FINANCIAL MANAGEMENT PRACTICES AND LOAN PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN STAREHE CONSTITUENCY, NAIROBI COUNTY, KENYA

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ABSTRACT

The Central Bank of Kenya annual supervision report, 2015 showed there has been low performance incidence of MFIs attributed to factors such as the rising levels of non-performing loans in the last 10 years, a situation that has adversely impacted on their profitability. This attracts further investigation in order to understand financial issues in the sector and therefore this study was seeking to examine the effects of financial management practices on loan performance in microfinance institutions in the Starehe constituency Nairobi County, Kenya. The study was guided by the following objectives: To examine effect of accounting information systems on loan performance among microfinance institutions in Starehe constituency, explore the effect of working capital management on loan performance among microfinance institutions in Starehe constituency, find out effect of financial reporting analysis on loan performance among microfinance institutions in Starehe constituency and to examine the effect of fixed asset management on loan performance among microfinance institutions in Starehe constituency. It utilized three theories: Agency theory, expectancy theory and trade-off theory of capital structure in explaining relationship between financial management practices and performance of loan among the selected MFIs in Nairobi. Descriptive research design was adopted in this study and this approach analyzed both quantitative and qualitative data. Stratified purposive sampling was used to select a sample of 86 out of the target population of 109. In collecting the data, this study utilized questionnaire which was administered by the researcher and a team of research assistants. Data analysis was conducted and Statistical Package for Social Sciences (SPSS) version 22.0 used to analyze data. Data was presented in descriptive and frequency tables and graphs, and the study adhered to ethical principles of research. The study findings revealed that, there is significance relationship between management practices and loan performance in microfinance institutions in Kenya. The study recommended for microfinance institutions to train their managers on importance of management practices on loan performance to improve their loan performance. The study further recommend for critical evaluation of potential borrowers concerning their credit worthiness before offering loans to them to minimize non-performing loans.

Key Words: *financial management practices, loan performance, micro finance institutions, Starehe Constituency, Nairobi County, Kenya*

INTRODUCTION

Lately the universe witnesses significant growth in microfinance institutions (MFIs) (D'Espallier, Hudon&Szafarz, 2013; Randoy, Strom, &Mersland, 2015). For example, in 2006, approximately $15bn was reported as microfinance loans, and the amount increased to US$25bn in spite of the global financial challenges (Dimitriou, Kenourgios, &Simos, 2013).

Forthwith to lead to reduction of doubtful debts, excess-reserving and insolvency, business entities should understand client's ability financially, historical debt management ability and pattern changes in making payments. Capacity to enter in fresh marketplaces and clients depends on the capacity to swiftly make enlightened decision on borrowing and establish adequate sources of financial advances. An examination in the accessible studies suggested that financial management activities are defined according to the ability to regulate credit risk, plan and manage operational capital of the Microfinance institutions (Petty & Walker, 2015).

Management of finance is part managing business dedicated to a thoughtful application of financial resources, also a diligent selection of streams of capital, which enables a company towards goal achievement (Gitman, 2010). Kautz (2007) offers financial administration is a process of the financial resource management such as planning budgets, financial accounting, reporting financial activities as well as risk management. Moti, Masinde, Mugenda, and Sindani, (2012) argue with the intention that a major need for efficient management of credit is the capacity to brilliantly manage customers competently on line of credit.

Practices in financial management together with dominance edge are significant forecasters on performance on loan of Microfinance Institutions in various countries such as USA, UK, Canada etc. (Randoy, Strom, & Mersland, 2015). African states among other emerging economies, funding is predominantly by microfinance companies for microenterprises and thus credit policies play an important role in risks management of most financial institutions. Loan performance in Uganda indicates that MFIs have continued to weaken regardless of increase in struggle to increase the dominance of firms by improving investment into the assets' competitive advantage as Adongo (2012) observes. In Kenya, microfinance banks have faced increasing default rates in the last decade that have triggered the need to develop and implement credit policies in an attempt to mitigate the risks of default by microfinance banks in Kenya. A report by CBK, (2013) indicated that many Kenyan financial firms' get income from interest gained from lending credit to individuals as well as organizations.

