majority of the studies conducted have focused on single financial management variables and their effect on the banks' performance. However, these financial management aspects do not operate in isolation and therefore is it imperative to ascertain their effect on the banks' financial performance from a holistic perspective. The study came up with a financial model which when used as combined will sort the financial performance gap in commercial banks in Kenya. This approach has not been used elsewhere and it was conducted in all commercial banks in Kenya. It is against this backdrop that this study embarks to fill this existing research gap by investigating the effects of selected financial management practices on the financial performance of commercial banks in Kenya.

### **1.3 Objectives of the Study**

#### **1.3.1 General Objective**

The main aim of the study is to determine effects of financial management on financial performance of commercial banks in Kenya.

#### **1.3.2 Specific Objectives**

The study was based on the following specific objectives;

- i. To determine the effects of liquidity management practice on the financial performance of commercial banks in Kenya.
- ii. To establish the effects of Capital structure management practice on the financial performance of commercial banks in Kenya.
- iii. To find out the effects of credit risk management practice on the financial performance of commercial banks in Kenya.
- iv. To examine the effects of working capital management practice on the financial performance of commercial banks in Kenya.
- v. To establish the effects of combined liquidity management, capital structure management, credit risk management, and working capital management practices on the financial performance of commercial banks in Kenya

## **1.4 Research Hypotheses**

The study was guided by the following research hypothesis;

**HO<sub>1</sub>:** Liquidity management practice has no significant effects on the financial performance of commercial banks in Kenya

**HO<sub>2</sub>:** Capital structure management practice has no significant effects on the financial performance of commercial banks in Kenya

**HO<sub>3</sub>:** Credit risk management practice has no significant effects on the financial performance of commercial banks in Kenya

**HO<sub>4</sub>:** Working capital management practice has no significant effects on the financial performance of commercial banks in Kenya

**HO<sub>5</sub>:** Combined liquidity management, capital structure management, credit risk management, and working capital management practices has no significant effects on the financial performance of commercial banks in Kenya

## **1.5 Significance of the Study**

Various stakeholders benefited from this study. These include:

The Central Bank of Kenya as the banks' regulator may use the results on various aspects of financial management practices to formulate better policies governing commercial banks in the country. It can therefore use the findings of this study to formulate policy guidelines for the country's banking sector with a view of making it even more productive, efficient and competitive.

The management of the commercial banks in the country obtained an understanding of the effects of their firms' financial management practices on the performance of their firms. By establishing the correlation between financial management practices and performance of the commercial banks, the findings of this study can assist the managers of the commercial banks in their firm financial management decisions with a view of improving firm performance.

Other stakeholders in the banking sector such as potential investors found this study useful as a source of information on an important variable that affects the banks' performance. Lastly, the study also added to the existing literature on financial management practices and

organizational performance and provided a basis for further research to other scholars with an interest on the subject.

### **1.6 Scope and Limitations of the Study**

The study focused on four financial management practices affecting financial performance of commercial banks which includes liquidity management, capital structure management credit risk management and working capital management. From literature review and previous studies these are the key financial management practices that affects the financial performance of commercial banks in Kenya. The study was carried out in commercial banks in Kenya, selected because they form majority of financial institutions in Kenya and play a critical role in economic growth through financing

The findings of the study are only applicable to commercial banks only and may not be generalized to all other financial institutions such as microfinance. The study was limited in scope and therefore the findings of this study are only true to the extent to which the variables of study are predicted. The study covered a 5-year period between 2015 and 2019. Findings will be true only for that period and cannot be used to make long term inferences on the effects of the study variables. The choice of the 5-year period is so as to enable the researcher establish the trend in the study variables. This is the time the banking sector in Kenya has experienced banks closures, mergers and acquisition and others rebranding.

### **1.7 Assumptions of the Study**

The study assumed that all commercial banks in Kenya were homogeneous, that they offered similar or almost the same services. The research assumed that the analysis selected and the size of the sample were sufficient to detect significant relationships in the population. The study assumed that the data collected from the financial reports was right from the commercial banks to draw valid and reliable conclusions. The study also assumed that although there are numerous financial management factors, the variables under study are the most influential in the banking sector.

## 1.8 Operational Definition of Terms

<b>Capital structure management</b>	It is the mix of debt and equity used by a firm to finance its assets. It also refers to the proportion of debt instruments and preferred and common stock on a company's balance sheet (Agbaje <i>et al.</i> , 2014).
<b>Credit risk management</b>	It is the practice of mitigating losses by understanding the adequacy of a bank's capital and loan loss reserves at any given time (Gitman & Zutter, 2011).
<b>Financial management</b>	It refers to the strategic planning, organizing, directing, and controlling of financial undertakings in an organisation or an institution (Chandra, 2011).
<b>Financial management practices</b>	The set of common methods or standard operating procedures developed for carrying out accounting, financial reporting, budgeting and other activities related to business finances (Roberts, 2015).
<b>Financial performance</b>	It is a subjective measure of how well commercial banks use assets from its primary mode of business and generate revenues (Alnajjar, 2016).
<b>Liquidity</b>	This is a practice that ensures that the company maintains equal and adequate cash and liquid assets (Shubita & Alsawalhah, 2012).
<b>Liquidity</b>	Refers to the ease with which an asset, or security, can be converted into ready cash without affecting its market price (Hunjra <i>et al.</i> , 2010).
<b>Working capital management</b>	Is a business strategy designed to ensure that a company operates efficiently by monitoring and using its current assets and liabilities to the best effect (Kirkpatrick, 2009).
<b>Working capital</b>	Is the amount of available capital that a company can readily use for day-to-day operations (Matz, 2011).

## **CHAPTER TWO**

### **LITERATURE REVIEW**

#### **2.1 Introduction**

The chapter presents the empirical review on the effects of selected financial management practices on financial performance. The chapter content includes; theoretical background, empirical background, summary of literature review and research gap and the conceptual framework of the study.

#### **2.2 Theoretical Framework**

The following section discusses relevant theories concerning the effects of selected financial management practices on financial performance. The theories include; shiftability theory of liquidity, Agency theory, trade off theory and cash conversion cycle theory.

##### **2.2.1 Shiftability Theory of Liquidity**

The Shiftability theory liquidity replaced the commercial loan theory and was supplemented by the doctrine of anticipated income. Formally developed by Harold and Mitchell (2015) the shiftability theory held that banks could most effectively protect themselves against massive deposit withdrawals by holding, as a form of liquidity reserve, credit instruments for which there existed a ready secondary market. Included in this liquidity reserve were commercial paper, prime bankers' acceptances and, most importantly as it turned out, Treasury bills. Under normal conditions all these instruments met the tests of marketability and, because of their short terms to maturity, capital certainty (Alnajjar (2016).

The theory explains that if all banks are looking to liquidate assets, they are doing so at a cost because it would be difficult to find buyers, meaning lower prices for the assets and ultimately by doing so would not leave the banking system as a whole in a more liquid condition (Alnajjar, 2016). One shortcoming of the Shiftability theory, similar to one that led the banking system away from the orthodox theory, was that in times of stress or crisis, the effectiveness of these assets for liquidity purposes goes away as there is no market for them (Casu *et al.*, 2006). The role of the central bank as lender of last resort gained new prominence, and ultimately liquidity was perceived to rest outside the banking system. Further- more, the soundness of the banking system came to be identified more closely with

the state of health of the rest of the economy, since business conditions had a direct influence on the cash flows, and thus the re- payment capabilities, of bank borrowers (Xiani, 2013).

The shiftability theory is relevant to the study these since these realizations under a modified form that included the idea of ultimate liquidity in bank loans resting with shiftability to the Federal Reserve Banks. Under this institutional scheme, the liquidity concerns of banks were partially returned to the loan portfolio, where maintenance of quality assets that could meet the test of intrinsic soundness was paramount (Khan & Ali, 2016).

### **2.2.2 Agency Theory**

Agency theory asserts that the capital structure management of a firm is influenced by management personnel who are conflicted by their pursuit of personal enrichment before the maximization of shareholder value. This theory is based on the relationship between principal and agents whereby one party acts on behalf of another designated party, protecting their interests in the process. It was theory was propagated by Jensen and Meckling in 1976, with their intention being to accurately describe the relationship between managerial behavior and the interest of other relevant stakeholders. It also included the aspects of agency costs and capital structure management within the organization. The founders divided this theory into two key parts; namely the positivist agency theory and the principal-agent theory. Both are closely related as the principal's main objective is to get the maximum return from investment while the agent's key concern is to receive adequate compensation (Schaltegger & Burritt, 2010).

Principal-agent relationships are visible in many aspects such as between managers and their subordinates, and between management and shareholders among others. The main challenge facing such relationships is the moral hazard that may be occasioned by one party advancing their own selfish interests over the interests of the other party (Schaltegger & Wagner, 2011). This is usually the case when the agent pushes for their agenda, at the expense of the agenda of the principal, a situation known as the agency problem. One of the reasons for this collision of interests is information asymmetry where one party possesses information that the other party does not have. The agency theory is quite applicable in this study as it can be of help when explaining the mismatch of interests between the parties involved. For instance, when there are asymmetries in distribution of income between commercial banks, there may arise a mismatch of interest between the banking staff and debt holders.

### **2.2.3 Trade-Off-Theory**

Both Modigliani and Miller (1963) came up with the Tradeoff theory. The theory thrives on the fact that interest expense is an allowable deductible in corporate taxation. Modigliani and Miller (1963) observed that since expenses from interest is allowed for deductible for tax purposes, it reduces the net taxable liability for the firm. They observed that when the interest expense is high then the taxable profits are low thus lower taxes. The interest tax shield helps firms to derive tax benefits when their balance sheets are increased with debts. On the flip side, financial distress can intensify with increased debt liability. Defaults may heighten when firms have escalated levels of debt thus these entities will be unable to meet their debts obligations. This results to a situation that calls for a tradeoff between costs and benefits of the debts. The cost of debt is large when the organization fails to control its obligations on the debt whenever they fall due. The firms should therefore be able to borrow an amount that is manageable to avoid default that can result to bankruptcy.

Consequently, debt ratios are moderated and justified by the tradeoff theory in composition of capital (Hackbarth *et al.*, 2015). Competitive advantage is created in a firm if it is able to survive in the business dynamic environment in this era of market globalization and internalization. A firm will be able to survive well if its' able to exploit its level of capability by checking the equilibrium of returns of debts and cost. Cost of debts include financial distress as well as unfavorable borrowing terms. This can also result to stockholders conflicts and uneasiness with the future of firm. The optimum level of debt should be that which maximizes the tax benefits at a reduced cost. With the ever changing business environment and a very high competitive climate these factors come with high levels of uncertainty.

The theory is relevant to the study because identifies a mix of debt and equity in the financial institutions where the decreasing weighted average cost of capital offsets the increasing financial risk to a firm. With the static trade-off theory, since a company's debt payments are tax-deductible and there is less risk involved in taking out debt over equity, debt financing is initially cheaper than equity financing. This means a company can lower its weighted average cost of capital through a capital structure management with debt over equity (Hackbarth, 2015). However, increasing the amount of debt also increases the risk to a company, somewhat offsetting the decrease in the weighted average cost of capital.

#### **2.2.4 Cash Conversion Cycle Theory**

Gitman (2015) introduced the cash conversion cycle theory. According to this theory amount of money that is needed for any kind of sales level can be computed by the use of constituents of working capital management and that of the cash drift in an organization, both of which are part of the cash conversion cycle theory (Gitman, 2015). The theory is a component of the operating cycle of which is calculated through summations of both the inventory time and accounts receivables and then taking accounts payables which is subtracted from the whole sum. Additionally, the theory focuses centers on several aspects on timelines and the inflow of cash such as those of raw materials acquisitions, additional efforts and the periods of time when they are acquired, and finally those of the finished goods of which the money they bring in is considered (Gupta & Huefner, 2012). It also takes into consideration the aspects of financing, particularly on the number of days when it is required for operations.

The cycle combines some financial statements data specifically those from the income statement and balance sheet to create an appraisal with the dimension of time and can therefore measure the ongoing liquidity management. Although a business cycle for a specific company provides great assistance, it may differ from one industry to another and therefore, for improvement purposes it is highly important for any firm to be able to evaluate any opportunities it may be presented with as well as its cycle performance through the use of industry benchmarks. Therefore, comparing a particular company to the sector its main business is engaged is the most appropriate way (Hutchinson, 2009). The cash conversion cycle shows the time lag amidst expenditure for buying the raw materials and the assortment of sales of complete products and is applied as an all-inclusive measure degree of a working capital management (Padachi, 2011). Businesses that are able to meet their financial obligations and those that have prospects over a long period of time and are also sustainable over time cannot do so when good liquidity is lacking and thus running of the business's daily activities for its short-term assets and liabilities is very crucial for it to achieve success.

