INFLUENCE OF FINANCIAL MANAGEMENT PRACTICES ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN NAIROBI SECURITIES EXCHANGE

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MBA/NRB/2228/20

A DISSERTATION SUBMITTED TO THE FACULTY OF BUSINESS, COMPUTER SCIENCE AND COMMUNICATION STUDIES IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF BUSINESS ADMINISTRATION (FINANCE) TO ST. PAUL'S UNIVERSITY

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DECLARATION

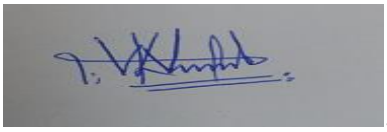
This dissertation is my original work and has not been presented in any other institution or this university. I agree that this dissertation may be available for reference and photocopying with my authority or that of the university.

Signature  Date…21/9/21……

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ACRONYMS AND ABBREVIATIONS

ANOVA	:	Analysis of Variance
CBK	:	Central Bank of Kenya
CFO	:	Chief Financial Officer
CLRM	:	Classical Linear Regression Model
CMA	:	Capital Markets Authority
CRB	:	Central Reference Bureaus
Forex	:	Foreign Exchange
IFRS	:	International Financial Reporting Standards
IRR	:	Internal Rate of Return
KBA	:	Kenya Bankers Association
KDIC	:	Kenya Deposit Insurance Corporation
MFB	:	Micro Finance Bank
MRP	:	Money Remittance Provider
NACOSTI	:	National Commission for Science and Technology Innovations
NPV	:	Net Present Value
NSE	:	Nairobi Securities Exchange
PLC	:	Public Limited Company
ROA	:	Return on Assets
ROE	:	Return on Equity
SPSS	:	Statistical Packages for Social Science
VIF	:	Variance Inflation Factor

OPERATIONAL DEFINITION OF TERMS

Capital Budgeting Techniques: Capital budgeting techniques are the activities or the process of determining the viability of long term investments in an organization. These investments could be in form of purchase or replacement of property, plant and equipment, introduction of new products and other capital intensive projects (Uwalomwa & Olayinka, 2012).

Capital Structure Decisions: These are decisions that the management of the company make that directly influence the equity and debt capital and their financing. It also looks at the risks and returns for a firm from its investments or assets (Kuria, 2013).

Financial Performance: This refers to how efficient the listed commercial banks in Kenya utilize their assets to generate revenues and create value. This is also a subjective and relative measure of how well a firm can use its assets and generate revenues for the benefit of its stakeholders and overall well-being of the firm (Machuki, 2014).

Financial Management Practices: Financial management practices are practices that ensure the effective and efficient use of company resources so as to achieve the set goals of the organization in a sustainable manner (Chung & Chuang, 2010).

Financial Management: This is the planning, directing, monitoring, organizing and controlling of the resources of a firm, and for the commercial banks, specifically monetary resources (Muguchia, 2018).

Working Capital: This can be defined as to an organization's short-term or current assets. It can be defined as the finances available for the daily operations of an organization. Working capital can also be referred to the difference between the current assets and the current liabilities of the organization (Kanyi, 2017).

Working Capital Management: Working capital management refers to the activities that a company undertakes to ensure it has enough resources, majorly current assets or liquid cash assets so as to perform its operations optimally and efficiently (Waithaka, 2012).

ABSTRACT

One of the major issues contributing to low performance of commercial banks is lack of proper financial management and this formed the basis of this study. The general aim of the study was to assess the influence of financial management practices on the financial performance of the banking industry in Kenya giving attention to commercial banks listed on the Nairobi Securities Exchange. This study sought to determine the influence of financial management practices on financial performance of the commercial banks in Kenya, using the variables; working capital management, capital budgeting techniques and capital structure decisions. This study was guided by Liquidity Preference Theory, Pecking Order Theory and the Neoclassical Theory of Investment. The 11 commercial banks which are listed at the Nairobi Securities Exchange, formed the target population of the study. Explanatory research design and a census method of data collection was used. Primary data was collected through questionnaires which were issued to the executive staff members of the commercial banks, and secondary data was gathered using a data collection sheet from published and audited financial statements of the banks. The questionnaires were tested for validity and reliability. Validity was tested through a pilot study which helped in analyzing face and content validity. Reliability was measured using internal consistency, using the Cronbach Alpha. Data was analyzed using the statistical package of social science program. Data was later analyzed using correlation analysis, multiple regression analysis, using a regression model and descriptive statistics, using mean and standard deviation. Findings were then presented in figures and tables to ease interpretation. The findings of the study established that working capital management, capital structure decisions, capital budgeting techniques had a positive and statistically significant influence on financial performance. The study recommended that more studies should be done on other financial management practices which influence the financial performance of the listed commercial banks of Kenya as well as other sectors which are listed at the Nairobi Securities Exchange.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Comprehensive financial management is very crucial for every company, regardless of the type of operations it undertakes (Bulle, 2017). Therefore, it is the responsibility of the managers to analyze and come up with practices that would lead to the financial success of the firm. Financial management practices are classified into capital budgeting techniques, information systems, capital structure management, capital budgeting decisions and financial reporting and analysis and working capital management (Cheruyot, 2014).

Integration of effective financial management practices into the operations of an organization ensures proper coordination of company activities and correction of inefficiencies which lead to improved financial performance. Notably, in the banking sector, practices that directly influence the financial performance of firms include; capital budgeting techniques, working capital management and capital structure decisions (Omete, Namusonge, & Sakwa, 2019). Companies that are able to utilize these practices effectively often report good financial performance (Nairobi Securities Exchange, 2020).

This study was motivated by an increasing trend of corporate failure, especially commercial banks in Kenya and this has led shareholders and other stakeholders such as the government and the banking industry at large to raise concerns about their financial welfare. The listed commercial banks at the Nairobi Securities Exchange (NSE), have an added advantage over other banks which are not listed as the Capital Markets Authority (CMA) and Central Bank of Kenya (CBK) have laid down strict guidelines for them to follow (Muguchia, 2018). There is therefore a need to investigate the financial management practices of these banks.

1.1.1 Financial Performance

Financial performance is defined as the degree to which the financial goals set by a company are met or not being met (Fwamba, 2017). Financial performance as suggested by Bulle (2017) is an objective measure of how efficient an organization utilizes its assets from their operations and redirecting it to generate incomes. Financial performance could also be defined as the overall view of the present financial position of a firm as well as comparison with other firms (Muguchia, 2018). Therefore financial performance can be defined, in simple terms as how well a firm can utilize its assets to generate revenues for the firm and its stakeholders.

Financial performance is therefore vital in scrutinizing the financial health of a firm. When assessing the financial performance of a company, regardless of its operations, there are key factors of financial management practices that are looked at. They include the working capital management, capital structure decisions, investments, profitability and the firms activities (Nthenge & Ringera, 2017).

Financial performance of a business organization can be measured using several ways. Financial performance can be measured, while considering factors such as; liquidity, financial competence, profitability, repayment capacity and solvency. Solvency means that a firm is able to pay all its financial obligations or debts, in the event that all its assets are sold off (Brealey, Myers, & Marcus, 2009). Profitability refers to the profits that a firm generates through its assets and liquidity explains the firm's ability to pay off its debts when and if they arise. Firm financial performance can be measured using accounting based measures that use accounting information of items from the financial statements of the firm and/or the value of the securities that are traded by the firm (Fwamba, 2017). They include return on assets (ROA), return on equity (ROE), profit after tax (PAT) and return on capital employed (ROCE). Financial performance could also be measured using market based measures such as Price to Earnings Ratio (PER), market book ratio and earnings per share. In this study, the measurements to be used to assess financial performance of the commercial banks listed at the Nairobi Securities Exchange was Profit after Tax and Earnings per Share (EPS). Relevant financial

information was obtained and compared to previous financial years and also the targeted positions of the company. For values of the securities, the market values are observed and analyzed to evaluate the changes and make strategic decisions on them (Kader and Khan, 2019).

1.1.2 Financial Management Practices

Financial management practices could be defined as the efficient and effective use of resources in a bid to achieve the goals set by an organization (Muguchia, 2018). The practices considered in an organization include working capital management, investment management, financing, accounting, financial reporting and analysis and also monitoring and control. Areas of financial management could also include financial planning, sources of financing and investment decision-making (Kader & Khan, 2019). Financial management as postulated by Mustafa and Ahmad (2015), is the preparation, directing, observing, organizing and supervising of the financial and fiscal capitals of a firm so as to effectively and efficiently meet the financial obligations and objectives of the company.

According to Chung and Chuang (2010), financial management practices could be characterized or grouped into major sections which are; capital budgeting, capital structure management, financial reporting and analysis, working capital management, and accounting information systems. Hoe (2010) agrees with Chung and Chuang (2010) and notes that financial management can be viewed in several ways including; financial planning, financial and management accounting, working capital management, financial analysis and capital budgeting. Therefore, financial management has a general aim of improving the profitability of the organizations, and this is done when elements such as ratio analysis, budgetary control and cost-volume-profit analysis are put into major considerations (Nyongesa, 2017).

These financial management practices are all integrated into the operations of the firm so as to achieve a positive trajectory of financial performance. Financial management practices could also be explained as an important element of management and focuses on the management of the assets of a business (Nthenge & Ringera, 2017). Therefore, financial management practices can be described as the practices that guarantee the

effective and efficient utilization of company resources so as to realize the set goals of the firm. The foundation of this study was built on the three financial management practices and they included; capital structure decisions, working capital management and capital budgeting techniques. The three financial management practices were selected as they are the three important practices, among others, that are the most frequently used practices in the banks and are key in driving the financial performance of the commercial banks in the country.

1.1.3 Financial Management Practices and Financial Performance

Theoretically, financial management practices are expected to positively impact financial performance. However, various studies have different findings; ranging from positive, negative and neutral impact, in the relation of financial management practices to financial performance. This therefore concludes that there is no convergence on literature on these variables owing to the mixed findings from different studies. Financial management practices, which are well-thought out, effective, efficient and are aligned to the firm's objectives and mission yields to a high degree of financial performance. These practices are significant and impact directly on the performance of the organization; in the short and long term.

Financial management practices contribute directly to the financial performance of a firm or a business organization. Financial management is a fundamental factor that brings about success of any business enterprise and should be carefully handled. It is noted by Bhattacharya (2016) that a firm must manage its financial management practices very effectively and consciously for a firm to be able to run its activities efficiently and also achieve its set objectives, mission and vision. Kwame (2017) agrees that financial management practices which are not well thought-out, are carelessly made and not followed to the latter, can cause a business organization to fail or the profitability of the company to fall below the required or acceptable minimums.

Working capital management is a financial management practice which solves the firm's problem on availability of liquidity at all times and has the ability to cater for its financial responsibilities once they arise. Therefore, matters like budgeting and effective cash

management are highly appreciated when it comes to working capital of the firm and its transactions. Capital budgeting techniques are key in the financial performance of an organization, where the decisions made to invest in certain securities or other capital intensive investments should be made with precision and utmost preparedness. These decisions could lead a company to greater profits or losses which could lead to bankruptcy or insolvency. Capital structure decisions and its management ensures that the firm has proper coordination of the firm's finances so as to ensure smooth running of operations and continuity (Muguchia, 2018).

As suggested by Kader and Khan (2019), financial management practices directly influence performance of firms. In addition, when a firm manages and sustains its operations to meet its set goals and objectives it will lead to improved firm performance. A firm's profitability is improved by financial management practices. This is possible if these practices are made with utmost precision and with wealth, profit and sustainability in the minds of the financial managers. The corporate sector should take into consideration following financial management practices that are intended to maximize profits and worth of the company. These practices should be decentralized to different levels of the firm and this will lead the firm to achieve improved resource utilization and profits (Babar, Ahmed & Kashif, 2010).