Fixed asset management has been defined as an accounting process which endeavors in tracking non-current assets with the aims of financial accounting, theft deterrence and preventive maintenance (Baud & Durant, 2012). Accounting information system shows an integrated model in an entity that uses physical resources. These resources include supplies, materials, personnel, funds, equipment and so on, and they help in transforming economic information into financial information which conducts the firms operations and activities and provides information regarding the entities to a number of users. Working capital is just a branch of the current assets of a firm. Accounting information systems help in analyzing accounting information gained from financial statements.

According to Romney (2009), the greatest benefit of computerized accounting information systems is the automation and streamlining of reporting. Financial information management

together with organizing accounting data, automation may not meet the desired goals until analysis of information from the systems are used in managerial decision arriving process as Gitman (2011) notes. Regardless of these, recent reports indicate poor loan performance of MFIs in Kenya. Moreover, studies show that Kenyan MFIs loan performance has persistently deteriorated despite the augmented attempts to boost the competitive advantage of firms through improved management practices (Adongo, 2012).

STATEMENT OF THE PROBLEM

According to CBK annual supervision report, 2015 there is low performance incidence of MFIs mirrored in the rising extent of non-performing loans in the past 10 years which negatively impacts productivity of the MFIs. With such a trend, the viability as well as sustainability of MFIs is hindered and hence the goal achievement of offering loans to customers to both banked and unbanked in order to bridge financial gaps and to mainstream the Kenyan financial sector. Bad repayment of loans may be stemmed out through identification of risks as well as appraisal (Kipkemboi, 2012). Accordingly, the efficiency of risk appraisal directly influences loan performance (Muturi, 2012; Gichuki et al., 2016). Nevertheless, Auronen (2003) observes that irregular information theory posits that it is hard to demarcate good borrowers from the bad which demands critical appraisal of the total identified risks so that only the good borrowers can receive loans. The performance of MFIs in regards to loans appears less encouraging in spite of national development programs which give priority to sustainable financial services to low income Kenyans for quite a long time as offered by Yunus (1996). Microfinance institutions in Starehe Sub County that serve retail customers encounter specific challenges which cannot be solved with bank solutions. While evidence on the performance of MFIs in Kenya is available, this study seeks to fill knowledge gap left by previous studies and hence examines the effects of practices of financial management on performance of loans in micro finance institutions in Kenya with particular reference to MFIs in Nairobi County.

GENERAL OBJECTIVE

To investigate the effect of financial management practices on loan performance of micro finance institutions in Kenya.

SPECIFIC OBJECTIVES

1. To examine effect of accounting information systems on loan performance of microfinance institutions in Starehe Sub County.
2. To explore the effect of working capital management on loan performance of microfinance institutions in Starehe Sub County.
3. To find out effect of financial reporting analysis on loan performance of microfinance institutions in Starehe Sub County.

4. To examine the effect of fixed asset management on loan performance of microfinance institutions in Starehe Sub County.
5. To find out possible approaches to improve financial management practices on loan performance of microfinance institutions in Starehe Sub County.

HYPOTHESES

H_{01}: The extent of accounting information systems does not affect loan performance of microfinance institutions in Starehe Sub County

H_{02}: Working capital management does not affect loan performance among microfinance institutions in Starehe Sub County

H_{03}: Financial reporting analysis does not affect loan performance of microfinance institutions in Starehe Sub County

H_{04}: There is no significance relationship between fixed asset management and loan performance of microfinance institutions in Starehe Sub County

THEORETICAL REVIEW

Agency Theory

Stephen Ross and Barry Mitnick developed agency theory arguing that a company may be viewed as an interrelation of agreements amongst resource controllers (Cuevas- Rodríguez, Gomez-Mejia, & Wiseman, 2012). It is important to point out that an agency rapport develops mainly when principals employ agents to perform some duties in order to boost decision-making powers of delegate to the agents. The basic rapport of agency in any organization arises between mangers and shareholders as well as stockholders and debt-holders. Establishment of agency tends to increase agency costs which are incurred expenses in order to effectively sustain agency relationship like giving bonuses to management performances to encourage them sustain shareholders' interests. Currently, in financial economic field agency theory has become a dominant theory and is largely elaborated in business ethics world.