The theory is pertinent to this study because shortening the cycle is important for firms, because managers reduce the cycle to a reasonable minimum creating value for their shareholders and secondly, the increase in a bank's sale can be identified if it has a longer cash conversion cycle and if it relaxes its policies especially on credits or high inventories it can be able to meet the competition. On the other hand, a higher cycle increases the time that cash is tied to non-interest-bearing account for example the account receivable that can damage the

profitability of a business. Shortening the cash conversion cycle means cash is received quicker resulting to a higher net present value of the company's cash flows. The making use of the management of trade credit and inventory uses the accounts payables, total number of days of the account's receivables and inventories (Sharma & Kumar, 2011).

## **2.3 Financial Management Practices and Financial Performance**

### **2.3.1 Liquidity Management practice**

Liquidity and bank performance are key factors that determine the development, sustainability, survival, growth and performance of a banking industry and the ability to handle the trade-off between liquidity and performance is a source of concern for bank managers (Girmay, 2016). Poor liquidity affects earnings and capital. In extreme cases it leads to insolvency and bank failure (Alemayehu & Ndung'u, 2012). Distressed banks can only access funds from the market at high interest rate (Saeed & Zahid 2016). This eventually causes a decline in the banks' performance. Moreover, a bank's further borrowing to meet depositors' demand may place the bank's capital at stake. Eljelly (2010) argues that adequate level of liquidity is positively related to profitability. Managers usually face the tough balancing act of ensuring that funds are available to cater for withdrawals. Kaaya and Pastory (2013) noted that liquid assets to liquid liabilities ratio can be used to measure a bank's liquidity management.

### **2.3.2 Capital structure Management practice**

Capital structure management indicates to the firm's financial framework which consists of the debt and equity used to finance the firm. Capital structure management has been described as a mixture of equity finance and debt finance and is usually regarded as the one of the most significant financial variables because it is linked to the capacity of the company to meet the requirements of all its stakeholders such as employees, community, shareholders, among others (Mensah, 2016). Capital structure management has an effect on the cost of capital, which ultimately influences profitability of the firm and share prices (Saah, 2015). Capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability on the part of management that is aimed at improving financial performance and maximization of shareholders' wealth.

Moffett *et al.* (2015) however, maintained that conflict between lenders and shareholders will always work in favor of shareholders. Because if the firm's capital structure management is composed of more debt than equity, shareholders can afford to undertake risky projects. If a firm is reporting profits and is financially sound, it is better placed to settle its financial obligations including servicing debts. On the contrary, if the performance is poor, financiers will incur higher losses attributed to un-serviced loans. A firm's future profitability is dictated by the mix of debt and equity in its capital structure management. The debt element of the capital structure management mix is composed of both short term debt and long term debt. Debt increases a firm's risk of making future profits thus raising a firm's expectations of higher future returns.

### **2.3.3 Credit risk Management practice**

According to Agbaje *et al.* (2014) credit risk management has significant effect on financial performance of commercial banks and further recommend that maintaining minimum level of non-performing loans vis-à-vis provision for loans and advances will enhance financial performance through its positive effect on return on equity. In any organization especially commercial banks, financial performance is affected by credit risk management. According to Gupta and Huefner (2012) the effective management of credit risk is a critical component of comprehensive risk management which is essential for long-term success of a banking institution. Credit risk management practices and poor credit quality continue to be a dominant cause of bank failures and banking crisis worldwide (Mwega, 2009). The extent to which banks manage their credit risk management have an impact on their entire financial performance or survival.

Most studies on credit risk management posit that there is a positive relationship between effective credit risk management and banks' profitability while some of these studies support the notion that there is a negative relationship between them (Alshatti, 2015). Some studies that found a positive relationship between credit risk management and bank performance include those of Hosna *et al.* (2009) found Non-performing loans indicator affects (ROE) more than capital adequacy ratio, Aruwa and Musa (2012) found a strong positive relationship between risk components and the banks' financial performance, although the direction of the effect is not specified,

### **2.3.4 Working capital Management practice**

Working capital management is a vital issue in financial decision making since it is a part of investment in asset and it directly affects the liquidity and profitability of the company. The way of managing working capital management can have a significant impact on both the liquidity and profitability of the company as concluded by Shin and Soenen (2016). Rafuse (2014) observed that many failures of small businesses are working capital management starvation as a result Working capital management is important to businesses whether listed or unlisted. In managing working capital, a firm is in a place where it can meet its short-term financial obligations, thus a firm is able to finance its day to day operational activities. If working capital management isn't managed well the survival of a firm becomes difficult (Myers, 2012). Cash conversion cycle determine time taken between acquisition of raw materials and time when money starts flowing into the firm through sales. This demonstrates the linkage between working capital management and performance in that by managing its working capital management efficiently a firm is able to post better shares to investors.

Working capital management has been recognized as a key determinant of financial performance which in turn affects the returns of a firm. Working capital management is important as it helps a firm to determine the appropriate levels of working capital management components for the smooth running of the firm (Stonehill, & Eiteman, 2015). When stock increases, more cash is held in form of stock which could lead to cash shortage to cater for their financial needs. Techniques used by a firm to manage its own working capital management can therefore affect the performance of the firm.

### **2.3.5 Financial Performance**

Erasmus (2008) noted that financial performance measures like profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past financial performance and the current position of a firm. Financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Naser & Mokhtar, 2004). A firm's financial performance is a measure of how well a firm uses its assets from its core operations and generates revenues over a given period of time. This measure is thus compared to some given industrial average standard of similar firms in the same industry.

Matz (2011) considered return on equity as an important measure of financial performance involving organizational effectiveness in terms of management and governance practices (Davison, 2010). It is also a metric that many investors give attention to while making investments decisions about a firm. According Brigham and Houston (2012) return on equity provides shareholders with a quick and easy way to understand metrics and has been used by many organizations across the globe to measure financial performance. Return on Assets is an indicator of how profitable a company is in relation to its total assets and calculated by dividing a company's annual earnings by its total assets (Philip 2009). ROA provides an idea of how governance practices in relation to management uses a firm's assets to generate earnings.

## **2.4 Empirical Review**

### **2.4.1 Liquidity management practice and Financial Performance**

Lartey *et al.* (2015) carried out a study to establish the relationship between liquid assets and bank profitability for 90 banks in Europe, North America and Australia from 1972 to 1981, the study used econometric framework presented in an equation. The dependent variable, profitability, was regressed against a non-linear expression of relative liquid asset holdings, as well as a set of control variables. Liquid assets were generally included as a control variable in this study with very limited discussion around the estimated parameter. From the study a company with low liquidity and high profitability has to increase its borrowing leading to an increase of the financial costs. This would certainly lead to increasing interest rates, since the cheaper sources are quickly exhausted. Furthermore, having increased its debt, the company raises its credit risk management, causing an increase in interest rates charged by their financiers. The study concluded that profitability and solvency are necessary condition for the healthy existence of the company and both are conditioned by the strategy adopted in the medium and long term.

Graham and Bordeleau (2010) reviewed the impact of liquidity on bank profitability for 55 US banks and 10 Canadian banks between the period of 1997 and 2009. The researchers analyzed the impact of liquid asset holdings on bank profitability for a sample of large US and Canadian banks. The study employed quantitative measures to assess the impact of liquidity on bank profitability. Results from the study suggested that a non-linear relationship exists between bank profitability and liquidity, whereby profitability is improved for banks that hold some liquid assets. However, there is a point beyond which holding further liquid

assets diminishes a banks' profitability, all else equal. They concluded by noting that while it is generally agreed upon that banks undervalued liquidity prior to the recent financial crisis (of 2008), banks must also consider the tradeoff between resilience to liquidity shocks and the cost of holding lower-yielding liquid assets as the latter may impact banks' ability to generate revenues, increase capital and extend credit.

Khan and Ali (2016) did a study aimed at investigating the relationship between liquidity and profitability of commercial banks in Pakistan. The main objective of the study was to find out the nature and strength of the relationship that existed between the study variables. Correlation and regression were used respectively to find the nature of the relationship and extent of relationship between dependent and independent variables. Secondary data was used for analysis which was extracted from the last five years (2008-2014) annual accounts of Habib Bank Limited. After conducting correlation and regression analysis it was found that there was a significant positive relationship between liquidity with profitability of the banks. However, they noted that since the data of the banking sector was used, the results may not be generalized to other sectors.

Onwumere *et al.* (2012) did a study to investigate the impact of liquidity policies of Nigerian firms on their profitability for the period 2004-2008. Adopting the aggressive investment liquidity policies and aggressive financing policies as the independent variables and return on assets as the dependent variable, the study revealed that aggressive investment liquidity policies of Nigerian firms had a positive significant impact on their profitability while aggressive financing policies had a positive non-significant impact on their profitability. The result indicated that as the firm grows and outsiders' contribution increases; the use of aggressive financing liquidity policy decreases the profitability of the firm. The study concluded that appropriate management of liquidity is therefore essential if firms are to achieve their objective of improved profitability and value creation for shareholders.

Lartey *et al.* (2013) carried out a study on the relationship between liquidity and profitability of listed banks in Ghana. Seven out of the nine listed banks in the country were involved in the study. The study was descriptive in nature. It adopted the longitudinal time dimension, specifically, the panel method. Document analysis was the main research procedure adopted to collect secondary data for the study. The financial reports of the seven listed banks were studied and relevant liquidity and profitability ratios were computed. The trend in liquidity and profitability were determined by the use of time series analysis. The main liquidity ratio

was regressed on the profitability ratio. It was found that for the period 2005-2010, both the liquidity and the profitability of the listed banks were declining. Again, it was also found that there was a very weak positive relationship between the liquidity and the profitability of the listed banks in Ghana.

Mwangi (2014) investigated the effect of liquidity risk management on financial performance of commercial banks in Kenya. The study adopted a descriptive study design and relied on secondary data obtained from the commercial banks' annual financial reports. The population of the study was the 43 commercial banks in Kenya as cited within the CBK's website and the analysis was done for the period between 2010 and 2013. The study results showed that a unit increase in liquid assets to total assets ratio decreased the return on assets by 1% while a unit increase in liquid assets to total deposits ratio decreased the return on assets by 2.2%. Further, a unit increase in borrowings from banks decreased the return on assets by 14.2%. The study concluded that liquidity risk management had a significant negative relationship with the financial performance of commercial banks

Karani (2014) did a study on the effect of liquidity on profitability of commercial banks in Kenya. The population of the study comprised of all 44 commercial banks in Kenya operating in the years 2009 to 2013. For a bank to qualify it needed to have been in operation during the whole period of the study and therefore institutions that merged or were not in operation in the whole period of study were eliminated. The study used secondary data obtained from audited financial statements of the banks at the end of the years of study. The study used descriptive statistics and regression analysis to establish the relationship between the study variables. The study established that there was a positive relationship between profitability and liquidity of commercial banks in Kenya and called for strengthening of the liquidity requirements that have been set by CBK.

#### **2.4.2 Capital Structure Management practice and Financial Performance**

To study the effect of capital structure management on profitability of the industrial companies listed on Amman Stock Exchange during a six-year period (2004-2009), Shubita and Alsawalhah (2012) found a significantly negative relation between debt and profitability. This suggests that profitable firms depend more on equity than debt. The study sample consisted of 39 randomly selected companies with correlations and multiple regression analysis as techniques of analysis. The findings contravene Myres and Majluf (1984) pecking order hypothesis that debt is preferred to equity. Similarly, to analyze the impact of capital

structure management on profitability of listed companies in India, Chisti *et al.* (2013) found that capital structure management had a statistically significant impact on the profitability of firms. The study used secondary data of ten automobile companies for the 2007-2012 and used ratios analysis. GP margin, NP margin ROCE, return on investments were used as profit proxies while debt to equity, debt to assets and interest cover were used as capital structure management proxies.

Yusuf *et al.* (2014) to investigate the relationship between capital structure management and profitability of firms quoted in the Nigeria Stock Exchange, sample data was collected from ten randomly selected firms among three industries from 2000 to 2011. The study used Return on Asset (ROA) and Return on Equity (ROE) as performance proxies while the debt-equity ratio (DER) and debt-asset ratio (DAR) were used as capital structure management proxies. The relationship between the performance and capital structure management proxies were analyzed using correlation coefficient and regression techniques. The study results showed that the effect of capital structure management on ROA was not significant across all firms except for 7up and Nestle. The study findings also showed an insignificant relationship between ROE and DAR. However, there was a significant relationship in almost all firms between ROE and debt to equity ratio. They concluded that highly geared firms tend to have higher profitability.