1.1.4 Global Perspective on Financial Management Practices and Financial Performance

Financial management has been reviewed by scholars globally. A study conducted by McMahon (2001) looked at the financial management practices in Australia, the United Kingdom (UK) and the United States of America (USA). This study looked at various financial management practices such as financing decisions, investing decisions and accounting information systems. The researcher looked at financial management; however did not review working capital management. This financial management practice involves activities such as management of inventory, cash and cash equivalents, management of accounts receivables and accounts payables.

Babar et al, (2010) focused on a research on Pakistani companies and how financial management practices impacted their firm performance. The financial management practices that formed the basis of the study included; dividend policy, investment appraisal techniques, working capital management and capital structure decisions. The study incorporated a sample of forty companies based in Pakistani and also listed at the Karachi Stock Exchange. The study noted that there was a positive significant correlation between financial management practices and organizational performance in the Pakistani corporate world.

In relation to the study done by Klammer (2013) the relationship between financial performance and the capital budgeting techniques adopted, which is a financial management practice, lacked consistency. This was noted despite the increasing adoption of advanced capital budgeting methods around the world. However, it was noted that more firms globally are adopting capital budgeting techniques, such as inventory management techniques, accounting rate of return (ARR), discounted payback period method and also the internal rate of return (IRR). It was observed that these firms posted better firm financial performance than others which did not adopt these techniques.

1.1.5 Local Perspective of Financial Management Practices and Financial Performance

Wangari and Muturi (2017) carried out a study that looked at the effects of the financial management practices of financial performance of public universities in Kenya. It was ascertained that for any institution to succeed financially, certain financial management practices are essential. The study focused on various financial management practices such as financial monitoring, annual budget adherence, investment decisions and financial planning. All of these variables were noted to significantly impact the financial performance of these institutions. Not only did investment decisions have the highest influence on the financial performance of institutions, but also, other financial management practices notably have substantial influence on the performance of the organization.

A study on the financial management practices of micro and small enterprises in Kenya in the case of Kibera was done by Siba (2012). The author noted from the study that the financial management practices undertaken by these enterprises are very key in the performance of these businesses. A local study was done by Nyongesa (2017), whose main focus was on financial management practices on the financial performance of insurance companies in Kenya. Main focus was on the various financial management practices undertaken by the insurance companies. They included; financial reporting, capital structure management and fixed asset management. A positive and noteworthy correlation between the two variables; financial management practices and financial performance was noted. Nonetheless, it is not very clear from the study, the certain reasons for this established correlation between the two.

Cheruyot (2014) conducted a study which focused on the financial management practices and financial performance of small and medium enterprises in the manufacturing sector. Some of the practices looked at as variables included working capital management, capital budgeting practices and financing practices. A ranking was done of the three financial management practices according to how they were being adopted; the practice which was most used was capital budgeting, then working capital management and which was least adopted was financing practices. Even though this ranking was done, the three were also established to positively and significantly impact the performance of the firm. Therefore, so as to make sure that there is improved firm performance, there has to be proper execution and deployment of the financial management practices, which should be a priority to the firm.

1.1.6 Commercial Banks Listed at the Nairobi Securities Exchange

Central Bank of Kenya under the Central Bank Act (Cap 491) is mandated to promote financial stability in the country by upholding a functional banking system. The Central Bank of Kenya is the supervisory body of the banking industry in Kenya, in line with the Banking Act (Cap 488). This Act stipulates regulations on licensing of banks, their inspection, analysis of their financial reports, and developing appropriate laws that govern these banks. As at December 31, 2019, the banking sector comprised of 42 banks,

(41 commercial banks and 1 is a mortgage financing corporation). Out of the 42 banks, 40 are owned privately, while the Kenyan government has majority control in 2 institutions. In addition, out of the 42 institutions,11 of have a listing at the Nairobi Securities Exchange (Central Bank of Kenya, 2019). BK Group PLC is a commercial bank in Rwanda, also listed at the NSE. However, the bank has a primary listing on the Rwanda Stock Exchange and a secondary listing on the NSE. Therefore, this particular commercial bank was excluded from the study and focus was on the commercial banks that have a primary listing on the Nairobi Securities Exchange.

The Capital Markets Authority, is an independent public agency and a regulator for the capital markets in Kenya, approves requests for listing of companies for offering to sell their shares to the public and securities on any securities exchange in Kenya. (Capital Markets Authority, 2020). Nairobi Securities Exchange is an exchange, which offers listings of equity and debt securities. It is claimed to be a leading African exchange, and the fastest growing, which provides a top notch training facility for resident and global investors. It is under the jurisdiction of CMA of Kenya and an adherent of the World Federation of Exchange. Listing of a company in the Nairobi Securities Exchange comes with its benefits. The company is able to enhance its profile as it is viewed publicly. A company is also equipped with all the needed knowledge and expertise as their governance structures, accounting practices and efficiency are monitored and streamlined (Nairobi Securities Exchange, 2020).

Listing a company therefore involves placing shares on a securities or stock exchange. A company could decide to request for listing so as to sell shares to raise capital, which is known as an Initial Public Offer (IPO). Other than to sell shares, a company could choose to list so as to provide shareholders liquidity of their shares, increase transparency and disclosure to the public and also to gain capital markets in the future (Cytonn Investments, 2018).There are guidelines to listing of a company in the securities exchange by the CMA and NSE include that the shares of the company should be freely transferrable and not subjected to any restrictions. The company to be listed should ensure that the financial statements which are duly audited comply with the International Financial Reporting Standards (IFRS) for an accounting period ending on a date not more

than four months earlier to the date projected of the public offer or listing. The company should also have clear dividend policies, not be insolvent and have adequate working capital. The company should also ensure that the memorandum and articles of association are aligned to the guidelines set out in the capital markets Act on Public Listed Companies (Nairobi Securities Exchange, 2020).

Commercial banks in Kenya have invested in several ways; banks have merged and other banks have taken over the other. Some of the reasons that came forward were to meet the levels of share capital, benefit from global practices and expand market share, among other reasons. Some recent examples of mergers include NIC Group PLC merging with Commercial Bank of Africa LTD which gave rise to NCBA Bank Kenya PLC, approved in 2019. Also the CFC Bank Ltd and the Stanbic Bank Ltd merged to form CFC Stanbic Bank Ltd approved in 2008. A case of acquisitions include National Bank of Kenya Limited and KCB Group PLC and operations continued under their respective brand names approved in 2019. In 2017, the Central Bank of Kenya also approved Habib Bank Kenya Ltd and Diamond Trust Bank Kenya Ltd to merge and become Diamond Trust Bank Kenya Ltd (CBK, 2020).

The Kenyan banking system has undergone significant transformation due to factors such as globalization, technological innovations as well as deregulation of financial systems. For improved financial performance, commercial banks need to adhere to certain financial management practices. These include working capital management, capital budgeting techniques and capital structure decisions. Working capital management is under tight and strict regulations by NSE as they have certain rules guiding it. According to the Banking Act, the minimum statutory liquidity ratio is 20%, which helps in maintaining a balance of current assets and liabilities (Central Bank of Kenya, 2021). Cash reserves and bank rates are in place to make sure that the daily operations run smoothly and have the ability to finance their short term commitments (Nairobi Securities Exchange, 2020). Capital structure decisions is managed by using a combination of debt and equity so as to fund its projects; in commercial banks listed at the Nairobi Securities Exchange. The banks involves itself in inter-bank lending and also uses its equity capital to fund its finances and expenses. Capital budgeting techniques are realized by assessing

investments if they are worth taking the risks for; undertaken by the listed commercial banks at the Nairobi Securities Exchange. These banks, with the guidance from the NSE and the CBK, they are able to indulge in investments in a seamless manner and whose net present values are high and their payback periods are less (Omete, Namusonge & Sakwa, 2019).

1.2 Statement of the Problem

In the case of Dubai Bank which was formed in the year 1982 in Kenya its fall came in the year 2018. This is when the Central Bank of Kenya placed the bank under receivership. Kenya Deposit Insurance Corporation (KDIC) was then appointed as its receiver (Bett, 2015). As reported by Central Bank of Kenya, the bank collapsed due to capital deficiencies, illiquidity and had failed to honor its financial obligations which were heavy on the financial health of the bank (CBK, 2020).

Another bank which collapsed recently was the Imperial Bank which was established in Kenya 1992 and collapsed in the year 2016. The bank had been making unsafe and unsound business decisions and practices. Just like the Dubai Bank, KDIC took over and the NIC Bank was appointed to be the receiver that was responsible for refunding money to the customers of the bank and was also permitted to acquire some assets, deposits and liabilities for the institution. Another bank which failed in Kenya was the Chase Bank, formerly known as the United Bank. In 2016, Central Bank of Kenya placed the bank under receivership, and the major issues facing the bank were under reporting of loans given to insiders and failing to achieve the statutory banking ratios (CBK, 2020). Due to the collapse of these banks, the stakeholders, creditors and depositors incurred huge amounts of financial losses and in turn made a great impact to the banking industry and the economy at large.

Another issue considered in this research is that, there has been no convergence in empirical investigations as to whether financial management practices have either positively or negatively influenced financial performance of the listed commercial banks. Different studies have either concluded that financial management practices have positively or negatively affected financial performance of companies. Most studies have

focused on other companies in other sectors listed at the Nairobi Securities Exchange and those that have looked at commercial banks which are listed on the NSE are past studies whereas changes have occurred at the NSE in addition to regulations of listing. This study was focused on listed commercial banks which use these financial management practices. Many of the studies dealing with financial management practices and financial performance have not focused on commercial banks specifically but rather other firms. Also few studies known to the researcher have been done in the local context, and most of them have been done in different countries with varying economic, political and/or cultural environment.

The study therefore was intended at determining the influence of financial management practices on financial performance of the banks in Kenya, specifically on commercial banks listed at Nairobi Securities Exchange. These practices are working capital management, capital structure decisions and capital budgeting techniques.

1.3 Objectives of the Study

1.3.1 General Objective

The general objective of the study was to assess the influence of financial management practices on the financial performance of the commercial banks listed at the Nairobi Securities Exchange.

1.3.2 Specific Objectives

The specific objectives are;

i. Establish the influence of working capital management on financial performance of the commercial banks listed at the Nairobi Securities Exchange
ii. Determine the influence of capital structure decisions on financial performance of the commercial banks listed at the Nairobi Securities Exchange.
iii. Assess the influence of capital budgeting techniques on financial performance of the commercial banks listed at the Nairobi Securities Exchange.

1.4 Research Hypotheses

The study used the following null hypotheses for the study:

$H_{01.}$ There is no relationship between capital management and financial performance of the commercial banks listed in the Nairobi Securities Exchange.

H_{02} There is no relationship between capital structure decisions and financial performance of the commercial banks listed in the Nairobi Securities Exchange.

$H_{03.}$ There is no relationship between capital budgeting techniques and financial performance of the commercial banks listed in the Nairobi Securities Exchange.

1.5 Limitations of the Study

Challenges that were experienced during this study was getting responses from the top management of the commercial banks who were the chosen respondents of this study. Also, respondents showed some resistance to participate in the study as they did not view the study as beneficial to them. To deal with this challenge, the researcher encouraged and clarified the aim of this study to the executives who were situated at the headquarters of the banks and their secretaries in the event of those executives who were not available, and encouraged them to provide unbiased and honest answers. The researcher also reassured the participants of this study that the information they provided will only be used for the study and be strictly confidential. The researcher also gave the respondents time to complete the questionnaires and were collected on the agreed time and this aimed at encouraging truthful answers without any coercion.