According to Foss, and Stea (2014) agency theory posits a essential issue in institutions - self-interested activities. Sometimes, managers have personal goals that may compete with the business holder's objectives of maximization of owner's wealth. Since is the duty of owners to permit managers to control the company's assets, conflict of interest may be witnessed between the two groups.

Liquidity Preference Theory

John Maynard Keynes established this theory in 1936 when he wrote a book on general employment model, money and interest to explain interest rate role in the demand and supply for money. The theory emphasizes on the demands for liquidity money to expound on how interest

rate is determined by money demand and supply (Brady, 2017). The theory suggests that money demand money is not borrowing it rather is the need to keep it liquid. This means that, interest rate is the value for taking away liquid money. Liquidity which is convenience of holding money, demonstrates the level to which security or an asset can be easily exchanged in the market without changing the asset's cost. Liquidity preference model asserts that, demands for higher rates of interest on long-term maturities and greater risk securities by investors is because holding other aspects constant, investors favor money or other valued liquid holdings (Rezende, 2015).

Therefore liquidity preference model is significant in explaining the underlying reasons that drive MFIs to demand higher rates of interest on securities with higher risk and long-term maturities. The liquidity preference model has been chosen for this study as it upholds ascending yield curve. This is because business people mostly believe rates of short-term securities will rise in future by taking more loans. This suggests that rates of long-term securities will be more than rates of short-term securities. Nevertheless in terms of current value, long-term security investments returns will be equivalent to several short-term security investments.

Trade-Off Theory

This theory was structured by Kraus and Litzenberger in 1974 and it describes that an organization decides on how much equity finance and debt finance is used through balancing the benefits and costs (Maina, & Ishmail, 2014). The hypothesis on conventional form may be traced back to Kraus and Litzenberger (1974) who proposed a balance between returns in debt tax saving and bankruptcy of dead-weight prices. While developing the fixed trade-off model Kraus and Litzenberger (1973) suggested balancing tax savings and bankruptcy costs to be received from debts.

This theory is important because it shows how organizations are normally financed partly by equity and debts. It elaborates the benefits of financing with debt, importance of debt tax and there is financing cost with debt, the financial costs misery including bankruptcy debt costs and costs of non-bankruptcy. Basically, financial organizations like MFIs evade non-performing loans, due to the risk of losing the basics left on the loan together with the accumulated interest. Moreover, the marginal advantage raises in debt decreases as debt raises, while the marginal cost goes up, for the organization that is expecting its overall cost tend to aim on this trade-off when deciding how much equity and debt to use for loan.

EMPIRICAL REVIEW

In developing countries, Micro Finance Institutions (MFIs) works as good sources for offering microfinance services to the unfortunate people in the community and to medium and small enterprises. They offer better services to disadvantaged and medium and small enterprises than

well-established financial organizations, making them to be famous for their social effect on poverty eradication, (Kumar & Golait, 2009; Collier et al., 2011; Schicks, 2010). In the study, Janda, Rausser, & Svárovská, (2014) found that the value of MFIs is essential but risk may be incurred if over-indebtedness of MFIs customers is not addressed (Schicks, 2010). Additional evidence insinuates that loan performance of MFIs in Kenya keeps on deteriorating even with increased attempts to raise the competitive advantage fo firms by investing in competitive advantage assets (Moti et al., 2012).