Muathe *et al.* (2018) did a study on the relationship between capital structure management and performance of non-financial companies listed in the Nairobi Securities Exchange, Kenya. The study employed an explanatory non-experimental research design. A census of 42 non-financial companies listed in the Nairobi Securities Exchange, Kenya was taken. The study used secondary panel data contained in the annual reports and financial statements of listed non-financial companies. The data was extracted from the Nairobi Securities Exchange hand books for the period 2006-2012. The study applied panel data models (random effects). Feasible Generalized Least Square (FGLS) regression results revealed that financial leverage had a statistically significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). The study recommended that managers of listed non-financial companies should reduce the reliance on long term debt as a source of finance.

Siro (2013) evaluated the effect of capital structure management on financial performance of firms listed at the Nairobi Securities Exchange. Financial performance was measured in terms of return on equity while capital structure management was measured in terms of debt ratio.

The population of the study consisted of all the 61 listed firms duly registered with the capital market authority of Kenya in 2012. Secondary data used was obtained from the Nairobi securities exchange handbook and also from the firm's publications. Data analysis was done by use of regression analysis model with the help of Statistical Package for Social Sciences Software. The study found an inverse relationship between capital structure management and financial performance of the listed firms in the securities exchange in Kenya.

Orua (2009) carried out a study to establish whether there was a relationship between capital structure management and profitability of MFIs in Kenya. This study used descriptive statistics. The study found that the capital structure management decision is crucial for any business organization. The decision is important because of the need to maximize returns to various organizational constituencies, and also because of the impact such a decision has on an organization's ability to deal with its competitive environment. From the findings the study found that most of MFIs in Kenya were using equity and or donations as their main source finances in Kenya which accounted for by 72.42% and 27.58% in form of debt. The study further found that there exist a positive relationship between equity financing and profitability of MFIs in Kenya.

Maina (2014) did a study on the effect of capital structure management on financial performance of small and medium enterprises in the dairy sector in Kiambu County. The causal research design was used to carry out the study. The population of the study was all the 71 dairy SMEs in Kiambu County as at 31st December 2013. Probability sampling technique was employed to select a sample of 50 firms. The study used secondary data from the SMEs annual reports and newsletters. Multivariate regression and correlation analysis were used for data analysis. Capital structure management was analyzed using the debt-equity ratio, debt-asset ratio and liquidity while financial performance of the SMEs was analyzed using ROA. The results indicated that debt-equity ratio was significant at 5% level of significance (0.009) with a coefficient of -0.179; debt-asset ratio was significant at 5% level of significance (0.006) with a coefficient of 0.195 and the liquidity ratio was significant at 5% level of significance (0.01) with coefficient 0.012 which indicated that the three factors were predictors of financial performance of small and medium enterprises in dairy sector in Kiambu County.

### **2.4.3 Credit risk Management practice and Financial Performance**

In a study of the impact of credit risk management on profitability of the commercial banks in United Kingdom (UK), Saeed and Zahid (2016) aimed to analyze the impact of credit risk management on profitability of five big UK commercial banks. For measuring profitability, two dependent variables ROA and ROE were considered whereas two variables for credit risk management s were: net charge off (or impairments), and non-performing loans. Multiple statistical analyses were conducted on bank data from 2007 to 2015 to cover the period of financial crisis. It was found that credit risk management indicators had a positive association with profitability of the banks. This meant that even after the deep effects of credit crisis in 2008, the banks in the UK were taking credit risk management s, and getting benefits from interest rates, fee, and commissions etc.

Kargi (2011) studied the impact of credit risk management on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk management were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2004-2008. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit risk management has a significant impact on the profitability of Nigeria banks. Therefore, management need to be cautious in setting up a credit policy that might not negatively affects profitability and also they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.

Kolapo *et al.* (2012) investigated credit risk management and commercial banks' performance in Nigeria using a panel model approach over an 11-year period between 2000 and 2010. Five commercial banks were selected on a cross sectional basis. The traditional profit theory was employed to formulate profit, measured by Return on Asset (ROA), as a function of the ratio of Non-Performing Loan to Loans & Advances (NPL/LA), ratio of Total Loan & Advances to Total deposit (LA/TD) and the ratio of loan loss provision to classified loans (LLP/CL) as measures of credit risk management. Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk management on bank performance measured by the Return on Assets of banks is cross-sectional invariant. That is the effect is similar across banks in Nigeria, though the degree to which individual banks were affected was not captured by the method of analysis employed in the study.

On their part, Kaaya and Pastory (2013) studied credit risk management and commercial banks' performance in Tanzania. The study targeted 11 banks in Tanzania. The study employed panel data model. The main data sources were published financial statements of the banks. Casual research design and descriptive research design were employed as the study was keen to establish the relationship between the variables. Performance of the banks was analyzed using return on asset (ROA) while credit risk management was analyzed using loan loss to gross loan, Non-Performing loan, loan loss to net loan and impaired loan to gross loan ratios. The credit risk management indicators produced negative correlation which indicated that the higher the credit risk management the lower the bank performance.

Ugirase (2013) did a study on the effect of credit risk management on the financial performance of commercial banks in Rwanda. The study had four specific objectives of establishing how credit risk management identification, credit risk management analysis and assessment, credit scoring mechanism and risk monitoring affected the financial performance of commercial banks in Rwanda. The study adopted a descriptive research design. The sample size as well as the population of the study was eleven commercial banks. Data was gathered using a data a questionnaire and analyzed using SPSS 17. The overall finding and conclusion of the study was that all the measures of credit risk management used in this study are highly significant predictors of financial performance of commercial banks in Rwanda except risk monitoring.

Gatuhu (2013) did a study on the effect of credit management on the financial performance of microfinance institutions in Kenya. The study adopted a descriptive survey design. The population of the study consisted of 59 MFIs in Kenya that are members of AMFI. A census study was used to carry out the research. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Descriptive statistics were used to analyze data. Furthermore, descriptions were made based on the results of the tables. The study found that client appraisal, credit risk management control and collection policy had a positive effect on financial performance of MFIs in Kenya. The study established that there was strong positive relationship between financial performance of MFIs and client appraisal, credit risk management control and collection policy.

Oludhe (2011) studied the impact of credit risk management on financial performance of commercial banks in Kenya. A causal research design was undertaken in this study and this was facilitated by the use of secondary data which was obtained from the CBK publications

on banking sector survey. The study used multiple regression analysis in the analysis of data and the findings have been presented in the form of tables and regression equations. The study also found that there is a strong impact between the CAMEL components on the financial performance of commercial banks with the R: values being lowest at 0.594 in 2007 and highest at 0.943 in 2009 implying that in 2007 CAMEL components could explain 59.4 percent variations in financial performance and 94.3 percent variations in financial performance in 2009. This study concluded that CAMEL model can be used as a proxy for credit risk management.

#### **2.4.4 Working capital management practice and Financial Performance**

Eljelly (2010) carried out a study in Saudi Arabia that involved 929 joint stock companies, which aimed to examine the association between financial performance and Working capital management of the firms. Using current ratios, it was found that between an organization's share performance there was a substantial undesirable association, whereby the presence of cash alteration cycles for a firm shows a more pronounced relationship. However, the researcher discovered that the measure of liquidity is better elaborated through the use of the cash alteration cycle or the money opening at an industry level, then existing ratio that affects share performance. Gull *et al.* (2013) also carried out a study of the Karachi Stock exchange in Pakistan for a period between 2006 to 2012 involving small medium enterprises to investigate on their share performance under the influence of working capital management. The study used correlation and multiple regression analysis. The study found that Working capital management had significant influence on share performance of firms. Further, the study established that cash conversion cycle influenced to a great extent the profitability of small and medium firms.

Oladipupo and Okafor (2013) conducted a study of the Nigeria Stock Exchange between the year 2002 to 2006, on share performance and working capital management. The study employed product moment Pearson correlation regression method in the analysis and examination of how a firm's share performance is impacted by its Working capital management exercise, while also focusing on the extent of its effects on both factors. The financial data utilized by the company was sourced from 12 manufacturing establishments quoted on the stock exchange. The results of the study were that share performance was promoted by a shorter net trade cycle and debt ratio. Additionally, they found out that corporate profitability suffers a significant negative impact from the level of leverage.

A study aimed at investigating the connection between management of working capital management and share performance was conducted on several manufacturing firms listed on the NSE (Makori & Jagongo, 2013). The sample utilized multiple regression for the analysis whereby a sample of twenty firm's whose facts and figures for 5 years from 2007-2011 was designated for the research. The study found that Working capital management influence share performance. On the other hand, Mathuva (2010) also carried out a study on the effect of managing working capital management on share performance. The study period was 1993 to 2008 where the used a sample of 30 organizations registered on NSE. Regression model was used for data analysis. The study established that between the average payment period and share performance there exists a highly substantial affirmative relationship. He held that firms are able to achieve higher share performance if they take longer to pay their creditors.

Similarly, Uwonda and Okello (2013) through a cross sectional exploratory study conducted a research in the Northern parts of Uganda on small medium enterprises to examine their share performance and how it's influenced by working capital management. The research concentrated on areas of cash management in the small enterprises particularly projection of the cash flow; determining and understanding financial reports and statements, tax planning; and control of the budget which formed part of the data sampled from 120-service sector SMEs. The data was then analyzed, and it was found that other concerns that surrounded the SMEs were the deployment of terminated fixed assets, deprived credit policies, timely discounts, failure to offer cash and lack to prepare bank reconciliation and. The study suggested several recommendations that if utilized would see the SMEs reach their potential especially in the design of their business plans, how they handle cash flows, and their spending habits. The study above adapted exploratory research design while the current study uses cross sectional survey.

## **2.5 Summary of Literature Review and Knowledge Gap**

Studies by Karani (2014); Khan and Ali (2016) evaluated the effect of liquidity as a financial management practice on the profitability of firms in the banking sector in Pakistan and Kenya respectively. These two studies reported similar findings that there was a significant positive relationship between liquidity and the profitability of the banks. While the current study was similar to these studies in the choice of liquidity as one of the study variables, the current study was however different in that adopted a descriptive research design while the aforementioned studies adopted correlational and causal design as their research design.

Similarly, there is a methodological difference between the current study and that of Gatuhu (2013) which though focused on the effect of credit management as a financial management practice on firm performance adopted a descriptive research design while the current study is using a quantitative research design.

The study by Nzomo (2013) examined the impact of accounting information systems on organizational effectiveness of automobile companies in Kenya and reported that accounting information systems were an important mechanism for organizations' effective management, decision-making and controlling activities. The study further noted that AIS are an effective decision-making tool for controlling and coordinating the activities of an organization. The study concluded that AIS are critical to the production of quality accounting information on a timely basis and the communication of that information to the decision makers. While the study was insightful as to significance of accounting information systems in an organization, the study differs with the current study in three major ways which are it was based on primary data while the current study utilizes secondary data; the study had its dependent variable as organizational effectiveness while the current study's dependent variable is financial performance and the study was based on automobile companies in Kenya while the current study is based on commercial banks in Kenya.

As with the study done by Nzomo (2013), there are also contextual differences in the studies carried out by Sugut (2014) which focused on non-governmental organizations in Nairobi County and that of Maina (2014) which was based on small and medium enterprises in the dairy sector in Kiambu County. These two studies were insightful in pointing out the effect of computerized accounting systems and capital structure management as financial management practices on firm financial performance. These two studies established that both computerized accounting systems and capital structure management were significant predictors of financial performance of the studied organizations. The current study however was conducted among commercial banks in Kenya. Similarly, Xiani (2013) carried out a study to establish the relationship between liquid assets and bank profitability for 90 banks in Europe, North America and Australia from 1972 to 1981. The study concluded that profitability and solvency are necessary condition for the healthy existence of the company. However, the study was conducted among developed countries while the current study is based on banks in a developing country.

Studies carried out by Graham and Bordeleau (2010) and Lartey et al. (2013) established that the existence of a positive relationship between liquidity and the financial performance of banks in US and Ghana respectively. Similarly, studies by Chisti *et al.* (2013) and Shubita and Alsawalhah (2012) reported that capital structure management had a statistically significant impact on the profitability of firms in Jordan and India, respectively. On their part, Saeed and Zahid (2016) as well as Kolapo *et al.* (2012) investigated the effect of credit risk management and performance of banks in UK and Nigeria respectively while Grande et al. (2011) evaluated the impact of accounting information systems on firm performance in Spain. These studies reported that both credit risk management and the AIS were significant predictors of firm financial performance. While these studies inform the current study, the current study nonetheless departs from these studies given that they evaluated the effect of a single component of financial management practices on firm financial performance. The current study however expands the scope of these studies by considering the effect of several financial management practices including liquidity management, capital structure management, credit risk management and accounting information systems on the financial performance of commercial banks in Kenya.