1.6 Scope of the Study

The purpose of the study was to determine the relationship between financial management practices and financial performance of commercial banks listed at the Nairobi Securities Exchange, Kenya. This study involved the senior executives of the commercial banks as the target participants and as the population of the study. The research was undertaken in Nairobi County, Kenya; where the commercial banks' headquarters are located. This greatly eased the access of the participants during

collection of data. The study was conducted between September 2020 and September 2021, whereby proposal formulation, data collection and analysis and submission of the complete dissertation took place. The study focused on three theories which related to the study; Liquidity Preference Theory, Pecking Order Theory and Neoclassical Theory of Investment.

1.7 Significance of the Study

This study aimed at providing knowledge with regards to financial management practices and financial performance of commercial banks which are listed in the Nairobi Securities Exchange. It would be of benefit to various categories of stakeholders as follows:

This study will make a contribution to the knowledge on the financial management practices in relation to financial performance of the banking industry, particularly the commercial banks. As this study was done in Kenya, the findings would help other scholars and academics interested in understanding the influence of financial management practices towards financial performance of commercial banks in Kenya. Scholars may also benefit in understanding the relationship of capital budgeting techniques, working capital management and capital structure decisions and their impact towards the financial performance of commercial banks in Kenya.

This study is anticipated to contribute to the study of management of commercial banks in Kenya as it may help in knowing how to improve or implement efficient financial management practices and policies. The policy makers or the senior executives in the banks may borrow from the study during their policy formulation process, as they would be able to analyze what practices are beneficial to the bank's performance and oversee their implementation and enforcement.

The Central Bank of Kenya as a regulator of the commercial banks situated in Kenya would benefit from the knowledge from this research. Also the regulatory body will enhance good governance of the banks and that the policies laid down are followed to make certain that they achieve their objectives which will boost financial performance. It will also benefit Central Bank of Kenya and the Nairobi Securities Exchange while

carrying out supervision of the commercial banks, more so on their practices and their performance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses various theories that underpin the research, empirical literature review, summary of literature review and finally conceptual framework.

2.2 Theoretical Literature Review

The section analyses theories that relate to the impact of financial management practices to the performance of banks which include the Liquidity Preference Theory, Pecking Order Theory, and Neoclassical Theory of Investment.

2.2.1 Liquidity Preference Theory

The liquidity preference theory was proposed by (Keynes, 1936). The economist argues that investors prefer liquid investments, those which can easily be turned into cash than illiquid investments which would have longer maturity periods. The theory suggests that people or investors hold money for various reasons: for speculative, precaution and transaction motives. Therefore, a firm appreciates the need for working capital, which would allow for the smooth running of the day-to-day operations. Firms, for that reason put a lot of investments so that they could have available current assets or liquidity for the success of the business (Owele, 2014).

As proposed by (Keynes, 1936), cash is the most liquid resource and liquidity is an attribute to an asset. People like to have some advantage of liquidity so that they are able to transact easily especially on their basic needs and on a daily basis. Households may also hold cash for precaution motives so that they are prepared on the unprecedented issues which would require spending on a much higher level. Also, some prefer to hold cash with them for speculative purposes as they anticipate the costs of certain items or investments would decrease or increase so that they could make moves on them; either to sell or to buy them (Fwamba, 2017).

This theory helps in expounding more on the working capital management which is one of the independent variables in this study. Working capital of a firm majorly focuses on liquidity of an organization and the current assets and liabilities of the entity. Commercial banks strive to hold an optimal liquidity position so as to operate efficiently. Liquidity protects the banking institutions from insolvency and insufficient debt management. It is for this reason that the Central Bank of Kenya has imposed a reserve policy for the commercial banks for them to save so as to make sure they have an optimum working capital and avoid and deficits.

2.2.2 Pecking Order Theory

The pecking order theory was proposed by Myers and Majluf (1984) who sought to explain how companies seek financing through their capital structure components. Firms seeking to provide financing to new investments are known to prefer using internal financing first, debt and finally equity finance, which follows a sort of hierarchy. The pecking order arises because shareholders, who want to avoid diluting owners' claims and ownership, will issue only overvalued securities to the public for trade (Nthenge and Ringera, 2017). The pecking order theory is a capital structure theory which tends to bring about closure on an optimal capital structure. According to Myers (1984), firms which must utilize external funds, they follow this order: debt, convertible securities, preferred shares and ordinary shares. This kind of order tries to sustain the control of the firm by considering common stock as the last option which will reduce agency costs in the long run.

This theory is based on how firms finance their operations or investments. Some have a preference for utilizing retained earnings rather than loan, some prefer using short term loan compared to long term loan due to their repayment period and some prefer in-house to external financing. When companies decide to source for finances externally, they resort to issue securities or stocks in a securities exchange, so that the public can trade with them and the money is used by the company to make investments which will later benefit the stakeholders of the company. Pecking Order theory therefore pegs importance of hierarchy of financing any business, and suggests that a company would always try to

use the sources that are available internally, since they are readily available, compared to those sourced externally (Muguchia, 2018).

This theory helps in expounding more on a company's capital structure decisions, which is one of the independent variable in the study, and the type of financing organizations prefer to acquire. Adoption of the pecking order theory by the commercial banks is important as it gives priority to the available sources of finance before acquiring other sources. This theory ignores the factors which are likely to affect the choices by various firms and focuses on the costs of obtaining financing. These factors may include government interventions, interest rates imposed on borrowers and on savings and the economy at the moment (Njeri & Kagiri, 2013). Therefore capital structure decisions, require a high level of expertise which would be able to incorporate these factors while choosing a source of finance for the company. Hence the theory's implication is that the firms may be able to minimize any variation so that there could be growth of the company's financial performance, through understanding the financial management practices.

2.2.3 Neoclassical Theory

This theory was advanced by Jorgenson (1967) and explains maximization of utility and wealth of a firm over time. In this theory, investments of a firm are viewed as distributed functions of the firm's capital. The theory presupposes that investments are a function of the cost of capital and the output of the company. The theory argues that the firm managers act and should act in the greatest interests of the stakeholders so as to utilize resources available, make profits and allocate dividends to them, which will in turn uplift the image of the firm (Hussein, 2017).

The theory also assumes that managers and external supplier of funds have the same information regarding the quantity and quality of investment opportunities available to the firm. The neoclassical theory of investment proposes that agents, who are the managers of firms can make probabilities and probability distribution of the returns that are expected by the firms. Therefore, this theory was used to explore whether investments would maximize the wealth and value of the firm's owners or shareholders.

The Neoclassical theory is a capital budgeting theory as it informs the capital budgeting techniques, which is one of the independent variables in this study. Capital budgeting techniques often involves the utilization of significant capital to acquire assets as investments to the organization. While doing so, the efficient utilization and management of these assets are important, while putting first the best interests of the organization's stakeholders. This is adopted by the commercial banks and is significant in managing their investments. These institutions carry out their duties with the best interest of the shareholders in mind, as they invest in stocks and different business ventures so as to maximize profits which will benefit the firm and the shareholders. Financially, these kind of investments improve the performance of these banks.

2.3 Empirical Literature Review

This segment focuses on related works on working capital, capital structure decision, capital budgeting techniques and their relation to financial performance, summary of literature review and research gaps.

2.3.1 Working Capital Management and Financial Performance

Cash management, refund and maturity management and current debt management are the indicators that explain working capital management in this study (Kotut, 2003). This study will use cash flows and debt levels as indicators of working capital, as these are key in working capital management. Good management of debtors is important for an organization as company profits are kept in check and company creditors help in managing cash flow deficits experienced in the company. Working capital is an entity's total investment in the current assets or those assets which can be easily changed into cash easily, for a period of less than a year. Working capital management is a very important financial management practice since it ensures that the firm has an adequate flow of funds so as to cater for it short-term obligations as well as it daily expenses (Owele, 2014). Companies need to ensure that they maintain a well-balanced working

capital, to make sure that as much as they are focused on improving levels of liquidity, they also consider profitability while conducting their operations.

A study sought to examine the effect of financial management on the financial performance of firms at the Nairobi Securities Exchange carried out by (Bulle, 2017). The research used explanatory research design. Working capital was used as one of the independent variables; with cash levels and debtors level as its specific indicators. The correlation between working capital and financial performance of the firms listed at the securities exchange showed a positive and significant effect. A conclusion was made that working capital is imperative to the performance of corporations listed at the Nairobi Securities Exchange.

A study by Tingbani, Tauringana, and Damoah (2020) focused on working capital management and financial performance of firms listed on the securities exchange. It was established that firms with better working capital management display improved financial performance. Waheed and Nabi (2018) conducted a study to assess the influence of working capital management on financial performance of an entity. The study concluded that in the overall financial performance of an entity, working capital management is a key element, as this is one of the key financial management practices. The study recommended that all firms should be able to know the optimum level of working capital and assess how quickly their assets can be converted into liquid cash.

A study which was conducted by Maina (2013) looked at working capital management and financial performance of firms listed at the Nairobi Securities Exchange. It was concluded that cash conversion period and inventory turnover which are factors of working capital management positively corresponds towards financial performance of institutions. The study recommends that companies should have a proper inventory management system which will ensure certain standards and levels of working capital.

Working capital management practices and elements such as working capital ratio, inflation rate and size of the firm impacts the financial performance of business organizations which have a listing on the securities exchange. This conclusion made on a

study done by Kanyi (2017) on the effect of working capital of the financial performance of listed firms at the Nairobi Securities Exchange. It was recommended that the government through the CMA establish policies and regulations that would aim to increase the working capital of listed firms so as to increase their financial performance. The firm size of these companies should also be increased so as to boost financial performance.

2.3.2 Capital Structure Decisions and Financial Performance

The cost of debt, equity and/or preferred stock is measured with respect to the total amount of the finances so as to define the firm's cost of capital. Capital structure, therefore, is explained as the sum of debt and equity used in financing of an entity (Karani, 2015). Therefore, this blend of its different sources of financing is what makes up a firm's capital structure. Most companies however are financed by or a have a capital structure which comprises of both debt and equity. Debt, equity and debt and equity financing are key indicators of capital structure decisions and brings about effective utilization of the sources of financing available for the commercial banks.

A study conducted to assess the correlation of capital structure decisions and financial performance of Nigerian listed firms done by Uwalomwa and Olayinka (2012). It was concluded that long-term debts acquired by firms have undesirable effect on the financial performance of business organizations. It was concluded that when a firm employs high levels of long-term debt without considering other financing or prioritizing long-term debt in the capital structure may lead to a decline in the performance of the firms. This was observed to lead the firm to a lot of debt which could lead into bankruptcy and insolvency.

Bulle (2017) conducted a study that focused on financial management and financial performance of firms which are listed at the Nairobi Securities Exchange in Kenya. The basis of the study was formed by capital structure decisions and its impact on the financial performance of the firms. The study explained that a firm's capital structure is a combination of debt and equity which is used to fund the operations of a firm. The study concluded that the firm's capital structure describes the amount of debt the firm uses as

opposed to equity. This was explained further that the more debt a firm takes, the more is obligated to pay its creditors, however the more the debt it has, the more it has to invest and also boost its operations.

There was no significant relationship noted between the capital structure and financial performance of commercial banks in Kenya. This was a conclusion made by Kuria (2013) after conducting a study that was focused on the influence of capital structure on the financial performance of commercial banks in Kenya. It was also determined that there was a very minimal effect which signified a negative relationship. The study recommended that a firm should work towards capitalizing on its value through an optimal combination of debt and equity. The study used only one financial management practice and therefore could not make an adequate conclusion as to the impact of financial performance of the commercial banks in Kenya.