Mugoya (2012) argues that non-performing loans are a part of loans whose interest as well as original installment remain outstanding for not less than six months following their end date. Nevertheless, the performance of loan range can be measured by use of proxies of interest rates, cost efficiency as well as rates of default. High proportions of loans to total assets along with speedy growth of loan portfolio may be warning signs of the loan quality difficulties that show potential failure as argued by Blasko and Sinkey (2006).

Despite the insight on the measurement of MFIs performance, a little literature explains loan performance which remains a concern of the current study. In addition, available studies suggest that MFIs loaning remained low in 2010 and 2012 (World Bank, 2012). Accordingly, it may be argued that the reduction in loaning may be a result of cost inefficiency, high possibility of loan defaults among borrowers as well as high costs which may deter them hence the less lending.

Studies indicate that financial management practices are important forecasters of MFIs loan performance (Leung, 2011). Hunjra et al. (2011) defines these practices as financial analysis, planning and control, risk management, management accounting, accounting information, capital budgeting as well as management of working capital. Under this definition, it may be averred that good MFIs financial management has a significant correlation with loan performance. This proposition is supported by reports since failure in portfolio quality and taking action as required may account for unfavorable MFIs loan performance (Adongo, 2012). Among the critical factors of MFI performance success is availabitlity of relevant as well as experienced management as argued by Biekpe and Kiweu (2009).

With a growing importance of MFIs, the Central Bank of Kenya introduced in 2006 the Microfinance Act with a key objective to reform regulation and supervision of industry in so as to enhance its performance, transparency and outreach to the private sector. These policies have been applied mainly in some specific forms, deposit taking and non-deposit taking MFIs, so that they became newly licensed by the Central Bank of Kenya. In addition such reforms are a fraction of the Kenya's complex economic blue print, Vision 2030. Although the government has undertaken these measures to enhance performance of the MFIs, there aren't many changes and more MFIs continue to underperform. Consequently, the Central Bank of Kenya was expected to bring unbanked population into the formal banking system.

Gichuki, Ndung'u and Njangiru (2016) investigated effects of corporate governance on financial performance of Saccos in Nyeri Central Sub-county, Kenya. The study used census survey design to study all the 26 Saccos with CEOs and Board being the target population. In total, the study used 130 respondents covering 2011-2015. Their results show that corporate governance affects overall financial performance of Saccos. Despite focusing on financial performance, their findings didn't report on loan performance of the selected Saccos and hence a gap to be filled by the present study.

Mungai, Maingi and Muathe (2014) carried out a study on effects of borrower's characteristics on micro credit loan repayment and sustainability in Muranga County, Kenya. The study utilized cross-sectional descriptive survey design and also used cluster and simple random sampling in selecting a sample of 307 respondents drawn from groups and loan officers. Their results show that borrower characteristics affect loan repayment and sustainability in Muranga. This study concentrated on the loan repayment but did not focus on employees or personnel who manage the finance or loan; hence their results could not be generalized to reflect views of employees. Therefore, the present study seeks to fill these research gaps by concentrating on staff.

RESEARCH METHODOLOGY

Research Design

The study will utilize a descriptive survey research design. The design is described as a method that collects information through interviewing or through use of questionnaires from respondent samples. It may also be utilized to collect information such as attitudes, habits, opinions and even social and educational issues. The primary data of this research will be collected using questionnaires and the gathered information used in determining possible solutions to research questions. The current study will utilize both qualitative and quantitative research methods. Mugenda and Mugenda (2003) notes that qualitative methods allow the researcher to use flexible as well as iterative approaches such as use of words which are mostly grouped in different categories. Quantitative data on the other hand involves the use of measures that utilize numerical values.

Target Population

The Bernard (2011) defines population as the entire accumulation of components on which the researcher uses to formulate some inferences. Dawson, (2009) defined a sampling technique as cases of directory, index or record from which sample may be chosen. The sampling structure in this study is all Micro Finance Institutions (MFIs) employees in different cadre. In this research the target populations are different levels of management such as middle management, top management and junior cadre employees with a target population of 109. In order to get the number of MFIs in Starehe, the researcher visited the area and found there are twelve (12)

licensed microfinance institutions operating in the area. Human Resource information from individual MFI shows that the institutions have about 109 employees.