While the current study shares similar conceptual context as the studies by Graham and Bordeleau (2010); Kargi (2011) and Xiani (2013) the studies differ on the basis of the study period under review. The current study was based on secondary data for the period 2010-2019 while the study by Xiani (2013) covered the period 1972 to 1981; the study by Graham and Siro (2013) covered the period 1997 and 2009 and the study by Kargi (2011) covered the period 2004-2008. Further, despite the current study sharing similar variables as the studies by Sugut (2014) and Musau *et al.* (2018), these two studies differ with the current study in that they were based on non-financial firms while the current study is based on financial firms. Further, while studies by Caouette *et al.* (2011) and Kirkpatrick (2009) were able to identify financial management practices as critical elements in firm growth and survival, they failed to establish the association between financial management practices and firm financial performance which is the research gap that the current study seeks to fill.

Finally, while the literature reviewed provide an insight as to the relationship between various financial management practices and financial performance of firms, the studies fail to provide a consensus as to whether the relationship is positive or negative. For instance, Studies done by Chisti *et al.* (2013), Yusuf *et al.* (2014), Maina (2014) and Orua (2009) concluded that

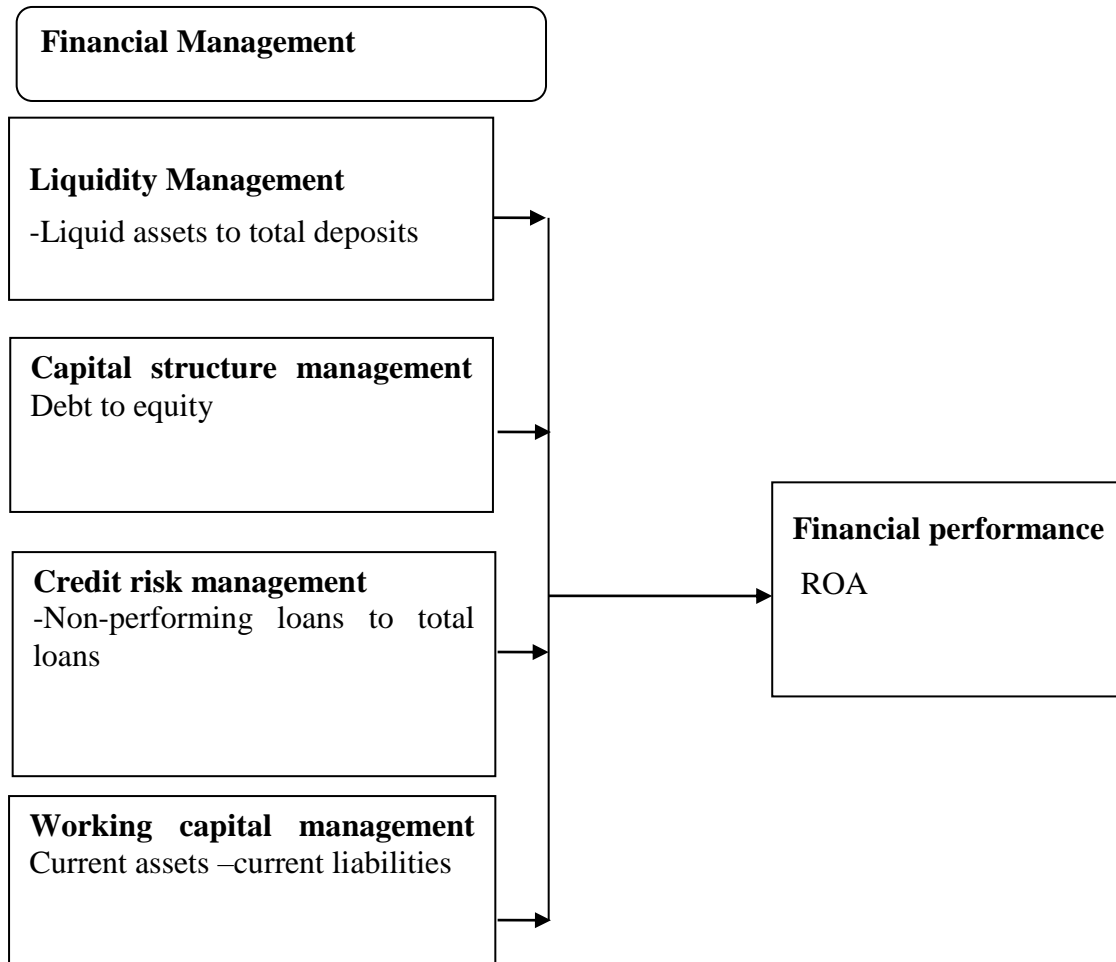
highly geared firms tended to have higher profitability compared to those that were lowly geared. However, contrary findings were reported by Shubita and Alsawalhah (2012), Siro (2013) as well as Muathe *et al.* (2018) which established an inverse association between the levels of debt and firm financial performance. Consequently these contradictory results indicate the need for more research in this study area.

The empirical studies reviewed above showed that various financial management practices have an impact on the financial performance of firms and as such are of particular importance to firms. However, the researchers defer on the kind of impact that the financial management practices have on financial performance of firms. For instance, some researchers (Khan & Ali, 2016; Onwumere *et al.*, 2012) found a positive relationship while others found a negative relationship (Kaaya & Pastory, 2013; Muathe *et al.*, 2018; Mwangi, 2014). For other researchers such as Kolapo *et al.* (2012), Graham & Bordeleau (2010) and Kargi (2011), different components of the financial management practices have different impact on the financial performance of firms. A lot of the local studies (Muathe *et al.*, 2018; Orua, 2009; Siro, 2013) have focused on single variables in their study of the effect of financial management practices on organizational performance. As such there is dearth of local studies that have focused on financial management practices and organizational performance from the holistic (multi-variable) perspective. Informed by this research gap, this study seeks to determine the influence of financial management practices on the financial performance of commercial banks in Kenya.

## 2.6 Conceptual Framework

**Independent variables**

**Dependent variable**



*Figure 2.1: Conceptual Framework*

### **conceptual frameworkc**

The above conceptual framework represents the independent variables of study i.e liquidity management practice, capital structure management practice, credit risk management practice, working capital management practice and the dependent variable financial performance

A conceptual framework is a diagrammatical presentation of variables in a research. The framework demonstrates the correlation between variables that are dependent and those that are independent (Mokhtar, 2004 & Regoniel, 2015).

## **CHAPTER THREE**

### **RESEARCH METHODOLOGY**

#### **3.1 Introduction**

This chapter covers the methodology that the researcher used to conduct this study. The research methodology is presented in the following order: research design, target population, sampling and sample size, data collection, data analysis and measurement of variables.

#### **3.2 Research Design**

The function of a research design is to ensure that the data obtained during the data collection process was adequate in answering the initial questions as unambiguously as possible (Mugenda & Mugenda, 2011). The study employed a descriptive research design. A descriptive survey enabled the researcher to describe the characteristics of the variables of interest. The independent variables included: liquidity management, capital structure management, credit risk management, and working capital management while the dependent variable is the financial performance. This study is about effects of selected financial management practices on financial performance of commercial banks in Kenya. It is therefore justified that descriptive design is most suited and justifiably adopted in this study. Descriptive designs are useful in describing the characteristics of a large population. Additionally, high reliability is easy to obtain by presenting all subjects with a standardized stimulus which ensures that observer subjectivity is greatly eliminated (Mugenda & Mugenda, 2011).

#### **3.3 Target Population**

Target population in statistics is the specific population about which information is desired. According to Ngechu (2004), a population is a well-defined set of people, services, elements, and events, group of things or households that are being investigated. This definition ensures that population of interest is homogeneous. The target population of this study was all the commercial banks in Kenya as provided for by the CBK database. The choice of the commercial banks in Kenya as the study population is based on the fact that their audited annual financial reports are readily accessible from the CBK's databases. Currently there are 43 operational commercial banks in Kenya (CBK, 2019). This study focused on all the 43 commercial banks as the study units.

### **3.4 Data Collection**

The study used secondary data. The secondary data was obtained from the audited annual financial reports of the commercial banks in Kenya from the individual firms' websites and databases spanning five years (2015-2019). The study period of 5 years enabled the researcher to gather sufficient data on the study variables thereby being able to establish the trend in the commercial banks' financial management practices and financial performance. The study adopted panel data model in data collection and analysis.

### **3.5 Data Analysis**

Data collected was coded and classified into different components to facilitate a better and efficient analysis. For the purpose of this study, financial management practices were analyzed using its various components namely; liquidity management, capital structure management, credit risk management and capital working management while financial performance was analyzed using ROA. In analyzing the quantitative data, the study used descriptive statistics and inferential statistics. The descriptive statistics was conducted using Statistical Package for Social Sciences (SPSS) version 21. Correlation analysis was performed to examine the relationship between the financial management practices and financial performance of the commercial banks. The integrity of the model was assessed through analysis of variance. Test of significance was carried out for all variables using t-test at 95% level of significance. Data was presented in form of tables, mean and standard deviation.

#### **3.5.1 Regression Model Specification**

The first objective of the study was to establish the effects of liquidity management practice on the financial performance of commercial banks in Kenya. The simple linear regression model for liquidity management was specified as:

$$Y = \beta_0 + \beta_1 X_1 + \epsilon$$

Where;

$X_1$  =liquidity management

$Y$  = Financial performance

$\beta_0$  =constant

$\beta_1$  =Coefficients of determination

$\epsilon$  =Error term

The second objective of the study was to establish the effects of capital structure management practice on the financial performance of commercial banks in Kenya. The simple linear regression model for capital structure management practice was specified as:

$$Y = \beta_0 + \beta_2 X_2 + \epsilon$$

Where:

Y = Financial performance

$\beta_0$  =constant

$\beta_2$  =coefficients of determination

$X_2$  =capital structure management

$\epsilon$  =Error term

The third objective of the study was to establish the effects of credit risk management practice on the financial performance of commercial banks in Kenya. The simple linear regression model for credit risk management practice was specified as :

$$Y = \beta_0 + \beta_3 X_3 + \epsilon$$

Where:

Y = Financial performance

$\beta_0$  =constant

$\beta_3$  =coefficient of determination

$X_3$  =credit risk management practice

$\epsilon$  =error term

The fourth objective of the study was to establish the effects working capital management practice on the financial performance of commercial banks in Kenya. The simple linear regression model for working capital management was specified as:

$$Y = \beta_0 + \beta_4 X_4 + \varepsilon$$

Where;

Y = Financial performance

X<sub>4</sub> = working capital management

β<sub>0</sub> = constant

β<sub>4</sub> = working capital management

ε = error term

The fifth objective of the study was to establish the effect of the combined liquidity management, capital structure management, credit risk management and working capital management practices on the financial performance of commercial banks in Kenya. Since there are four independent variables in this study the multiple regression model was as follows

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Y = Financial Performance

β<sub>0</sub> = Constant

X<sub>1</sub> = Liquidity Management practice

X<sub>2</sub> = Capital structure management practice

X<sub>3</sub> = Credit risk management practice

X<sub>4</sub> = Working capital management practice

β<sub>1</sub> - β<sub>4</sub> are the regression co-efficient or change introduced in Y by each independent variable

$\varepsilon$  is the random error term accounting for all other variables that influence financial performance but not captured in the model.

### 3.6 Operationalization of Study Variables

Table 3.1:

*Operationalization of Study Variables*

<b>Variables</b>	<b>Indicator</b>	<b>Data Category</b>	<b>Measure</b>	<b>Tool of analysis</b>
Financial performance	ROA	Descriptive	Earnings After Tax (EAT) / Total assets	Mean
Liquidity management	LM	Descriptive	Liquid assets / Total deposits	Mean
Capital structure management	CSM	Descriptive	Total debt / Total equity	Mean
Credit risk management	CRM	Descriptive	Non-performing loans / Total loans	Mean
working capital management	WCM	Descriptive	Current assets –current liabilities	Mean

According to Murthy and Sree (2003), on financial ratios of major commercial banks and Vanhuyse (2016), on the impact of management practices on financial performance: Evidence from farm businesses in England

Financial management practices are measured using ratios. Therefore, the study used ratios to measure the financial management practices in commercial banks in Kenya

### 3.7 Hypothesis Testing

All the hypotheses were tested at 95 percent confidence level (level of significance,  $\alpha = 0.05$ ). To test the stated hypotheses, the p-value was used to test the significance of each independent variable to the dependent variable. If p-value is less than 0.05, we accept the stated null hypothesis that the variable is significant.