Njeri and Kagiri (2013) did a study that needed to determine the influence of capital structure on financial performance of banking institutions listed at the Nairobi Securities Exchange. The author made a conclusion that there was a positive correlation between capital structure and financial performance which is statistically significant. The study also found out that 56.4% of the financial performance of commercial banks as attributed to their capital structure. It was therefore recommended that the Central Bank of Kenya formulate policies which would make debt cheaper, reducing the cost of operation of banks. A recommendation was also made to the management of commercial banks to reduce interest rates which will increase borrowing, injecting more funds to the banks. This will in turn contain insolvency and efficient debt management in the banking institutions. Therefore, it could be said that the conventional combination of capital structure is debt and equity capital.

2.3.3 Capital Budgeting Techniques and Financial Performance

Investing as described by Rotich and Wahome (2018) is the redirection of resources of a firm from daily consumption to creating benefits in the long run. This is the utilizing of assets to earn income or profit for the firm. Components of investments of a firm could include investments in marketable securities (Fwamba, 2017). Therefore, capital

budgeting techniques is used to assess whether the investments of a firm are worth taking risks for (Munyao, 2010). These techniques are categorized into two; non-discounted cash flow techniques (the accounting rate of return-ARR and payback period) and discounted cash flow techniques (internal rate of return-IRR, net present value-NPV, discounted payback period and profitability index). The contemporary methods such as the NPV and IRR used in investment appraisal are noted to pose improved profitability of institutions (Brigham and Ehrhardt, 2013). Capital budgeting in this study was measured by key indicators such as Net Present Value and discounted payback period as they are the modern methods used to appraise investments.

A study by Machuki (2014) focused on impact of capital budgeting techniques on financial performance of listed companies in the Nairobi Securities Exchange. The research concluded that there was a significant and positive correlation between the financial performance of a firm and the investment decisions, related to the firm's capital budgeting techniques. However, the study only focused on one financial management practice and therefore not sufficient to measure its impact on the financial performance of the listed companies at the NSE. A study done by Hussein (2017)looked at the connection between investments and financial performance of banks in Kenya. It was concluded from the study that the investments in ordinary shares and in other companies' shares have a significant impact on the financial performance of commercial banks. A conclusion was also made that investing in government securities; such as treasury bills and bonds do not significantly impact the financial welfare of commercial banks in Kenya. Furthermore, investing in corporate bonds by firms do not affect the financial performance of Kenyan commercial banks.

A study conducted by (Bulle, 2017) looked at capital investments as a financial management practice which influences financial performance of the firms that are listed at the Nairobi Securities Exchange. The researcher explains that capital investments is a venture, involving current expenditure, in exchange for a future payoffs. The specific parameters used to measure capital investment were debt, equity and equity capital. The study concluded that through capital investments, firms make their investments to secure capital assets so as to make profits for the firm's current and future operations. Therefore,

capital investments is part of capital budgeting decisions made by a firm to ensure the continued operations of the firm. Hussein (2017) did a research that focused on the connection between capital budgeting techniques and financial performance of commercial banks in Kenya. It was noted that investment decisions are significant in company since they are assumed to influence its value by prompting profitability and risk. A positive and significant relationship between investing in stocks and financial performance of banks was noted. A recommendation was made on the management of commercial banks that they should focus on investing in stocks to maintain adequate liquidity, to enhance their financial performance.

2.4 Summary of Empirical Review and Research Gaps

The table shows the empirical literature while showing the gaps in relation to this study and how this study addresses those gaps.

Table 2.1: Research Gaps

Author/Year	Title	Findings	Gap	How to address gaps
Muguchia (2018)	Effect of financial management practices on the financial performance of the companies listed at the NSE.	The findings presented a positive relationship between financial management practices and financial performance.	The study's focus was generally on companies listed at the NSE and not the commercial banks.	This current study narrows down to focus on commercial banks, rather than all companies listed at the NSE.
Omete, Namusonge and Sakwa (2019)	Financial management efficiency and financial performance of commercial banks listed at the NSE.	A strong positive relationship between financial performance and financial management efficiency.	The study did not look at investment practices and capital structure as they are key in firm performance.	This study takes into consideration working capital, capital structure and capital budgeting techniques as they are essential in firm performance.
Bulle (2017)	Financial management and financial performance of firms listed under manufacturing and allied sector at the NSE, Kenya.	Working capital, capital structure and capital investment significantly affected the financial performance of firms.	The study looked at manufacturing firms listed at the NSE and for working capital, it did not look at receivables management.	This study focuses on financial management practices and financial performance of commercial banks listed at the NSE.

Nyongesa (2011)	Effects of financial management practices on financial performance of insurance companies.	A positive and noteworthy relationship between the two variables; financial management practices and financial performance was noted.	The focus of this study was on insurance companies thus presenting a contextual gap.	This study concentrates on commercial banks, which are listed at the NSE.
Kanyi (2017)	Effects of working capital on financial performance of service firms listed at the NSE.	Working capital had a significant impact on the performance of service firms listed at the NSE.	This study was only limited to one financial management practice which is working capital management, thus presenting a conceptual gap.	This current study emphasized on the three financial management practices as possible determinants of financial performance.
Uwalomwa and Olayinka (2012)	The relationship between capital structure and the financial performance of firms in Nigeria.	The study found out that capital structure had a positive and significant impact on the financial performance of firms in Nigeria.	Attention was mainly on one financial management practice, capital structure decisions presenting a conceptual gap. This study was done in Nigeria, focusing on firm in general.	Two more financial management practices were added to bridge the gap. This study bridged the contextual gap by focusing on commercial banks. This current study was carried out in Kenya.
McMahon (2001)	Financial management practices in Australia, the United Kingdom and the United States of America.	The financial management practices are more advanced in the developed countries than in the developing	The researcher looked at financial management; however did not review working capital	The study looked at working capital management therefore bridging the

		countries.	management. The study focused on firms in the Western world.	conceptual gap. The study had a main focus on commercial banks in Kenya, bridging the contextual gap.
Babar, Ahmed and Kashif (2010)	Financial management practices and their impact on firm performance on Pakistani companies	The study established a positive and significant relationship between financial management practices and organizational performance in the Pakistani corporate world.	The study focused on companies operating in Pakistani companies which are listed at Karachi Stock Exchange.	This study focused on commercial banks listed at the NSE.
Klammer, (2003)	Do organizations adopt sophisticated capital budgeting practices to deal with uncertainty in the investment decision? A research note. Management Accounting Research.	There lacked consistency in the correlation between financial performance and capital budgeting techniques, which is a financial management practice	The study focused on capital budgeting techniques and the study was carried out in America focusing on American firms.	Capital budgeting techniques, working capital management and capital structure decisions as financial management practices in commercial banks in Kenya, bridging conceptual gaps.
Wangari & Muturi, (2017)	Effects of financial management practices of financial performance of public universities in Kenya.	The study focused on various financial management practices such as financial monitoring, annual budget adherence, investment decisions and	The study focused on financial monitoring, annual budget adherence, investment decisions and financial planning as financial	The study focused on capital budgeting techniques, working capital management and capital structure decisions as financial

		financial planning. These variables were noted to have a significant effect on the financial performance of these institutions.	management practices and was done on public universities in Kenya.	management practices on commercial banks in Kenya.
Cheruyot, (2014)	Financial management practices and financial performance of small and medium manufacturing enterprises.	The practices used were ranked; the most used was capital budgeting, working capital management and finally financing practices. Even though this ranking was done, the three were also noted to show a significant effect on the firms' performance.	The study's main focus was on performance of SMEs in Kenya.	This current research focused on commercial banks.

2.5 Conceptual Framework

The independent variables that were used in this study included working capital management, capital budgeting techniques and capital structure decisions which were linked to the financial performance of commercial banks which are listed in the Nairobi Securities Exchange. The framework presents the three variables which are financial management practices. These were measured individually to establish how they all influence the financial performance.

The parameters used to measure working capital management included cash flows and debt levels, which are significant factors towards the current assets of a company and the overall working capital. The two sub variables of working capital management determine the inflows and outflows of cash in an organization and how to manage this so as to achieve an optimal working capital for sustainable operations. The parameters used to measure capital budgeting techniques are appraisal of projects and profitability of projects. These two are techniques that are used to determine the capital budgeting of a firm through the returns of the investments undertaken. The ones which were used to measure the capital structure decisions included debt financing, equity financing and debt and equity mix financing. These sub variables determine the capital structure of any firm. Capital structure decisions involve incorporating debt, equity or the two financing to fund the operations of the companies. Profits after tax and earnings per share were the indicators that were used to measure the dependent variable is the financial performance of the listed commercial banks in Nairobi Securities Exchange. The figure 2.1 below illustrates the relationship between these variables.

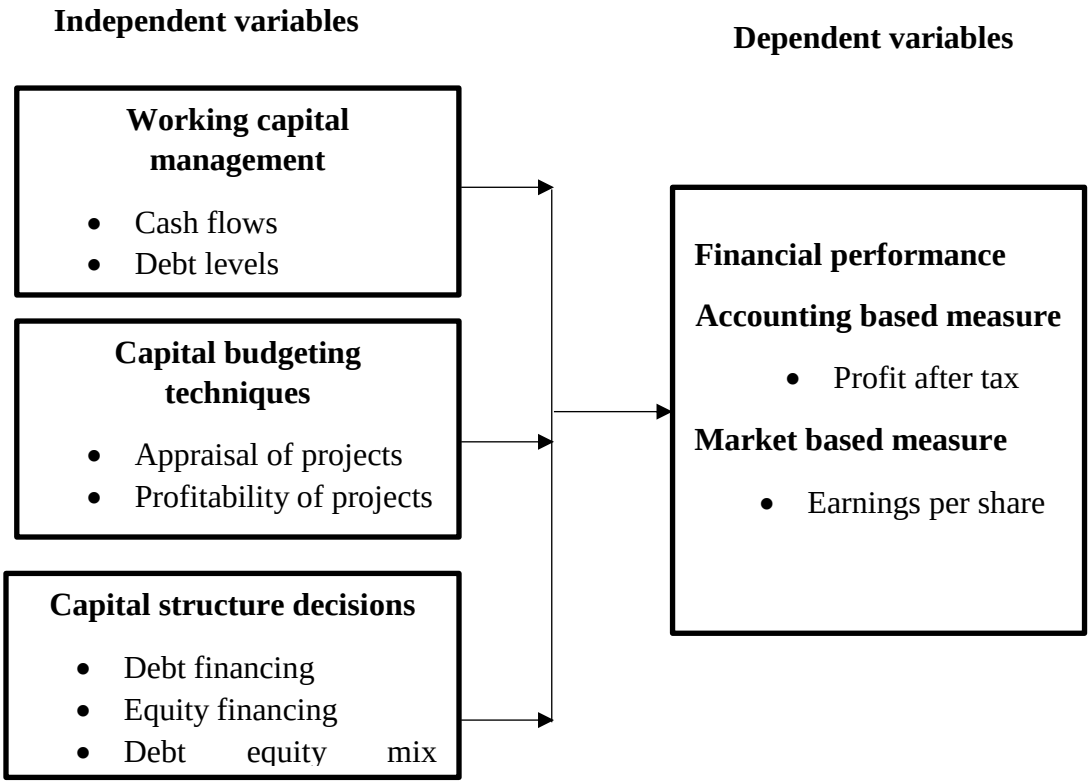


Figure 2.1: Conceptual Framework

Source: Author, 2021

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter will introduce the methodology that was used in conducting this study. This includes the research design, the population considered, data collection procedures and the data collection tools that were used to undertake the study. It also explains the data analysis methods and the ethical considerations that were used in the study.

3.2 Research Design

A research design is a strategy taken by a researcher to efficiently address the research problem. It is important to incorporate an effective research design so that the research would yield maximum information and facilitate ease of the research. It is termed as the blueprint for the gathering, measurement and analysis of data during the study. It provides a logical sequence in which a researcher analyses acts and makes clarifications from the data collected (Krishnaswami & Satyaprasad, 2010).

This study used the explanatory research design. This is a fact-finding design. This is a way of collecting data through the questionnaires, to individuals so as to collect information about the respondents' views, attitudes and opinions or any other social issues. This research design has several advantages and therefore was chosen. The explanatory research design helps in understanding the group chosen for a study and helps in addressing the who, what, when, where and how questions (Cooper and Schindler, 2011). This technique is therefore fitting for this study as it facilitated in providing answers to the problems relating to the research; and in this case determining the relationship between financial management practices and financial performance of the listed commercial banks at the Nairobi Securities Exchange.

3.3 Population

The population of this study comprised of the listed commercial banks of Kenya at the Nairobi Securities Exchange. There are a total of 11 commercial banks according to the NSE (2020) listed and this was the total population of the study and data collection.

3.4 Target Population

Saunders, Lewis and Thornhill (2009) explained that a census is conducted on a full set of the population or groups. The study involved all the 11 commercial banks, whose senior executives were the respondents chosen. The target population from where the data was collected is; 33 executives in each bank, 3 in each, among the 11 commercial banks listed in the Nairobi Securities Exchange.

The participants that were included were the financial analysts, the chief financial officers (CFO) and the financial managers of each bank. The financial analysts were selected for this study as they are tasked with collecting data to assist the business to make financial projections, compare stock prices which would benefit the capital budgeting techniques of the company. The CFOs were selected as respondents of this study as they are responsible for controlling financial forecasts and direct the finance team. The financial managers were also participants of the study as they are tasked with organizing the company's financial portfolio and managing cash and investments and their role is key in the working capital of the company. This information was provided by the respondents through questionnaires and through financial statements of their respective commercial banks.

Table 2: Target Population

	Commercial Banks Listed in NSE	Executives in the Finance Department
1.	ABSA Bank Kenya PLC	3
2.	CFC Stanbic Holdings PLC	3
3.	Diamond Trust Bank Kenya Ltd	3
4.	Equity Group Holdings	3

5.	HF Group Limited	3
6.	I & M Holdings Limited	3
7.	KCB Group Limited	3
8.	NCBA Group PLC	3
9.	National Bank of Kenya Ltd	3
10.	Standard Chartered Bank Ltd	3
11.	The Co-operative Bank of Kenya Ltd	3
	Total	**33**

Source: Author, 2021

3.5 Data Collection Procedure

Before collection of data, the researcher got approval to conduct the study from NACOSTI-National Commission for Science and Technology Innovations, with the approval from the University, through a research license. Also the researcher sought permission from the commercial banks' head offices to issue the data collection instrument, to gather the required information. The data collection instruments were then issued to the senior executives at the commercial bank's head offices and collected at a later date, which provided ample time, ensuring a high response rate. Therefore, primary data was collected through information provided by the questionnaires. Secondary data was gathered from the Nairobi Securities Exchange and the Central Bank of Kenya Bank Supervision reports through the websites and also the reports of the commercial banks listed in the Nairobi Securities Exchange using a data collection sheet. The questionnaires to be issued were 33, 3 for each commercial bank among the 11 commercial banks listed in the Nairobi Securities Exchange.

3.6 Data Collection Instrument

This study incorporated the use of questionnaires to gather primary data. The questionnaires comprised of both open and closed questions and an introduction letter from the researcher was used to introduce the research to the respondents. This aimed at introducing the topic of the study

and the aim of the research and appealed to the respondents to provide truthful and objective responses, which would encourage them to answer the questionnaires, leading to a high response rate. The questionnaires enhanced data collection as it brought out the sentiments of the respondents and added more weight to the secondary data which was readily available. Secondary data was collected using a secondary data collection sheet which was used to gather data on the financial performance over the last five years (2015-2019). This data was gathered from financial statements of the commercial banks, that were published and audited, and which were available on their respective websites.

3.6.1 Validity

Validity is termed as the level to which the data collection tool measures what it purports to and measures what it is required to (Adams et al., 2014).This means that the instrument fulfills its purpose. There are types of validity; face validity, content validity which were tested in order to verify the validity of the data collection tool (Ranjit, 2005). Content validity was tested by seeking the input of the experts in the study and its components to look at the cogency of questions in meeting the objectives of the study. The experts ascertained whether the data collection tool accurately measures what is intended to measure and helped in revising the sequence, structure and the meaning of the questions, constricts used to measure the variables which were aligned to the relevant theoretical propositions.

3.6.2 Reliability

Reliability can be explained as the degree to which the data collection procedure and tool, which in this case is questionnaires produces the same results on repeated trials (Field, 2009). It shows the level of uniformity or replicability over several trials. There are three categories of reliability; test-retest, alternate form and internal consistency. The measure that has been achieved by conducting the same test more than one time with the same group is known as the test- retest reliability. Conducting an assessment of the same phenomena with the same group using more than one assessment method is known as the alternate-form reliability (Kothari, 2010). Internal consistency reliability is the degree of homogeneity among items of study, such that they are consistent with one another. Internal consistency was measured to evaluate the dependability of

questionnaires. This was done using the Cronbach Alpha. This is a measure of internal consistency, which measures the relationship among items in a group. A Cronbach Alpha value of a coefficient of 70% and above will be considered good, 80% will be considered much better and 90% and above, best (Field, 2009).

3.7 Data Analysis and Presentation

Quantitative data from the questionnaires, was collected and processed to provide meaningful information to the study. This type of data was analyzed for completeness, went through sorting and was ran through SPSS for further analysis. Data was later examined through correlation analysis, descriptive statistics, and statistical measures like mean and standard deviation were used. Qualitative data was categorized and analyzed with the help of a multiple regression model through multiple regression analysis. This analysis is important as it isolates the relationship between each independent variable and the dependent variable. After analysis, quantitative data was presented through tables and figures. The secondary data was analyzed by a time series to ascertain the trends over the 5 years under study in the listed commercial banks. The multiple regression model that was used is shown below;

$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$ Where:

Y= is the dependent variable representing financial performance

$\beta_{0=}$ is a constant beta factor, the value of Y when all Xs are zero

$\beta_1 - \beta_{3=}$ Beta regression coefficients

$X_{1=}$ is the variable representing working capital management

$X_{2=}$ is the variable representing capital budgeting techniques

$X_{3=}$ is the variable representing capital structure decisions

ε = Term of error that accounts for all other financial management practices not represented in the model.

3.8 Diagnostic Tests

Since the study incorporated the use of a linear regression model, various diagnostic tests were involved so as to follow the principles or the assumptions of the classical linear regression model (CLRM). The diagnostic tests involved in this study were normality tests, multicollinearity test and heteroscedasticity tests.

3.8.1 Normality Test

The normality tests were undertaken in order to check if the data of the study were normally distributed and to determine whether the assumption of normality of distribution was attained. Normality refers to the shape of the data distribution as is determined by examining the skewness and kurtosis (Kerlinger, 2011). It is however noted that if the values of skewness are above 3 and values of kurtosis are above 10, there might be an issue with the data regarding normality. To test the normality of distribution of scores, the Kolmogorov-Smirnov test was used.

3.8.3 Multicollinearity Tests

Multicollinearity refers to high correlation of two or more variables which could largely affect the results of multiple regression. Tests for multicollinearity are important as multicollinearity inflates the errors and confidence intervals and this could lead to coefficients which are unstable and not suitable for the predictor variables (Field, 2009). Multicollinearity was tested using the variance inflation factor and tolerance which would be used to analyze the similarity of values between or amongst variables of the study. The test establishes that data lacks multicollinearity and is suitable for analysis if VIF value of less than 10 and tolerance value of more than 0.1.

3.8.4 Heteroscedasticity Test

Heteroscedasticity refers to the situation in which the changes in a variable is not equal across the range of values of another variable which is to predict it. This diagnostic test is also known as the variance of error or the dependence of scatter relating to one variable within a collection of data. The CLRM makes an assumption that the error term is homoscedastic, meaning it has a constant variance and if the variance is not constant, then heteroscedasticity runs in the data

(Revelle and Zinbarg, 2012). Therefore, this kind of diagnostic test is important as it would lead to objective and unbiased estimates of the data. This study used the Breusch-Pagan test which will be used to detect instances of heteroscedasticity in the data.

3.9 Ethical Considerations

The study ensured that privacy of respondents is protected through confidentiality in both their identity and the information provided. The data collected from the respondents through the questionnaires was stored safely, and backups were made for the softcopy documents, protecting documents from falling onto the wrongful hands or places. A letter of introduction from the university was awarded to the researcher before undertaking the data collection process, which was used to seek a research authorization letter from the National Council of Science and Technology Innovations (NACOSTI). This ensured that the research is authorized and conducted in an ethical manner.

CHAPTER FOUR

DATA ANALYSIS, PRESENTATION AND INTERPRETATION

4.1 Introduction

This chapter outlines the outcomes and the discussions pertaining to the research study; which was undertaken to assess the impact of and the correlation between financial performance and the financial management practices; working capital management, capital structure decisions and capital budgeting techniques undertaken by the listed commercial banks of Kenya, at the Nairobi Securities Exchange. The chapter shows the responses of the participants, determining of the response rate of the study, the multiple regression analysis and analysis of the data collected.

4.2 Response Rate

As explained by Saunders et al. (2009), a response rate which is considered above average and can be worked with is one above 70%. However, a response rate which is equals to 50% is considered to be adequate and a response rate which is found to be above 60% is considered to be average. The table below shows the response rate of the study.

Table 2: Response Rate

Responses	**Frequency**	**Percentage**
Fully responded to and completed questionnaires	30	90.9%
Unresponded to, incomplete and unusable questionnaires.	3	9.09%
Total	**33**	**100%**

Source: Study data, 2021

Table 3 above shows the rate of responses of the study participants involved during data collection. The researcher issued out 33 questionnaires to the target participants. However, only 30 of them, which represents 90.9% of the total, were considered as fully responded to and completed, and therefore usable to data analysis. On the other hand, 3 questionnaires were considered incomplete, as some questions were not responded to at all. This represented 9.0% of the total questionnaires distributed to the respondents. Therefore, with an achieved response rate

of 90.9% from the received questionnaires, the rate is above average and enough to draw objective conclusions and findings of the study.

4.3 Reliability Analysis

Table 4 below presents the Cronbach's Alpha coefficients results for the items in the questionnaire used in the study.

Table 3: Reliability Coefficients of the Research Instrument

Variable	Number of items	Cronbach's Alpha	Comment
Working Capital Management	6	0.799	Reliable
Capital Structure Decisions	6	0.921	Reliable
Capital Budgeting Techniques	5	0.738	Reliable
Financial Performance	4	0.891	Reliable
Total	21	0.837	Reliable

Source: Pilot Study, 2021

The table above indicates the statistical reliability for the variables of the study. All the variables were reliable, as all of them had a Cronbach's alpha reliability coefficient which was above the recommended 0.7 or 70%. Working capital management had a reliability of 0.799, capital structure decisions had 0.921, capital budgeting techniques had a reliability coefficient of 0.738 and the dependent variable, which is financial performance had a coefficient of 0.891. Therefore, the study found out that the data collection instrument was reliable, with an overall reliability coefficient of 0.837 and could be used for further analysis and interpretation.