Table 3.2:

*Hypothesis Testing*

<b>Hypothesis</b>	<b>Test</b>	<b>Interpretation</b>
<b>HO<sub>1</sub>:</b> Liquidity has no significant influence on the financial performance of commercial banks in Kenya	Simple linear regression	If the <i>p-value</i> for the F-ratio of all the regression models is less than the significance level of 0.05 reject the hypothesis; otherwise fail to reject
<b>HO<sub>2</sub>:</b> Capital structure management has no significant influence on the financial performance of commercial banks in Kenya	Simple linear regression	If the <i>p-value</i> for the F-ratio of all the regression models is less than the significance level of 0.05 reject the hypothesis; otherwise fail to reject
<b>HO<sub>3</sub>:</b> Credit risk management has no significant influence on the financial performance of commercial banks in Kenya	Simple linear regression	If the <i>p-value</i> for the F-ratio of all the regression models is less than the significance level of 0.05 reject the hypothesis; otherwise fail to reject
<b>HO<sub>4</sub>:</b> Working capital management has no significant influence on the financial performance of commercial banks in Kenya	Simple linear regression	If the <i>p-value</i> for the F-ratio of all the regression models is less than the significance level of 0.05 reject the hypothesis; otherwise fail to reject

### 3.8 Diagnostic Tests

The researcher performed tests on statistical assumptions i.e. test of regression assumption and statistics used. To validate this relationship, regression diagnostics test, play a pertinent role by assessing whether the assumptions of regression have been violated. A violation of any assumption influences the adequacy of the model. Diagnostics were therefore conducted to ensure that the assumptions of regression are met. This includes test of multicollinearity, heteroscedasticity and normality test.

### **3.8.1 Tests of Normality**

This test is helps to assess whether the random error in the association between the independent and dependent variable in a regression model follow a normal distribution. Violation of normality of residuals does not significantly influence the efficiency or bias of the model but it affects the computation of significant values that are used to test model adequacy when the sample size is very small. In this study the researcher used the Shapiro-Wilk and Kolmogorov Smirnov test to assess the normality assumption. To make a conclusion using this test the researcher compared the computed significant value with the study's level of significance (0.05). If the computed significant value is greater than the studies level of significance, then it was concluded that the residuals are normally distributed. If the computed significant value is greater than the studies level of significance it was inferred that the data considerably departs from a normal distribution.

### **3.8.2 Test for Multicollinearity**

Whenever two or more of the independent variables in a multiple regression model are moderately or highly correlated, we can infer that multicollinearity exists. The effect of multicollinearity is that it skews the results in a multiple regression model. To determine the severity of multicollinearity, the study used the Variance Inflation Factor (VIF). Variance Inflation Factor (VIF) measures the extent to which the variance of the coefficient's estimates increased if the independent variables are correlated. If there is no multicollinearity, then the Variance Inflation Factor (VIF) will be 1. A VIF above 1 indicated that the independent variables are moderately correlated while a VIF between 5 and 10 indicates severe multicollinearity, which is problematic.

### **3.8.3 Heteroscedasticity**

Heteroscedasticity implies the case where the variation of the error term is not similar for all observations. The basic assumption of multiple regression analysis is the variation of the error term is similar for all observations. If the residuals violate the assumption that requires equality of variance, the model coefficients were neither the ones' of minimum variance nor were they unbiased. The study used the Breusch-Pagan test, which tests the null hypothesis that the residuals have a constant variation for all observations. A p-value that is less than the study's level of significance (0.05) led the researcher to make an inference of the assumption of equality of variance is violated.

### **3.9 Ethical Considerations**

The researcher exercised utmost carefulness when administering the instruments of data collection to the individuals to guarantee their privacy and rights are upheld. Before the actual instruments' administration, an overview on the purpose and aim of the research was communicated to the respondents in a language they understood. The researcher obtained the data collection license from NACOSTI.

The study also sought the respondents' consent before being given the necessities of the research. To ensure privacy, names of the respondents were not be on the questionnaire. Moreover, Furthermore, the participation in the research study was fully voluntary. The research findings were presented without having manipulated any data.

## CHAPTER FOUR

### RESULTS AND DISCUSSION

#### 4.1 Introduction

This chapter discusses the interpretation and presentation of the findings obtained from the field. The chapter presents the background information of the respondents, findings of the analysis based on the objectives of the study. Descriptive statistics have been used to discuss the findings of the study.

#### 4.2 Diagnostic Tests

Multiple linear regression analysis makes a number of major assumptions. The study performed statistical tests on the regression assumptions. This included test of normality, Heteroscedasticity and multicollinearity.

##### 4.2.1 Multicollinearity Test

The application of linear regression makes assumptions that there is no multicollinearity among the independent variables. Multicollinearity arises when the independent variables are too extremely related with each other. Multicollinearity refers to the predictors that are connected with other predictors in the model. Nevertheless, the choice to finally drop an item is also contingent on a second step, where the variance inflation factor (VIF) is used. The VIF detects multicollinearity by measuring the extent to which the variance has been bloated. A VIF greater than 10 is thought to be an indicator of destructive multi-collinearity as proposed (Baum, 2006).

The study detected for multi-co linearity using the correlation matrix or by using (VIF) as shown in Table 4.3 below.

Table 4.3:

*Collinearity Statistics*

<b>Variables</b>	<b>Tolerance</b>	<b>VIF</b>
Liquidity Management	.345	2.897
Capital structure management	.735	1.361
Credit risk management	.193	5.186
Working capital management	.117	4.572

The Variance Inflation Factor evaluates the seriousness of multicollinearity in a standard slightest squares relapse investigation. VIF's more prominent than 10 are an indication of

multicollinearity; the higher the estimation of VIF, the more extreme the issue. Outcomes above show all variables (VIF) of less than 10: liquidity (2.897), Capital structure management (1.361), credit risk management (5.186) and Working capital management (4.572), this implies that there was no collinearity with the variables thus all the variables were maintained in the regression model.

#### 4.2.2 Heteroscedasticity

Linear regression models assume that the error terms are usually and identically independently distributed with mean zero and constant variance (homoscedasticity). Heteroscedasticity assumes, that the dependent variable(s) display an equal level of variance across the range of predictor variable(s). Heteroscedasticity is among assumptions needed for multivariate analysis. Though the violation of homoscedasticity may reduce the accurateness of the analysis, the effect on ungrouped data is not fatal (Tabachnick & Fidell, 2007). Levene test was used to examine the equality of variances for the variables calculated (political systems, economic resources, stakeholder participation, and legal frameworks). Regression analysis assumes that variances of the population from which different samples are drawn are equal. From table 4.4 below, the resulting P-value of Levene's test is below the conventional 0.05 critical value, demonstrating that the obtained differences in sample variances are probable not to have occurred based on random sampling from a population with equal variances. Thus, there is momentous difference between the variances in the population.

Table 4.4:

*Test of Homogeneity of Variances*

<b>Levene Statistic</b>	<b>df1</b>	<b>df2</b>	<b>Sig.</b>
1.626	42	42	.043

#### 4.2.3 Normality Test

Normality tests are done to find whether the sample data has been obtained from a normally distributed population. Normality assessment can be done by using a graphical or numerical procedure. The numerical procedures contain inferential statistics such as Shapiro-Wilk and Kolmogorov-Smirnov. The Kolmogorov-Smirnov test is considered appropriate for samples larger than 2000 while Shapiro-Wilk test is considered appropriate for samples ranging from 30 to 2000. In this study, the usable sample was 43 commercial banks and hence Shapiro-Wilk test were used. The typicality was tried using the Shapiro-Wilk test which likewise has

energy to recognize take off from ordinariness due to either kurtosis or skewness or both. In the event that measurement ranges from zero to one and figures higher than 0.05 show the information is ordinary (Razali & Wah, 2011). Shapiro-Wilk test evaluates whether information is typically circulated against theory that,  $H_0$ : Sample follows a Normal distribution and  $H_a$ : Sample does not follow a Normal distribution. Table 4.5 below shows the results of the Shapiro-Wilk normality test.

Table 4.5:

*Shapiro-Wilk*

<b>Variables</b>	<b>Statistic(P-value)</b>	<b>df</b>	<b>Sig.</b>
Liquidity Management	0.887	42	0.001
Capital structure management	0.834	42	0.000
Credit risk management	0.924	42	0.003
Working capital management	0.798	42	0.004

**Key: df = degrees of freedom, sig = significance level**

When the p-value is greater than the alpha value, then one fails to reject the null hypothesis and don't accept the alternative hypothesis.

### **4.3 Descriptive Statistics**

The study sought to determine the effects of selected financial management practices on financial performance of commercial banks in Kenya. The study targeted the 43 operational commercial banks in Kenya. The descriptive statistics findings are presented in trend curves below.

### 4.3.1 Liquidity Management practice

Table 4.6:

*Liquidity*

Year	Minimum	Maximum	Mean	Std deviation
2015	6.61	10.2	8.43	0.16
2016	6.21	9.34	7.16	0.32
2017	2.12	5.15	4.21	0.41
2018	4.36	7.25	9.19	0.27
2019	7.48	11.22	11.13	0.10

Source; Research findings, (2019)



**Figure 4.2: liquidity management practice**

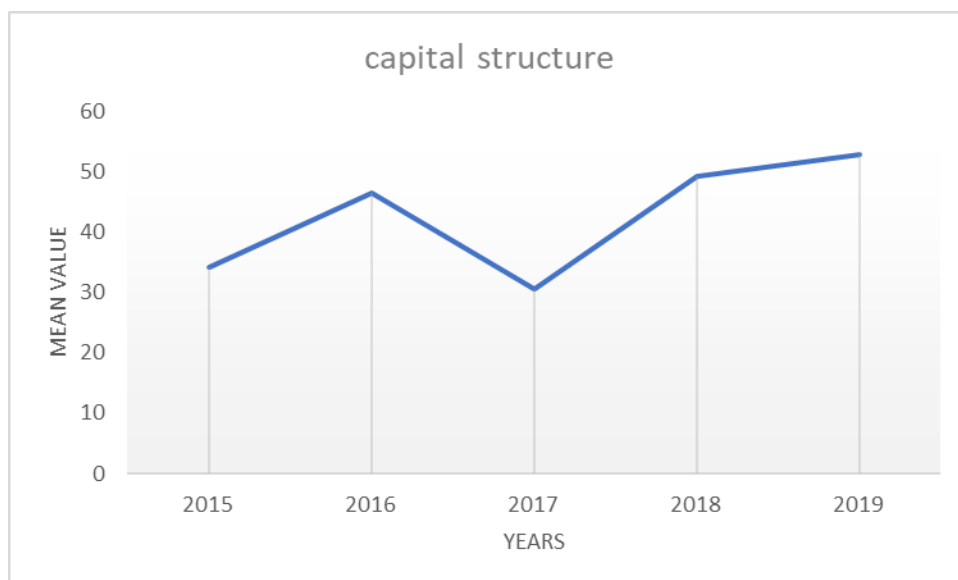
From the findings in figure 4.2, it can be noted that the year 2019 recorded the highest value in liquidity as shown by a mean of value 11.13 of while the year 2017 recorded the lowest value for liquidity levels at 4.21 in addition, values for standard deviation depicts variability in liquidity during the 5 year period with the highest deviation 0.41 in the year 2017 and the lowest 0.10 in the year 2019. the findings revealed that banks maintained standardised liquidity levels over a the five-year period with an exception of the years 2017.

### 4.3.2 Capital structure management practice

Table 4.7:

#### *Capital structure management*

Year	Minimum	Maximum	Mean	Std deviation
2015	32.34	39.22	34.21	0.18
2016	33.69	46.57	46.46	0.21
2017	30.71	33.21	30.58	1.65
2018	49.27	50.39	49.26	0.17
2019	50.31	54.52	52.94	0.28



**Figure 4.3: Capital structure management practice**

From the findings in figure 4.3, it can be noted that the year 2019 recorded the highest value in Capital structure management as shown by a mean of value of 52.94 while the year 2017 recorded the lowest value for Capital structure management 30.58 in addition, values for standard deviation depicts variability in Capital structure management during the 5-year period with the highest deviation 1.65 in the year 2017 and the capital structure management value 0.17 in the year 2018. the findings revealed that there have been a significant increase in Capital structure management during the 5-year period.