4.4 Diagnostic Tests

The diagnostic tests were carried out based on the data of the study which were to establish or verity the assumptions of classical linear regression model. This study carried out the following tests: normality, multicollinearity and heteroscedasticity tests on the data of this study.

4.4.1 Normality Test

The study tested the normality of the linear regression model so as to establish whether the assumption of normality of distribution was achieved.

Table 4: Skewness and Kurtosis

	N	Skewness		Kurtosis	
	Statistic	**Statistic**	**Std. Error**	**Statistic**	**Std. Error**
Working capital management	30	2.091	0.427	2.937	0.833
Capital structure decisions	30	1.968	0.427	2.529	0.833
Capital budgeting techniques	30	2.428	0.427	5.036	0.833
Financial Performance	30	2.234	0.427	3.873	0.833

Source: Study data, 2021

The table 5 below examined the skewness and kurtosis. The value of skewness above 3 and kurtosis above 10 might indicate a problem with the data of the study in regards to normality and therefore indicating a high level of abnormality of the distribution of data. The tests conducted on the data with regards to normality of distribution found out that the variables presented skewness values of below 3 and kurtosis values of below 10, showing that the data for the study was normal, upholding the assumptions of classical linear regression model.

Table 5: Normality

	Kolmogorov-Smirnov[a]		
	Statistic	**Df**	**Sig.**
Financial Performance	0.414	30	0.300
Working capital management	0.499	30	0.100
Capital structure decisions	0.478	30	0.211
Capital budgeting techniques	0.493	30	0.200

Source: Study data, 2021

Table 6 above presented the tests of normality using Kolmogorov-Smirnov to determine whether assumption of normality of distribution was attained. The significant values were all above the probability value of 0.05 and this concluded that the data was normally distributed.

4.4.2 Multicollinearity Test

Multicollinearity was tested using the variance inflation factors and tolerance, which are the collinearity statistics.

Table 6: Multicollinearity

Model		Unstandardized Coefficients	Standardized Coefficients			Collinearity Statistics	
		Beta	**Beta**	**t**	**Sig.**	**Tolerance**	**VIF**
1	(Constant)	-9.000		3.233	0.003		
	Working Capital management	0.667	0.417	0.792	0.043	0.614	1.400
	Capital structure decisions	0.917	0.576	1.796	0.039	0.738	2.424
	Capital budgeting techniques	2.083	0.795	1.856	0.047	0.421	1.224

Source: Study data, 2021

As table 7 above shows, the VIF values were less than 5 and the tolerance values above 0.2. The p values of the variables were: for working capital management at 0.435, capital structure decisions at 0.084 and capital budgeting techniques at 0.075. These values were less than the conventional 0.05. This is an indication that there was no multicollinearity and the variables of the study were suitable for regression and further analysis.

4.4.3 Heteroscedasticity Test

This is the error of variance within one independent variable within a study data. In addition, the study used the Breusch-Pagan test to detect heteroscedasticity as shown in the table below.

Table 7: Breusch-Pagan Test for Heteroscedasticity

Breusch-Pagan test for heteroscedasticity
H0: Constant variance
chi2 (4) = 13.88
Prob>chi2 = 0.302

Source: Study data, 2021

The table above shows a probability value of 0.302 which is more than the conventional probability value of 0.05 and this shows that the data was not affected by heteroscedasticity and was therefore suitable for data analysis and interpretation.

4.5 Descriptive Analysis

4.5.1 Working Capital Management

This section involves the working capital management, a financial management practice tested to analyze its relationship with financial performance. So as to understand the responses of the participants on working capital management. (SA= Strongly Agree, A- Agree, N= Neutral, D= Disagree and SD= Strongly Disagree). In the table presented below, the mean and the standard deviation of the data collected were computed.

Table 8: Working Capital Management Rating by Respondents

Statements	**N**	**Mean**	**Std. Deviation**
The bank experiences cash surplus	30	1.00	0.000
Cash budgets prepared and followed strictly	30	1.23	0.599
Debts are managed effectively	30	1.17	0.379
Accounts receivables collection period is shorter	30	1.52	0.721
Liquidity risk management practices have been incorporated.	30	1.00	0.000
The bank uses short term deposits as way of maintaining liquidity	30	1.00	0.000
Overall	30	1.15	0.283

Source: Study data, 2021

The working capital management objective was analyzed through the responses of the 30 target participants and the outcomes are as shown in the table above. From the analysis, (overall mean = 1.15 and overall standard deviation = 0.283) indicates that the respondents view working capital management in relation to financial performance to be above average; meaning that it is positively significant towards impacting the financial performance of the listed commercial banks. With (mean = 1.17 and a standard deviation = 0.379), the results showed that the commercial banks agree that the debts are managed effectively and the accounts receivables collection period is shorter. The results further revealed that the cash budgets are prepared and followed strictly, supported by (mean = 1.23 and standard deviation = 0.599). The results also indicated that the listed commercial banks in Kenya experience cash surplus and uses short term deposits as a way of maintaining liquidity, and was supported by responses from the participants who strongly agree to this statement (mean = 1.00 and standard deviation = 0). Findings from the participants indicate that listed commercial banks incorporate liquidity risk management practices, supported by (mean = 1.00 and standard deviation = 0). This means that all the respondents strongly agree to this statement with regards to the practices undertaken by the commercial banks.

4.5.2 Capital Structure Decisions

This segment involves the capital structure decisions, a financial management practice tested to analyze its relationship with financial performance. The responses were spread on a Likert scale, to understand the responses of the participants on capital structure decisions. (SA= Strongly Agree, A- Agree, N= Neutral, D= Disagree and SD= Strongly Disagree). In the table presented below, mean and standard deviation were computed.

Table 9: Capital Structure Decisions Rating by Respondents

Statements	N	Mean	Std. Deviation
The bank prefers utilizing debt capital.	30	1.07	0.254
The capital structure of the company is appropriate.	30	1.63	0.989
The bank relies on equity capital than any other capital	30	1.17	0.379

The bank uses short term financing sources	30	1.00	0.000
The bank uses long-term financing sources	30	1.61	1.099
Debt equity mix financing is effective for the bank's operations	30	1.24	0.727
Overall	30	1.29	0.575

Source: Study data, 2021

The table above shows the total population of the study, which was 30 respondents, the means and the standard deviation of the responses given by the participants on capital structure decisions. The overall mean score of 1.29 and standard deviation of 0.575 indicated that the respondents view capital structure decisions in relation to financial performance as to be above average; meaning that it is viewed as an important financial management practice in impacting the financial performance of the listed commercial banks at the Nairobi Securities Exchange. The findings also showed that the commercial banks rely on equity than any other capital, with (mean = 1.17 and a standard deviation = 0.379). The findings also revealed that the listed banks prefer utilizing debt capital with (mean = 1.07 and standard deviation = 0.254). The results of the study also noted that the commercial banks agreed that the capital structure of the bank is suitable to the operations of the banks, supported by (mean = 1.63 and standard deviation = 0.989). The findings also showed that the commercial banks use both short term and long term financing (mean= 1.00 and standard deviation= 0.00) where all respondents agreed to this statement and (mean= 1.61 and standard deviation= 1.099), respectively. The results of the study also noted that that the debt equity mix financing is effective for the bank's operations, with (mean = 1.24 and standard deviation = 0.727).

4.5.3 Capital Budgeting Techniques

This section involves the capital budgeting techniques, which is a financial management practice tested to analyze its relationship with financial performance. To understand the responses of the participants on capital budgeting techniques, their responses were spread on a Likert scale. (SA= Strongly Agree, A- Agree, N= Neutral, D= Disagree and SD= Strongly Disagree). The mean and standard deviation were computed, as shown in the table presented below.

Table 10: Capital Budgeting Techniques Rating by Respondents

Statements	N	Mean	Std. Deviation
Projects are given priority in terms of their profitability	30	1.07	0.254
Capital budgeting techniques used significantly affect the return on investment	30	1.00	0.000
Projects are appraised considering their cash inflows and outflows	30	1.00	0.000
Capital budgeting decisions often involve significant capital outlay to acquire assets.	30	1.17	0.379
Capital budgeting has been significant to the firm's financial performance.	30	1.20	0.407
Overall	30	1.088	0.173

Source: Study data, 2021

The capital budgeting techniques was the third objective of the study and the responses by the participants on this was analyzed through mean and standard deviation, showing an overall (mean = 1.088 and standard deviation = 0.173). This indicates that the respondents viewed capital budgeting techniques in relation to financial performance as to be above average, implying that it is viewed as one of the important financial management practices adopted by the listed commercial banks towards achieving financial performance. The study findings were as indicated in the table above and showed that the listed commercial banks give priority to their projects in terms of their profitability, (mean= 1.07, standard deviation= 0.254).

The findings also revealed that the capital budgeting techniques adopted by the listed commercial banks, significantly affect their return on investments, where all the respondents agreed to these sentiments, with regards to the practices they undertake; (mean= 1.00, standard deviation= 0). The listed commercial banks agreed that the capital budgeting decisions they adopt often involve substantial capital spending to purchase assets, and the results were supported by (mean = 1.17 and standard deviation = 0.379). Projects undertaken by the commercial banks are appraised considering their cash inflows and outflows, in the listed commercial banks, (mean= 1.00 and standard deviation= 0). The findings of the study showed

that the listed commercial banks of Kenya agree that the capital budgeting techniques they pursue have been significant to the financial performance of their institution. This was supported by a (mean = 1.20 and a standard deviation = 0.407).

4.5.4 Financial Performance

This section involves the analysis of financial performance of listed commercial banks at the Nairobi Securities Exchange.

Responses were as follows; (SA= Strongly Agree, A- Agree, N= Neutral, D= Disagree and SD= Strongly Disagree). The mean and standard deviation were computed, as shown in the table presented below.

Table 11: Financial Performance Rating by Respondents

Statements	N	Mean	Std. Deviation
The bank's working capital management has speared the company's competitive edge.	30	1.13	0.346
The bank's capital structure decisions have increased company profits.	30	1.10	0.305
The bank's capital budgeting techniques have boosted the company's income	30	1.33	0.606
The overall performance of the bank is attributed to the financial management practices.	30	1.13	0.346
Overall	30	1.17	0.401

Source: Study data, 2021

Table 12 above shows the means and standard deviation of responses by the participants of the study on relating to financial performance. With an overall (mean = 1.17 and standard deviation = 0.401), the respondents viewed financial performance as to be above average, and this is in relation to the financial management practices. From the table above, (mean = 1.33 and a standard deviation = 0.606), signifies that the bank's capital budgeting techniques have boosted the company's income. With, (mean = 1.13 and a standard deviation = 0.346), the listed commercial banks agree that the working capital management of the bank has speared or boosted

the company's competitive edge. The findings also showed that the overall performance of the bank is attributed to the financial management practices with (mean = 1.13 and standard deviation = 0.346). The study results indicated that the listed commercial banks' capital structure decisions have increased the company profits greatly, and this was supported by (mean =1.10 and a standard deviation = 0.305).

4.6 Correlation Analysis

An examination was done to analyze the correlation or the association of the four variables of the study; working capital management, capital structure decisions, capital budgeting techniques and financial performance of listed commercial banks of Kenya, at the Nairobi Securities Exchange. Karl Pearson's coefficient of correlation, which is symbolized as (r), was used to investigate the relationships amongst these variables, their direction, their nature and their strength in relation to each other. The correlation coefficient indicates that a correlation that is positive signifies a direct impact of one variable to another variable. This means that, when one variable is increased, another variable also increases in the same direction. When a negative correlation is deduced, it indicates that there is an inverse relationship. This is where, an increase in one variable leads to a decrease in the corresponding variable. The correlation coefficient proposes that a coefficient of 1 or close to 1 shows a strong correlation, which is a linear relationship, as championed by (Field, 2009). The table below presents the correlation coefficients of each variable of the study.

Table 12: Pearson's Correlation Coefficients

		Working capital management	**Capital structure decisions**	**Capital budgeting techniques**	**Financial Performance**
Working Capital management	Pearson Correlation	1			
Capital structure decisions	Pearson Correlation	.981**	1		
Capital budgeting	Pearson Correlation	.989**	.971**	1	

techniques					
Financial Performance	Pearson Correlation	.934**	.938**	.941**	1

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

Source: Study data, 2021

The table above shows that the three independent variables had a linear relationship with the dependent variable, financial performance. Correlation results showed that the relationship between working capital management and financial performance was positive and significant, supported by r= 0.934 and $p < 0.05$, as it was close to one and was a positive value. The correlation between capital structure decisions and financial performance was positively and statistically significant at r= 0.938 and a $p < 0.05$. The correlation of capital budgeting techniques and financial performance was the strongest as it was most close to 1, as well as it was positive and significant at r= 0.941 and a p of less than 0.05. The relationships between the three predictor variables; capital structure decisions, working capital management and capital budgeting techniques, and financial performance are considered strong and positive, which are also linear correlations, since all the correlation coefficients are close to 1. Therefore, the variables can be further analyzed using regression after analyzing and confirming their relationships towards each other.

4.7 Multiple Regression Analysis

This analysis is done where there are two or more variables to be investigated in a study, hence the word, 'multiple' (Kothari, 2010). The study incorporated a multiple regression model, with more than two variables, so as to assess the impact of financial management practices; working capital management, capital structure decisions and capital budgeting techniques, on the financial performance of the listed commercial banks at Nairobi Securities Exchange in Kenya.

Table 14 below shows the multiple regression analysis and a comprehensive summary of the regression model used.

Table 13: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.948[a]	0.899	0.887	0.5

a. Predictors: (Constant), Capital budgeting techniques, Capital structure decisions, Working capital management

Source: Study data, 2021

The table above represents and summarizes the regression model, which tests the goodness of fit of the model of the study. The R Square, presented as 0.899, is used to evaluate the fitness of the model, or how usable and practical it is; that is, 89.9% of the deviations or changes in the financial performance of commercial banks listed at the NSE, could be accredited to the collective influence of the three independent variables The Adjusted R Square value of 0.887 or 88.7% also explains; the fluctuations and changes in financial empowerment are explained by the three independent variables. The correlation coefficient, denoted as R of 0.948, which is the correlation coefficient, explains the extent to which the changes in the financial performance can be explained by the changes in the three predictor variables; which are capital structure decisions, working capital management and capital budgeting techniques. Findings of the study shows that there is a strong and positive correlation between the predictor variables; capital structure decisions, capital budgeting techniques, working capital management and financial performance.

4.7.1 Analysis of Variance (ANOVA)

Analysis of Variance, abbreviated as ANOVA, is used in research for testing data for homogeneity or similarity. The table below presents ANOVA which will help assess whether the regression model was significant and suitable for the study.

Table 14: Analysis of Variance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	57.800	3	19.267	77.067	.000[b]
	Residual	6.500	26	.250		

Total	64.300	29	

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Capital budgeting techniques, Capital structure decisions, Working capital management

Source: Study data, 2021

From the table above, the P or probability value of 0.000 as shown above is less than the level of significance of 0.05, and therefore the model is a best fit and is statistically significant in forecasting how these independent variables impact financial performance of these commercial banks. Therefore, the three independent variables are good and significant measures of financial performance. The table below represents the coefficients to be used in the regression model, the probability values and the t statistic.

Table 15: Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		B	Std. Error	Beta	t	Sig.
1	(Constant)	-9.000	2.784		3.233	0.003
	Working capital management	0.667	0.842	0.417	0.792	0.043
	Capital structure decisions	0.917	0.510	0.576	1.796	0.039
	Capital budgeting techniques	2.083	1.123	0.795	1.856	0.047

a. Dependent Variable: Financial Performance

Source: Study data, 2021

Table 4.10 above presents the coefficients that were fitted into the regression model of the study. Therefore; $Y = -9.000 + 0.667X_1 + 0.917X_2 + 2.083X_3 + Ɛ$

Where: Y= is the dependent variable representing financial performance

$\beta_{0=}$ is the constant beta factor, the value of Y when all values of X are zero

$X_{1=}$ is the variable representing working capital management

$X_{2=}$ is the variable representing capital structure decisions

$X_{3=}$ is the variable representing capital budgeting techniques

ε = Term of error which accounts for all other financial management practices not represented in the model.

The coefficients were fitted in the model. The results of the regression in table 15 notes that with a significant value of 0.00 ($p<0.05$), the model was statistically significant. In table 16 above, the working capital management variable is significant to the dependent variable, by a probability value of 0.043, which is less than 0.05. Therefore, working capital management can be responsible for the required information to forecast financial performance. This is the case for capital budgeting techniques which had a significant value of 0.047 and capital structure decisions which had a p-value of 0.576, which is less than $p=0.05$, considering them as positively significant in predicting changes and information on financial performance.

The constant term implies that at zero working capital management, capital structure decisions and capital budgeting techniques, the financial performance of commercial banks listed perform at 6.603 units. From the table above, it shows that one unit change in working capital management, increases financial performance by 0.021 units. A unit change is capital structure decisions, implies an increase of 2.821 in financial performance. An increase in capital budgeting techniques would cause a drop in financial performance by 1.266 units.

The findings of this study concurs with those of Bulle (2017) who established and found a positive and significant connection between working capital and performance of listed firms at the Nairobi Securities Exchange. The findings of this study are also in line with those of Tingbani et al. (2020) who established that there was a positive and significant influence of working capital management on firm performance. In contrast, the findings contradict those of Uwalomwa and Olanyika (2012) who found a negative and insignificant link between capital structure decisions and performance. The findings of Kuria (2013) do not support the findings of the current study since it established that there was no significant relationship between capital structure and performance of commercial banks.

4.8 Testing of Hypotheses

Hypothesis 1 (H_{01}) stated that there is no relationship between working capital management and financial performance of the commercial banks listed in the Nairobi Securities Exchange. According to table 16 above, findings revealed that working capital management which had a β= 0.471 and a p value of 0.043 (which is less than 0.05) indicated that the independent variable was significant. The null hypothesis was therefore rejected and a conclusion was made that working capital management had a relationship and significant effect on financial performance of commercial banks listed at the NSE. It is also noted that there was a 0.471 unit increase in financial performance for each unit increase in working capital management.

Hypothesis 2 (H_{02}) stated that there is no relationship between capital structure decisions and financial performance of the commercial banks listed in the Nairobi Securities Exchange. The results of the study indicated that capital structure decisions was significant based on β= 0.576 and a p value of 0.039 (less than 0.05). The null hypothesis was rejected and therefore capital structure decisions had a relationship with financial performance of commercial banks listed at the NSE in Kenya. The findings also indicated that with each unit increase in capital structure decisions, there was 0.576 unit increase in financial performance.

Hypothesis 3 (H_{03}) stated that there is no relationship between capital budgeting techniques and financial performance of the commercial banks listed in the Nairobi Securities Exchange. The results of the regression analysis reported that with β= 0.795 and a p value of 0.047, which is less than 0.05, capital budgeting techniques was significant. Therefore, the null hypothesis was rejected and concluded that capital budgeting techniques had a positive relationship with the financial performance of commercial banks in Kenya listed at the Nairobi Securities Exchange. This also means that with a unit increase in capital budgeting techniques, there was a 0.795 unit increase in financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter brings out the summary and the results of the study, conclusions that were made, recommendations on areas and the impact of financial management practices on listed commercial banks in Kenya on their financial performance that require more research and also how this study contributes to other studies and to the body of knowledge.

5.2 Summary of Findings

Lack of proper financial management practices or weak regulation of these institutions formed the basis of this study, by looking at the main financial management practices and relating them to the financial performance of the listed commercial banks in Kenya. This study wanted to demystify these issues and investigated the impact of the financial management practices adopted by the commercial banks that are listed at the Nairobi Securities Exchange, on the financial performance.

The study was steered by three objectives that included; to establish the influence of working capital management, capital structure decisions and capital budgeting techniques on financial performance of the commercial banks listed at the Nairobi Securities Exchange. The target population were the financial executives of the commercial banks listed at the Nairobi Securities Exchange, which in total were 11 listed commercial banks. The study used the explanatory research design and used census method of data collection. Data involved in the study was primary and secondary data; where primary data was collected through the questionnaires to the target respondents and secondary data was gathered using a secondary data collection sheet, which was used to analyze the net profits and the return on assets of these listed commercial banks.

After data collection, data was analyzed using descriptive statistics, reliability analysis, multiple regression analysis and correlation analysis and was showcased through figures and tables. The

findings of the study were also discussed in comparison with the previous studies done on the same. Results of the study pointed out that the working capital management practice adopted by the listed commercial banks positively and significantly influenced the financial performance of the commercial banks as a key financial management practice. Also, the capital structure decisions practice towards the financial performance of the listed commercial banks was found out to be significant and positive. The capital budgeting techniques practice impacted positively on the financial performance of the commercial banks, as it is also one of the major financial management practice to be adopted. Therefore, the general results signified that the independent variables used; which were the objectives of the study had a positive and statistically substantial connection with the financial performance of the commercial banks of Kenya, listed at the Nairobi Securities Exchange.

5.3 Conclusions

The three variables; working capital management, capital structure decisions and capital budgeting techniques display a positive and significant relationship with the financial performance of the commercial banks in Kenya listed at the Nairobi Securities Exchange; from the findings and the discussions made.

Working capital management as a factor that influences financial performance of the commercial banks, indicated a positive, significant relationship with financial performance from the results. The study noted that there exists a correlation between working capital management and financial performance. The results showed that the independent variable leads to a positive boost or improvement in the financial performance of the commercial banks listed in Kenya.

The results also established that capital structure decisions as a financial management practice that influences financial performance of the commercial banks, indicated a positive, significant correlation with financial performance. The results provided adequate evidence which was statistically significant, that there is an existing relationship between the two and capital structure decisions is factored in by the listed commercial banks to enhance their financial performance.

The results of the study established that capital budgeting techniques indicated a positive, significant relationship with financial performance. It was noted that there was an existing relationship between capital budgeting techniques and financial performance of the listed commercial banks of Kenya. The results from the data of the study provided sufficient statistically significant evidence to signify that the improvement of capital budgeting techniques as a financial management practice, leads to the positive improvement of financial performance of commercial banks in Kenya which are listed at the Nairobi Securities Exchange.

5.4 Recommendations of the Study

This study recommends that the management of banks which are listed at the Securities Exchange, the regulating body, the Central Bank of Kenya and the listing entity should consider to implement the financial management practices effectively so as to improve financial performance. The commercial banks should put more focus, without ignoring the others, on these three financial management practices as these have been deemed to make a great influence on the institutions' financial performance.

The commercial banks should make sure that their cash is at a surplus, meaning their current assets should be adequate enough which will enable them meet their financial obligations as and also be able to carry out their operations smoothly, with no major hitches. The institutions should also ensure that they follow their budgets and manage their debts with utmost precision so as to implement working capital management effectively. The commercial banks should closely evaluate the viability of their projects, under capital budgeting techniques, in terms of their profitability, and also appraise their projects in terms of their inflows and outflows. The commercial banks under the supervision of their regulatory bodies should strive to maintain an optimal capital structure, which is tax lenient, according to their capacity and beneficial to them and other stakeholders.