### 4.3.3 Credit risk management practice

Table 4.8:

Credit risk management

Year	Minimum	Maximum	Mean	Std deviation
2015	8.82	11.31	9.21	0.11
2016	10.99	13.18	10.17	0.42
2017	8.34	11.41	9.49	0.14
2018	11.83	13.29	12.22	0.36
2019	12.28	15.17	13.81	0.19



**Figure 4.4: Credit risk management practice**

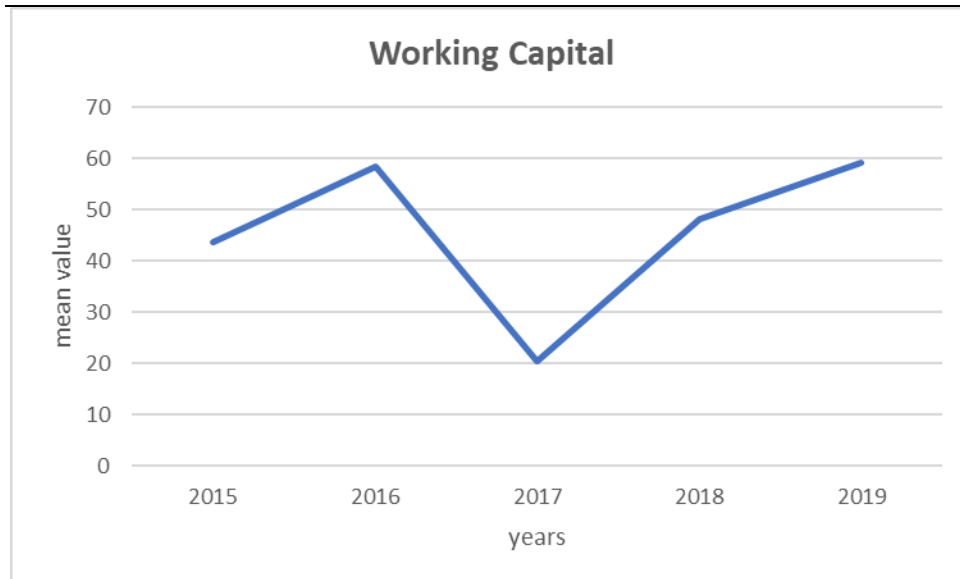
From the findings in figure 4.4, it can be noted that the year 2019 recorded the highest value in credit risk management as shown by a mean of value of 13.81 while the year 2017 recorded the lowest value for credit risk management at 9.49, in addition, values for standard deviation depicts variability in credit risk management during the 5 –year period with the highest deviation 0.42 in the year 2016 and the lowest 0.11 in the year 2015, the findings revealed that there have been slight increases in credit risk management during the 5-year period with exception of the year 2017 which registered a sharp decline.

#### 4.3.4 Working capital management practice

Table 4.9:

*Working capital management*

Year	Minimum	Maximum	Mean	Std deviation
2015	44.15	46.32	43.69	0.10
2016	50.25	60.32	58.36	0.91
2017	17.97	23.74	20.36	0.47
2018	47.25	52.31	48.26	0.15
2019	54.23	62.17	59.24	0.19



**Figure 4.5: Working capital Management practice**

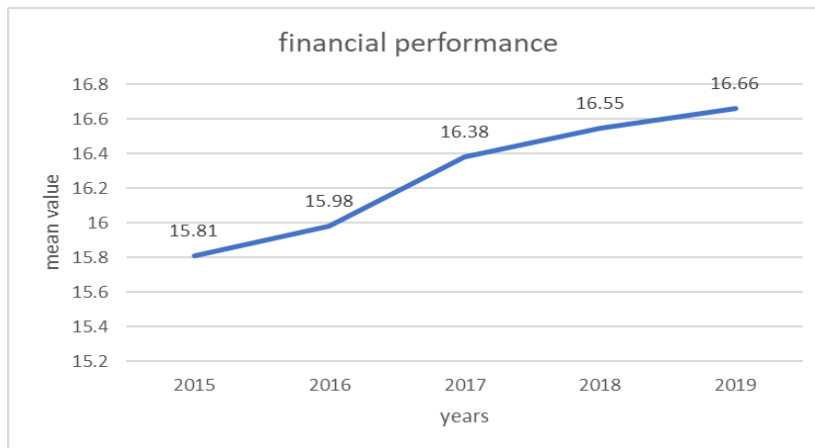
Working capital management has been fluctuating, under the period of study, it can be noted that the year 2019 recorded the highest value in working capital management as shown by a mean of value of 59.24 while the year 2017 recorded the lowest value for Working capital management 20.36 in addition, values for standard deviation depicts variability in Working capital management during the 5- year period with the highest deviation 0.91 in the year 2016 and the lowest 0.10 in the year 2015 as shown in figure 4.5. The findings revealed that during the 5-year period the Working capital management exhibited dense volatility trend

### 4.3.5 Financial Performance

Table 4.10:

*Financial Performance*

Year	Minimum	Maximum	Mean	Std deviation
2015	11.72	19.17	15.81	1.57
2016	11.53	19.24	15.98	1.53
2017	11.55	19.46	16.38	1.81
2018	11.59	19.66	16.55	1.78
2019	11.62	19.77	16.66	1.79



**Figure 4.6: Financial Performance**

From the findings in figure 4.6, it can be noted that the year 2019 recorded the highest value in financial performance as shown by a mean of value of 16.66 while the year 2015 recorded the lowest value for financial performance at 15.81, in addition, values for standard deviation depicts variability in financial performance during the 5-year period with the highest deviation 1.81 in the year 2017 and the lowest 1.53 in the year 2016, the findings revealed that there have been slight increase in financial performance of banks during the 5-year period.

## 4.4 Inferential Statistics

### 4.4.1 Correlation between Liquidity and Financial Performance

Table 4.11 below displays the results of correlation test analysis between the dependent variable (financial performance) and the independent variable (Liquidity Management).

Table 4.11:

*Correlation between Liquidity and Financial Performance*

Variable		Banks financial performance	Liquidity
Banks financial performance	Pearson	1	.553**
	Correlation		
	Sig. (2-tailed)		.001
	N	43	43
Liquidity Management	Pearson	.553**	1
	Correlation		
	Sig. (2-tailed)	.001	
	N	43	43

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

The study found a positive correlation coefficient parental liquidity and financial performance of the commercial banks in Kenya as shown by correlation value of 0.553, the significant value was 0.001 which is less than 0.05, and this reveals that any positive change in liquidity practices would enhance financial performance of the commercial banks in Kenya. These findings concur with study observations by Lamberg and Valming (2013) Measuring liquidity risk is important to making sure that liquidity problems are identified in time.

#### **4.4.2 Correlation between Capital structure Management practice and Financial Performance**

Table 4.12 below displays the results of correlation test analysis between the dependent variable (Banks financial performance) and the independent variable (capital structure management)

Table 4.12:

*Correlation between capital structure management practice and financial performance*

Variable		Banks financial performance	Capital structure management
Banks financial performance	Pearson Correlation	1	.711**
	Sig. (2-tailed)		.003
	N	43	43
Capital structure management	Pearson Correlation	.711**	1
	Sig. (2-tailed)	.003	
	N	43	43

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

The study found a positive correlation coefficient parental Capital structure management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.711, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in Capital structure management practices would enhance financial performance of the commercial banks in Kenya. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

**4.4.3 Correlation between Credit risk Management practice and Financial Performance**

Table 4.13 below displays the results of correlation test analysis between the dependent variable (Banks financial performance) and the independent variable (Credit risk management)

Table 4.13:

*Correlation between Credit risk Management practice and Financial Performance*

Variable		Banks financial performance	Credit risk management
Banks financial performance	Pearson Correlation	1	.672**
	Sig. (2-tailed)		.002
	N	43	43
Credit risk management	Pearson Correlation	.672**	1
	Sig. (2-tailed)	.002	
	N	43	43

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

The study found a positive correlation coefficient parental credit risk management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.672, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in credit risk management practices would enhance financial performance of the commercial banks in Kenya. These findings concur the research conclusion by Juanjuan (2009) credit management practices helped in bank in achieve long-term investment plans, it also avails of benefit of compounding of interest and keeping capital safe.

**4.4.4 Correlation between Working Capital Management practice and Financial Performance**

Table 4.14 below displays the results of correlation test analysis between the dependent variable (Banks financial performance) and the independent variable (working capital management)

Table 4.14:

*Correlation between Working capital Management and Financial Performance*

Variable		Banks Financial Performance	Working capital management
Banks Financial Performance	Pearson Correlation	1	.644**
	Sig. (2-tailed)		.008
	N	43	43
Working capital management	Pearson Correlation	.644**	1
	Sig. (2-tailed)	.008	
	N	43	43

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

The study found a positive correlation coefficient parental working capital management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.672, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in working capital management practices would enhance financial performance of the commercial banks in Kenya. These management practices are in line suggestion by Nthenge and Ringera (2017) that Working capital management strategy designed to ensure that business entities operate efficiently by monitoring and spending its current resources and liabilities up to the optimal levels.

On the correlation of the study variable, the researcher conducted a Pearson moment correlation as shown in the finding in table 4.15 below.

Table 4.15:  
*Correlations*

		Banks financial Liquidity		Capital structure management Credit risk management	Working capital management	
	Correlation Coefficient	1.000	.553	.711	.672	.644
Banks financial performance	Sig. (1-tailed)	.	.001	.003	.002	.008
	N	43	43	43	43	43
	Correlation Coefficient	.553	1.000	.142	.037	.001
Liquidity	Sig. (1-tailed)	.001	.	.000	.003	.002
	N	43	43	43	43	43
	Correlation Coefficient	.711	.142	1.000	.046	.008
Capital structure management	Sig. (1-tailed)	.003	.001	.	.000	.000
	N	43	43	43	43	43
	Correlation Coefficient	.672	-.037	.046	1.000	.124
Credit risk management	Sig. (1-tailed)	.002	.000	.001	.	.002
	N	43	43	43	43	43
	Correlation Coefficient	.644	.001	.008	.124	1.000
Working capital management	Sig. (1-tailed)	.000	.001	.003	.000	.
	N	43	43	43	43	43

**Source; Research Data (2020)**

From the table 4.15 the study found that there was strong positive correlation coefficient between liquidity and financial performance of the commercial banks in Kenya, as shown by correlation factor of 0.553, this strong relationship was found to be statistically significant as the significant value was 0.001 which is less than 0.05. This conforms to the argument by Alemayehu and Ndung'u (2012) that liquidity and bank performance are key factors that determine the development, sustainability, survival, growth and performance

The study found strong positive correlation between capital structure management and financial performance of the commercial banks in Kenya as shown by correlation coefficient of 0.711, the significant value was 0.003 which is less than 0.05, these findings contradicts research studies by Beckmann (2017) that use of debt financing on business operations and growth is only feasible udders confined circumstances adding that excess debt can limit business development.

The study found strong positive correlation between credit risk management and financial performance of the commercial banks in Kenya as shown by correlation coefficient of 0.672, this too was also found to be significant at 0.002, These findings support the study findings by Gupta and Huefner (2012) the effective management of credit risk management is a critical component of comprehensive risk management which is essential for long-term success of a banking institution.

Finally, the study found strong positive correlation between financial performance of the commercial banks in Kenya and Working capital management as shown by correlation coefficient of 0.644 at 0.000 levels of confidence. These management practices are in line suggestion by Nthenge and Ringera (2017) that Working capital management strategy designed to ensure that business entities operate efficiently by monitoring and spending its current resources and liabilities up to the optimal levels.

#### **4.5 Regression analysis**

##### **4.5.1 Liquidity Management practice and Financial Performance**

The focus of test regression was to determine whether liquidity management have a significant effect on performance of the commercial banks in Kenya. The null hypothesis stated as follows;

***H<sub>01</sub>**: There is no significant effect of liquidity management practice on financial performance of the commercial banks in Kenya.*

Liquidity management was regressed against the identified sub measures of performance of the commercial banks in Kenya as a composite of independent variable. Results are shown in table 4.16 below

Table 4.16:

*Liquidity Management practice and Financial Performance*

**(a) Model summary**

Model	R.	R Square	Adjusted R Square	Std. Error of the Estimate
1	.593 <sup>a</sup>	.355	.312	.7458

a. Predictors: (constant) liquidity management

b. Dependent: Variable: Financial performance

**(b) ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.479	1	.479	6.942	.001 <sup>b</sup>
	Residual	2.829	41	.069		
	Total	3.308	42			

a. Dependent Variable: Financial Performance

**(c) Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	1.421	.369		3.851	.008
	liquidity management	.385	.069	.281	5.580	.012

b. Dependent: Variable: performance

The regression equation obtained from this output was:

$$\text{Financial Performance} = 1.421 + 0.385 \text{ liquidity management} + \text{error margin} \dots \dots \dots (1)$$

Test regression results in the table 4.16 above, shows that R square value of liquidity management and financial performance of the commercial banks in Kenya is 0.355 which means that liquidity explains 35.5% of variation in financial Performance of the commercial banks in Kenya.