5.5 Recommendation Areas for Further Research

There is need to conduct further studies in areas related to this study to verify or add on the knowledge of this study. Also, further studies could be undertaken to validate the findings of this particular study. This study only focused on commercial banks listed, and similar studies could be done on different sectors which are listed at the Nairobi Securities Exchange to assess any variations, based on the same objectives as of this study. Future researchers could also include more or different variables other than those used in this study of studies which only capture one variable in relation to financial performance.

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APPENDICES

APPENDIX I: INTRODUCTION LETTER

Greetings

I am Branice Adisa Sava, a MBA student pursuing Finance at St. Paul's University. I am carrying out a research on the topic, "Financial management practices on performance of commercial banks listed at the Nairobi Securities Exchange." as a requirement for the course.

For this reason, I am gathering information from commercial banks which are listed at the Nairobi Securities Exchange. Through this questionnaire, your comments will be useful and will only be used for the purposes of this research. Discretion of the information provided will be highly upheld and honest opinions will be much appreciated. Your support and participation will be highly appreciated.

Thank you in advance for accepting to take part in this study.

Yours truly,

Branice Adisa Sava

Phone number: 0715414344

Email: mbanrb222820@spu.ac.ke

APPENDIX II: QUESTIONNAIRE

SECTION ONE: BANK INFORMATION

Name of the bank (optional)……

SECTION TWO: FINANCIAL MANAGEMENT PRACTICES

Question 1: Working Capital Management

Kindly use a scale of 1-5 (SA =strongly agree, A= agree; N=neutral; D= disagree; SD= strongly disagree) where appropriate to answer the following questions. To what extent does your bank rate the following?

	Statements	**SA**	**A**	**N**	**D**	**SD**
	The bank experiences cash surplus					
	Cash budgets prepared and followed strictly					
	Debts are managed effectively					
	Accounts receivables collection period is shorter					
	Liquidity risk management practices have been incorporated.					
	The bank uses short term deposits as way of maintaining liquidity					

Question 2: Capital Structure Decisions

Kindly use the scale as explained; SA=strongly agree, A= agree, N=neutral, D= disagree, SD= strongly disagree) where appropriate to answer the following questions. To what extent does your bank rate the following?

	Statements	**SA**	**A**	**N**	**D**	**SD**
	The capital structure of the company is appropriate.					
	The bank prefers utilizing debt capital.					
	The bank relies on equity capital than any other capital					
	The bank uses short term financing sources					
	The bank uses long-term financing sources					
	Debt equity mix financing is effective for the bank's operations					

Question 3: Capital Budgeting Techniques

Kindly use the scale as explained; SA =strongly agree, A= agree; N=neutral; D= disagree; SD= strongly disagree; where appropriate to answer the following questions. To what extent does your bank rate the following?

	Statements	**SA**	**A**	**N**	**D**	**SD**
	Capital budgeting techniques used significantly affect the return on investment					
	Projects are given priority in terms of their profitability					
	Projects are appraised considering their cash inflows and outflows					
	Capital budgeting decisions often involve significant capital outlay to acquire assets.					
	Capital budgeting has been significant to the firm's financial performance.					

Question 4: Financial Performance

Kindly use the scale as explained; SA =strongly agree, A= agree; N=neutral; D= disagree; SD= strongly disagree; where appropriate to answer the following questions. To what extent does your bank rate the following?

	Statements	**SA**	**A**	**N**	**D**	**SD**
	The bank's working capital management has speared the company's competitive edge.					
	The bank's capital structure decisions have increased company profits.					
	The bank's capital budgeting techniques have boosted the company's income					
	The overall performance of the bank is attributed to the financial management practices.					

THANK YOU FOR YOUR PARTICIPATION.

APPENDIX III: SECONDARY DATA COLLECTION TOOL

NAME OF BANK	INDICATOR	2015 '000'	2016 '000'	2017 '000'	2018 '000'	2019 '000'
ABSA Bank Kenya PLC	Profits after tax	15,404	15,847	15,087	15,259	15,980
	Earnings per share	1692,4 (cents)	1737,5 (cents)	1665,7 (cents)	1676,5 (cents)	1717,6 (cents)
CFC Stanbic Holdings PLC	Profits after tax	4,906	4,419	4,309	6,277	6,381
	Earnings per share	27.54	11.18	10.90	15.88	16.14
Diamond Trust Bank Kenya	Profits after tax	6,599,806	7,728,140	6,925,040	7,082,115	7,286,592
	Earnings per share	24.42	26.64	23.73	23.91	24.27
Equity Group Holdings	Profits after tax	17,327	16,603	18,918	19,691	22,386
	Earnings per share	4.65	4.26	5.00	5.22	5.93
HF Group Limited	Profits after tax	1,196,969	1,001,243	181,249	41,502	(34,314)
	Earnings per share	3.43	2.59	0.36	1.56	0.29
KCB Group Limited	Profits after tax	19,623,071	19,779,314	19,235,300	23,995	25,165
	Earnings per share	4.82	0.37	0.36	7.83	7.83
*NCBA Group PLC	Profits after tax	-	-	-	5,003,319	7,841,776
	Earnings per share	-	-	-	7.11	8.67
I & M Holdings Limited	Profits after tax	7,144,411	7,760,162	7,264,249	8,503,357	9,583,867
	Earnings per share	17.12	18.56	16.37	19.23	19.87
The Co-operative Bank of Kenya Limited	Profits after tax	11,705,558	12,676,210	11,405,065	12,732,487	14,311,247
	Earnings per share	2.31	2.64	1.99	2.18	2.48
Standard Chartered Bank Ltd	Profit after tax	6,342	9,049	6,914	8,099	8,237
	Earnings per share	17.97	25.85	19.64	23.09	23.49
National Bank of Kenya Ltd	Profit after tax	(1,153,477)	70,953	410,784	7,008	(302,277)
	Earnings per share	(3.86)	0.23	1.26	0.02	1.28

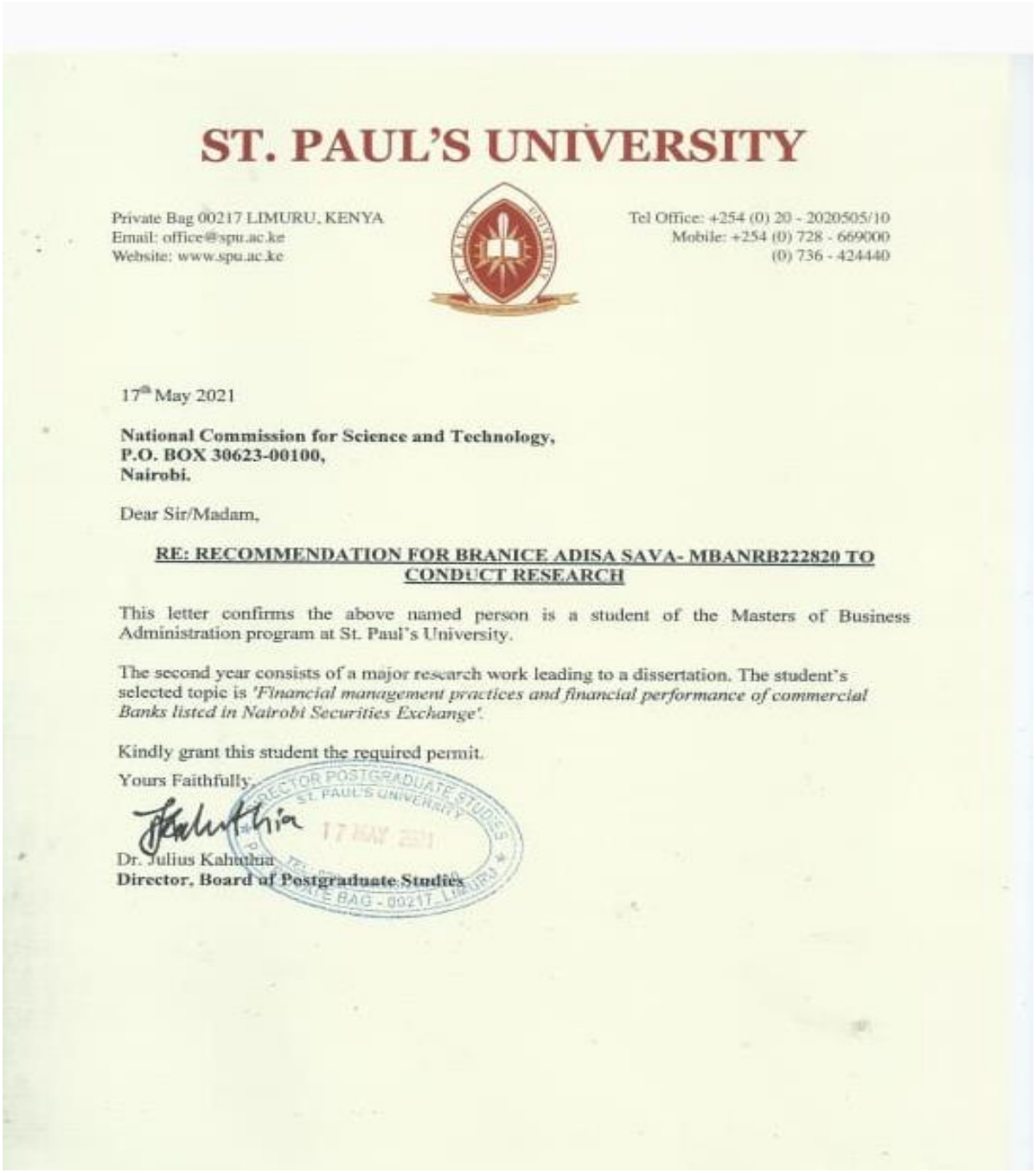
Source: Author, 2021

***NCBA Group PLC was formed in 2018, when NIC Bank PLC merged with Commercial Bank of Africa Group. Therefore, only information for 2018 and 2019 is available.**

APPENDIX IV: LIST OF COMMERCIAL BANKS LISTED AT THE NAIROBI SECURITIES EXCHANGE

	COMMERCIAL BANKS LISTED IN NAIROBI SECURITIES EXCHANGE
1.	ABSA Bank Kenya PLC
2.	CFC Stanbic Holdings PLC
3.	Diamond Trust Bank Kenya
4.	Equity Group Holdings
5.	HF Group Limited
6.	KCB Group Limited
7.	NCBA Group PLC
8.	I & M Holdings Limited
9.	The Co-operative Bank of Kenya Limited
10.	Standard Chartered Bank Ltd
11.	National Bank of Kenya Ltd

APPENDIX V: RESEARCH AUTHORIZATION LETTER



ST. PAUL'S UNIVERSITY

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17th May 2021

National Commission for Science and Technology,
P.O. BOX 30623-00100,
Nairobi.

Dear Sir/Madam,

RE: RECOMMENDATION FOR BRANICE ADISA SAVA- MBANRB222820 TO CONDUCT RESEARCH

This letter confirms the above named person is a student of the Masters of Business Administration program at St. Paul's University.

The second year consists of a major research work leading to a dissertation. The student's selected topic is *'Financial management practices and financial performance of commercial Banks listed in Nairobi Securities Exchange'.*

Kindly grant this student the required permit.

Yours Faithfully,

Dr. Julius Kahuthia
Director, Board of Postgraduate Studies

APPENDIX VI: NACOSTI LICENSE

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: **399772**

Date of Issue: **21/May/2021**

RESEARCH LICENSE



This is to Certify that Ms.. BRANICE ADISA ADISA of St. Paul's University, has been licensed to conduct research in Nairobi on the topic: FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN THE NAIROBI SECURITIES EXCHANGE for the period ending : 21/May/2022.

License No: **NACOSTI/P/21/10727**

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