From the ANOVA statistics, the study established the regression model had a significance level of 0.001 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 0.05. The calculated value was greater than the critical value ( $6.942 > 4.29$ ) an indication that, liquidity has a significant effect on financial performance of the commercial banks in Kenya. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for liquidity management is 0.385 is significant at P value  $< 0.012$ , which implies that when liquidity changes by one unit in the assessment scale, financial performance of the commercial banks in Kenya as will also change by 0.385 units.

The constant term value is 1.421, implying that when liquidity management is zero; financial performance of the commercial banks in Kenya would have a default value of 1.421. Therefore, the null hypothesis one, which stated that there no significant effect of liquidity management on financial performance of commercial banks in Kenya, is therefore rejected and the alternative hypothesis which states that “there exists significant effect of liquidity management on financial performance of the commercial banks in Kenya is adopted. These findings concur with study observations by Lamberg and Valming (2013) measuring liquidity risk is important to making sure that liquidity management problems are identified in time

#### **4.5.2 Capital structure Management practice and Financial Performance**

The focus of test regression two was to determine whether capital structure management have a significant effect on financial performance of the commercial banks in Kenya. The null hypothesis stated as follows;

*H<sub>02</sub>: There is no significant effect of Capital structure management on financial performance of the commercial banks in Kenya.*

To test the second hypothesis, the index of capital structure management as index of dependent variable was regressed upon the identified sub measures of financial performance of the commercial banks in Kenya as a composite of independent variable.

Table 4.17:

*Capital structure management practice and Financial Performance*

*Model summery*

<b>Model</b>	<b>R.</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	0.482	0.232	0.182	.24971

a. Predictors: (constant) Capital structure management

b. Dependent: Variable: financial performance

**(b) ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	.569	1	.569	9.810	.002 <sup>b</sup>
	Residual	2.378	41	.058		
	Total	2.947	42			

a. Dependent Variable: financial performance

**(c) Coefficient**

<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	Constant	1.879	.369		5.092	.018
	Capital structure management	.472	.098	.327	4.816	.030

b. Dependent: Variable: financial performance

The regression equation obtained from this output was:

$$\text{Financial performance} = 1.879 + 0.472 \text{ Capital structure management} + \text{error margin} \dots \dots \dots (2)$$

Test regression results in the table 4.17 above, shows that R square value of capital structure management and financial performance of the commercial banks in Kenya is 0.232 which mean that capital structure management explains 23,2% of variation in financial performance of the commercial banks in Kenya.

From the ANOVA statistics, the study established the regression model had a significance level of 0.002 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value ( $9.810 > 4.29$ ) an indication that, capital structure management has a significant impact on financial performance of the commercial banks in Kenya. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for Capital structure management is 0.472 is significant at P value  $< 0.030$ , which implies that when Capital structure management changes by one unit in the assessment scale, financial performance of the commercial banks in Kenya as will also change by 0.472 units.

The constant term value is 1.879, implying that when Capital structure management is zero; financial performance of the commercial banks in Kenya would have a default value of 1.879. Therefore, the null hypothesis, which stated that there no significant influence of Capital structure management on financial performance of the commercial banks in Kenya, is therefore rejected and the alternative hypothesis which states that ‘‘there exists significant influence of Capital structure management on financial performance of the commercial banks in Kenya is adopted. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

#### **4.5.3 Credit risk Management practice and Financial Performance**

This section addresses the hypothesis that was to determine whether credit risk management have a significant effect on financial performance of the commercial banks in Kenya. The null hypothesis stated as follows;

*H<sub>03</sub>: There is no significant effect of credit risk management on financial performance of the commercial banks in Kenya.*

The index of credit risk management as index of dependent variable was regressed upon the identified sub measures of financial performance of the commercial banks in Kenya as a composite of independent variable.

Table 4.18:

Credit risk management practice and Financial Performance

*Model summery*

Model	R.	R Square	Adjusted R Square	Std. Error of the Estimate
1	.402	.162	0.132	.1396

a. Predictors: (constant) Credit risk management

b. Dependent: Variable: financial performance

**(b) ANOVA**

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.867	1	.867	7.107	.003 <sup>b</sup>
	Residual	5.002	41	.122		
	Total	5.869	42			

a. Dependent Variable: financial performance

**(c) Coefficient**

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	Constant	1.791	.458		3.910	.023
	Credit risk management	.534	.137	.417	3.898	.010

b. Dependent: Variable: financial performance

The regression equation obtained from the output was:

$$\text{Financial performance} = 1.791 + 0.534 \text{ credit risk management} + \text{error margin} \dots \dots \dots (3)$$

Test regression results in the table 4.18 above, shows that R square value for the regression of credit risk management and financial performance of the commercial banks in Kenya was 0.162 which means that credit risk management explains 16.2% of variation in financial performance of the commercial banks in Kenya.

From the ANOVA statistics, the study established the regression model had a significance level of 0.003 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value ( $7.107 > 4.29$ ) an indication that, Credit risk management had a significant effect on financial performance of the commercial banks in Kenya. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for credit risk management is 0.534 is significant at P value  $< 0.010$ , which implies that when credit risk management changes by one unit in the assessment scale, financial performance of the commercial banks in Kenya as will also change by 0.534 units.

The constant term value is 1.791, implying that when credit risk management is zero; financial performance of the commercial banks in Kenya would have a default value of 1.791. Therefore, the null hypothesis, which stated that there no significant effect of credit risk management and financial performance of the commercial banks in Kenya, is therefore rejected and the alternative hypothesis which states that ‘‘there exists significant effect of credit risk management on financial performance of the commercial banks in Kenya is adopted. These findings concur to the research conclusion by Juanjuan (2009), credit management practices helped in bank in achieve long-term investment plans, and it also avails of benefit of compounding of interest and keeping capital safe.

#### **4.5.4 Working Capital Management practice and Financial Performance**

The focus of test regression four was to determine whether working capital management have a significant effect on financial performance of the commercial banks in Kenya. The null hypothesis stated as follows;

***Ho4:** There is no significant effect of working capital management on financial performance of the commercial banks in Kenya.*

The index of Working capital management as index of dependent variable was regressed upon the identified sub measures of performance of the commercial banks in Kenya as a composite of independent variable.

Table 4.19:

*Working capital management practice and Financial Performance*

*Model summery*

<b>Model</b>	<b>R.</b>	<b>R Square</b>	<b>Adjusted R Square</b>	<b>Std. Error of the Estimate</b>
1	.452	.204	.171	.4839

a. Predictors: (constant) Working capital management

b. Dependent: Variable: financial performance

**(b) ANOVA**

<b>Model</b>		<b>Sum of Squares</b>	<b>df</b>	<b>Mean Square</b>	<b>F</b>	<b>Sig.</b>
1	Regression	0.718	1	0.718	5.021	.001 <sup>b</sup>
	Residual	5.863	41	0.143		
	Total	6.581	42			

a. Dependent Variable: Performance

**(c) Coefficient**

<b>Model</b>		<b>Unstandardized Coefficients</b>		<b>Standardized Coefficients</b>	<b>t</b>	<b>Sig.</b>
		<b>B</b>	<b>Std. Error</b>	<b>Beta</b>		
1	Constant	1.942	.417		4.657	.003
	Working capital management	.321	.039	.217	8.231	.001

b. Dependent: Variable: financial performance

The regression equation obtained from this output was:

$$\text{Financial performance} = 1.942 + 0.321 \text{ Working capital management} + \text{error margin} \dots \dots \dots (4)$$

Test regression results in the table 4.19 above, indicated that R square value for the regression of Working capital management and financial performance of the commercial banks in Kenya is 0.204 which means that Working capital management explains 20.4% of variation in financial performance of the commercial banks in Kenya.

From the ANOVA statistics, the study established the regression model had a significance level of 0.001 which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value ( $5.021 > 4.29$ ) an indication that, Working capital management has a significant impact on financial performance of the commercial banks in Kenya. The significance value was less than 0.05 indicating that the model was significant.

The Beta un-standardized coefficient for Working capital management is 0.321 is significant at P value  $< 0.001$ , which implies that when Working capital management changes by one unit in the assessment scale, financial performance of the commercial banks in Kenya as will also change by 0.321 units.

The constant term value is 1.942, implying that when Working capital management is zero; financial performance of the commercial banks in Kenya would have a default value of 1.942. Therefore, the null hypothesis, which stated that there no significant effect of Working capital management on financial performance of the commercial banks in Kenya, is therefore rejected and the alternative hypothesis which states that ‘‘there exists significant effect of Working capital management on financial performance of the commercial banks in Kenya is adopted. These management practices are in line suggestion by Nthenge and Ringera (2017) that Working capital management designed to ensure that business entities operate efficiently by monitoring and spending its current resources and liabilities up to the optimal levels.

In this study, a linear regression analysis was conducted to test the influence among predictor variables. The research used statistical package for social sciences (SPSS V 21.0) to code, enter and compute the measurements of the multiple regressions. The model summary is presented in the table below.

Table 4.20:

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.665 <sup>a</sup>	.442	.414	.55985

The coefficient of determination (R-Square) shows how liquidity management, capital structure management, credit risk management and Working capital management relates with financial performance of commercial banks. Table 4.20 shows that the R-square for the model was 0.442. This implies that, liquidity management, capital structure management, credit risk management and Working capital management accounts for 44.2% of the variation on financial performance of commercial banks. Additionally, the coefficient suggests that other factors account for 55.8% of the variation in financial performance of commercial banks.

The next part of the regression analysis involved computing the ANOVA.

The ANOVA was generated to help evaluate whether the model was statistically significant in explaining the link between the study variables (liquidity management, capital structure management, credit risk management and working capital management) and financial performance of commercial banks. Table 4.21 displays the results of the ANOVA.

Table 4.21:

ANOVA<sup>a</sup>

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	19.86	4	19.86	15.841	.001 <sup>b</sup>
	Residual	952.85	38	25.075		
	Total	972.71	42	44.935		

From the ANOVA statistics, the study established the regression model had a significance level of 0.000% which is an indication that the data was ideal for making a conclusion on the population parameters as the value of significance (p-value) was less than 5%. The calculated value was greater than the critical value (15.841 > 4.49) an indication that liquidity management, capital structure management, credit risk management and Working capital management all have a significant effects on financial performance of commercial banks. The significance value was less than 0.05 indicating that the model was significant.

In addition, the study used the coefficient table to determine the study model. The findings are presented in the table 4.22 below.

Table 4.22:  
Coefficients<sup>a</sup>

Model	Unstandardized		Standardized	t	Sig.
	Coefficients		Coefficients		
	B	Std. Error	Beta		
1 (Constant)	1.470	.575		2.555	.013
Liquidity Management	.381	.182	.197	2.098	.039
Capital structure management	.279	.179	.136	1.555	.024
Credit risk management	.790	.171	.414	4.614	.000
Working capital management	.510	.214	.223	2.378	.020

As per the SPSS generated output as presented in table above, the equation ( $Y = \beta_0 + \beta_1A_1 + \beta_2A_2 + \beta_3A_3 + \beta_4A_4 + \epsilon$ ) becomes:

$$Y = 1.490 + 0.381 + 0.279 + 0.790 + 0.510$$

The findings imply that holding the (liquidity management, capital structure management, credit risk management and working capital management) at constant, financial performance of commercial banks would remain at 1.470. Additionally, 1 unit change in liquidity while holding other factors constant would enhance the financial performance of commercial banks by a factor of 0.381. This conforms to the argument by Alemayehu and Ndung'u (2012) that liquidity and bank performance are key factors that determine the development, sustainability, survival, growth and performance.

Results show that a unit change in Capital structure management while holding the other factors constant would enhance the financial performance of commercial banks by a factor of 0.279. The finding concurs with observation made by Agbaje *et al.* (2014) found a positive relationship between financial management practices and financial performance.

Results show that a unit change in credit risk management while holding the other factors constant would enhance the financial performance of commercial banks by a

1factor of 0.790 These findings concur the research conclusion by Juanjuan (2009) credit management practices helped in bank in achieve long-term investment plans, it also avails of benefit of compounding of interest and keeping capital safe.

Finally1 test regression1 results show1 that unit1 change in1 Working capital management while holding1 the other factors constant1would enhance the financial performance of commercial banks by a factor 1of 0. 510, these findings support the conclusion by Odongo (2018) that cash flow analysis together with the ratio analysis helps measure the profitability and financial position of business.

#### **4.6 Discussion of Findings**

In line with the first objective, the study found a positive relationship between liquidity and financial performance of commercial banks (Beta coefficient value = 0.381. significant value =0.039) descriptive results show that commercial banks in Kenya had enough revenue to fund activities, implying that most of the banks were in a position to swiftly facilitate the implementation expansion programmes such as issuance of credit facilities. This conforms to the argument by Alemayehu and Ndung'u (2012) that liquidity and bank performance are key factors that determine the development, sustainability, survival, growth and performance.

Inferential statistics also revealed a positive link between capital structure management and the financial performance of commercial banks (Beta Coefficients = 0.279, P-value 0.024) descriptive statistics also show that banks in Kenya conducted yearly budget cost variance analysis on capital structure management s this was paramount given that capital plays a function in ensuring quality running of banks operations and in realization of investment thus making high profit. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

In line with the second objective results indicated a positive correlation coefficient parental Capital structure management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.711, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in Capital structure management practices would enhance financial performance of the commercial banks in Kenya. This finding supports the assertion by Saah (2016) that capital structure management ensures that a

business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

In line with the third objective, the study found a positive relationship between credit risk management and financial performance of commercial banks (Beta coefficient value = 0.790 significant value =0.00), descriptive results also show that commercial banks in Kenya have knowledge of customers and their associated credit risk management this implies that banks maintained customer credit scores register, this mean that banks accorded trust to customers with high credit ratings via lower point structures and interest costs. These findings concur with study findings by Alshatti (2015) who revealed a positive relationship between effective credit risk management and banks 'profitability.

In line with the fourth objective, the study found a positive relationship between working capital management and financial performance of commercial banks (Beta coefficient value = 0.510 significant value =0.00), descriptive results also show that commercial banks prepared cash flow forecasts to identify future surpluses and deficits this implies that statement of cash flows provides important insights about the liquidity and solvency of a company which are vital for survival and growth of any organization. These management practices are in line suggestion by Nthenge and Ringera (2017) that Working capital management strategy designed to ensure that business entities operate efficiently by monitoring and spending its current resources and liabilities up to the optimal levels.

## CHAPTER FIVE

### SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

#### 5.1 Introduction

From the analysis and data collected, the following discussions, conclusion and recommendations were made. This study sought to determine the effects of liquidity management practice on the financial performance of commercial banks in Kenya, to establish the effects of capital structure management practice on the financial performance of commercial banks in Kenya, to find out the effects of credit risk management practice on the financial performance of commercial banks in Kenya and to examine the effects of Working capital management practice on the financial performance of commercial banks in Kenya.

#### 5.2 Summary of the Findings

##### 5.2.1 Effects of Liquidity Management practice on Financial Performance

The results indicated a positive correlation coefficient parental liquidity and financial performance of the commercial banks in Kenya as shown by correlation value of 0.553, the significant value was 0.001 which is less than 0.05, and this reveals that any positive change in liquidity practices would enhance financial performance of the commercial banks in Kenya. These findings concur with study observations by Lamberg and Valming (2013) Measuring liquidity risk is important to making sure that liquidity problems are identified in time.

##### 5.2.2 Effects of Capital structure Management practice on Financial Performance

The results indicated a positive correlation coefficient parental Capital structure management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.711, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in capital structure management practices would enhance financial performance of the commercial banks in Kenya. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

##### 5.2.3 Effects of Credit Risk Management practice on Financial Performance

The results indicated a positive correlation coefficient parental credit risk management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.672, the significant value was 0.003 which is less than 0.05, and this reveals that any

positive change in credit risk management practices would enhance financial performance of the commercial banks in Kenya. These findings concur the research conclusion by Juanjuan (2009), credit management practices helped in bank in achieve long-term investment plans, it also avails of benefit of compounding of interest and keeping capital safe.

#### **5.2.4 Effects of Working Capital Management practice on Financial Performance**

The results indicated a positive correlation coefficient parental Working capital management and financial performance of the commercial banks in Kenya as shown by correlation value of 0.672, the significant value was 0.003 which is less than 0.05, and this reveals that any positive change in Working capital management practices would enhance financial performance of the commercial banks in Kenya. These management practices are in line suggestion by Nthenge and Ringera (2017) that Working capital management strategy designed to ensure that business entities operate efficiently by monitoring and spending its current resources and liabilities up to the optimal levels.

#### **5.3 Conclusions**

Based on the study results, this study concludes that liquidity management practice had positive significant effect on the financial performance of commercial banks in Kenya, measuring liquidity risk is important to making sure that liquidity problems are identified in time. Owing to this function necessity, Banks in Kenya embraced various strategies in view of keeping liquidity levels at standard rate. Commercial banks had favorable dividend plans in place to boost liquidity, bank management conducted a continuous assessment on bank's liquidity position, and commercial banks conducted other income generating activities to boost liquidity

The study concludes that capital structure management practice has positive significant effect on the financial performance of commercial banks in Kenya. The management of these commercial banks conducts yearly budget cost variance analysis on capital structure management s and that capital structure management ensures that a business enterprise adopts procedures and mechanisms that ensure a firm is managed and directed in such a way that guarantees accountability and maximization on financial performance.

The study concludes that credit risk management has positive significant on the financial performance of commercial banks in Kenya. Most of commercial banks have risk eliminating strategy in place, proper risk management, companies can1 turn a potential1 financial pitfall1

into an advantage by working to mitigate losses, most of the commercial banks in Kenya prioritized risk analysis in financial planning activities and that effective management of credit risk management is a critical component of comprehensive risk management which is essential for long-term success of a banking institution.

Based on the statistical evidence, the study concludes that Working capital management practice has positive significant on the financial performance of commercial banks in Kenya. Working capital management helped to ensure that banks operated efficiently by monitoring and spending its current resources and liabilities up to the optimal levels. Also prepared cash flow forecasts to identify future surpluses and deficits, they also maintained proper records for all payables and that bank maintained inventory records which are updated regularly.

#### **5.4 Recommendations for Policy and Practice**

Based on the study's findings, the study makes various recommendations. To begin with, the study established that financial management practices have a significantly positive effect on the financial performance of commercial banks. The study thus recommends that the managers in commercial banks should highly prioritize financial management practices during the formulation of the organizations' strategies. This will enhance transparency, accountability and consistency in their financial operations. However, the study recommends that the managements should carefully evaluate their companies' structures before adopting the financial management practices. This will ensure that the practices adopted are well suited for that particular bank as commercial banks differ in capital structure managements.

In addition, based on the above conclusion, the study recommends that corporate governance should also incorporate best practice in terms of financial management practices where the board is tasked on continuous monitoring and improvement on key aspects of financial management practices like, capital structure management, liquidity management, credit risk management and working capital. liquidity management should be given higher emphasis since it has a bigger impact on performance. The study also recommends that regulatory bodies should formulate appropriate policies and regulations which will facilitate the implementation of financial management practices in commercial banks. This will enhance efficiency and effectiveness in managing commercial banks as well as foster consistency in the implementation of financial management practices.

### **5.5 Contribution of the Study to the Body of Knowledge**

The study was instrumental to the body of knowledge since it added information to the current literature on financial management field and financial performance, which will be beneficial to the academicians. Because the area of research is relatively thin in Kenya, then it should also act as an incentive for additional research which will improve and outspread the current study. To scholars the study will be important in discovering the direct association between financial management practices. The results are of great help to researchers and scholars, because it will provide useful reference which can be used as literature for future studies, for it is anticipated to assist them increase over-all information on the topic in terms of relationship of variables.

According to the study, liquidity management practice has the highest effect on financial performance of commercial banks, the bank management should make sure that they maintain substantial levels of liquidity so as to maintain competitive performance.

### **5.6 Suggestions for Further Research**

The purpose of the research was to establish the effects of selected financial management practices on financial performance of commercial banks in Kenya. The research variables (liquidity management, capital structure management, credit risk management and working capital management practices) account for 44.2% of the variation on profitability of commercial banks. This study suggests that other factors accounting for 55.8 % of the variation in profitability of commercial banks should be investigated and their effects assessed as well

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## APPENDICES

### APPENDIX I: DATA COLLECTION SHEET

Variable	Measure	2015	2016	2017	2018	2019
Financial performance	Return on assets (ROA)					
Liquidity Management	Liquid assets to total deposits					
Capital structure management	Debt to equity ratio					
Credit risk management	Non-performing loans/total loans					
Working capital Management	Current assets – current liabilities					






## **APPENDIX II: COMMERCIAL BANKS IN KENYA**

1. Citibank
2. Equity Bank
3. Standard Chartered Bank
4. Barclays Bank of Kenya
5. NIC Bank
6. Kenya Commercial Bank
7. National Bank of Kenya
8. Diamond Trust Bank
9. Co-operative Bank of Kenya
10. CFC Stanbic Bank
11. I&M Bank
12. Bank of India
13. Bank of Baroda
14. Family Bank
15. Prime Bank
16. Commercial Bank of Africa
17. Bank of Africa
18. Consolidated Bank
19. Chase Bank
20. Fina Bank
21. Eco Bank
22. HFCK
23. Habib A.G. Zurich
24. Victoria Commercial Bank
25. Credit Bank
26. Habib Bank (K) Ltd
27. Oriental Commercial Bank
28. Sidian Bank
29. Imperial Bank
30. ABC Bank
31. Development Bank of Kenya
32. Middle East Bank
33. Equatorial Commercial Bank

34. Trans-National Bank
35. Dubai Bank
36. Fidelity Commercial Bank
37. City Finance Bank
38. Paramount Universal Bank
39. Giro Commercial Bank
40. Guardian Bank
41. Southern Credit Bank
42. Gulf African Bank
43. First Community Bank

**Source: The Banking Survey by CBK 2019**

**APPENDIX III: NACOSTI RESEARCH PERMIT**

 REPUBLIC OF KENYA	 NATIONAL COMMISSION FOR SCIENCE, TECHNOLOGY & INNOVATION
Ref No: <b>940115</b>	Date of Issue: <b>02/December/2020</b>
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<p>This is to Certify that Ms. Faith Harrison Njeri of Egerton University, has been licensed to conduct research in Nairobi on the topic: <b>EFFECTS OF SELECTED FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA</b> for the period ending : <b>02/December/2021</b>.</p>	
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## APPENDIX IV: RESEARCH PERMIT LETTER

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### OFFICE OF THE DIRECTOR, GRADUATE SCHOOL

Ref: CM16/00125/12

Date: 25<sup>th</sup> November, 2020

The Director General  
National Commission for Science Technology and Innovation,  
P. O. Box 30623-00100  
**NAIROBI.**

Dear Sir,

**RE: REQUEST FOR RESEARCH PERMIT – MS. FAITH NJERI  
HARRISON REG. NO. CM16/00125/12**

This is to introduce and confirm to you that the above named student is in the Department of Accounting, Finance & Management Science, Faculty of Commerce, Egerton University.

She is a bona-fide registered MBA student in this University. Her research topic is **“Effects of Selected Financial Management Practices on Financial Performance of Commercial Banks in Kenya.”**

She is at the stage of collecting field data. Please issue her with a research permit to enable her undertake the studies.

Your kind assistance to her will be highly appreciated.

Yours faithfully,

  
**Prof. Nzula Kitaka**  
**DIRECTOR, BOARD OF POSTGRADUATE STUDIES**



## Appendix V: Research Publication

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### Effects of Selected Financial Management Practices on Financial Performance of Commercial Banks in Kenya

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#### Abstract

**Purpose:** The main aim of the study was to determine effects of selected financial management practices on financial performance of commercial banks in Kenya. The research was guided by the following specific objectives; to determine the influence of liquidity management, capital structure management, credit risk management and working capital management on the financial performance of commercial banks in Kenya.

**Methodology:** The research employed a descriptive research design. Census method of sampling was employed, all the 43 commercial banks formed the study units. Both primary and secondary data were used. Secondary data was obtained from the audited annual financial reports of the commercial banks in Kenya while primary data was collected using questionnaire which was designed in form of Likert scale. Descriptive and inferential statistics were used, whereby correlation and regression were used to establish the strength of the relationship between the financial management practices and financial performance of the commercial banks. Data was presented in form of tables, mean and standard deviation. Correlation analysis was performed to examine the relationship between the financial management practices and financial performance of the commercial banks.

**Results:** The study concludes that liquidity management had positive significant effect on the financial performance of commercial banks in Kenya. Measuring liquidity risk is important to making sure that liquidity problems are identified in time. The study concludes that capital structure management practice has positive significant effect on the financial performance of commercial banks in Kenya. On credit risk management practice, the research found strong positive significant on the financial performance of commercial banks in Kenya. Most of financial institutions have risk eliminating strategy in place, proper risk management. Finally, the study concludes that working capital management practice has positive significant on the financial performance of commercial banks in Kenya.

**Unique contribution to theory, policy and practice:** The research recommends that banks management should make sure that they maintain substantial levels of liquidity, so as to maintain competitive performance. Commercial institution must have a feasible capital structure in place that addresses issues such, as flexibility where changes in the capital market should be well adapted to the capital structure.