Sampling Design

The study will focus on all employees but different employment cadre at various MFIs within Starehe Sub County. All respondents will be chosen through stratified purposive sampling technique. The researcher chose this sampling technique over others because it makes each person have an equal chance of selection and being part of researcher participant. The researcher will start by defining the population, mention all population members before using this sampling technique to select researcher respondent to be the sample size. Using formula developed by Yamane (1967), the study will pick a sample of 86 staff across all the 12 microfinance institutions licensed by CBK. The study will consider a confidence level of 95% and margin error of 5%. According to Yamene (1967), this formula is applicable where N is less than 10,000.

n = sample size, N= population size, e= Margin of error

$$n = \frac{N}{1+N\,(e)^2}$$

$$n = \frac{109}{1 + 109\,(0.05)^2}$$

$$n = 85.6582$$

$$n = 86$$

The study will pick 86 employees representing all employment levels. To arrive at the sample size, the study will use stratified purposive sampling technique.

Data Collection Instruments

The study will use a questionnaire to collect data. Questionnaires are printed self-reporting forms that are designed for the purpose of eliciting information which can only attained through responses that are written by respondents. Primary data of this research will be collected by use of questionnaires formulated using likert scale. These questionnaires will be constructed with closed ended questions comprising of all possible responses for participants to easily choose among them. Additionally, closed questions in different items make it easy to compare the responses to each item unlike in open ended questions. Questionnaire has been selected because it ensures a high response rate, require little time as well as energy in administering, offers anonymity due to omission of respondents' names, and they provide little chances of bias because they can be presented consistently. In conclusion, the study will have closed ended questions since they can easily be administered and analysed. Other than the benefits explained

above, questionnaires have limitations: for instance, validity together with accuracy maybe affected because true opinions of respondents may fail to be reflected due to the brevity of the responses.

Data Collection Procedures

The researcher will utilize the different permits from both the university and national permitting bodies to seek permission for the research in the selected sites. The researcher will then proceed to the MFIs being studied to get authorization in collecting data from the respondents. The researcher will administer the questionnaires in person to the respondents by dropping them in their offices. After a period of two weeks, the researcher will collect the duly filled questionnaires for editing coding and analysis.

Data Analysis and Presentation

The study will analyse the data collected using the descriptive and regression analysis. Data analysis will be done through both quantitative and qualitative research methods. This model of analysis examines the simultaneous effects of the independent variables on a dependent variable. Quantitative data obtained from questionnaire will be coded and analysed through the Statistical Package for Social Sciences (SPSS) version 23. Descriptive statistics will be run through SPSS and presented in terms of percentages and frequency. On the other hand, quantitative data will be presented in form of graphs and tables considering main study objectives (Kothari, 2004). A multiple regression model will be used to identify financial management practices impact on loan management with only one dependent variable and four independent variables. This study has four independent variables and the model will be utilized to measure association between dependent variable and independent variable. Therefore, regression model will take the form as shown below:

$$\mathbf{Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + e}$$

Where: Y = predicted value of the dependent variable y (loan performance in Kenya); $\beta_0 = \beta_4$ are the sample estimates of the coefficients; X_1 = accounting information systems (independent variable); X_2 = working capital management (independent variable); X_3 = financial reporting analysis (independent variable); X_4= fixed asset management (independent variable); e = error / unpredictable

To measure the model strength the researcher will conduct variance (ANOVA) analysis. Analysis of Variance (ANOVA) is often used to measure two or more categories of factors for mean differences grounded on a continuous interval or scale of independent variable and response variable (dependent variable). On extract ANOVA table the study will test the value of significance which is normally measured at 5% level of significance and 95% level of

confidence. The data analysed will be presented and interpreted using charts, graphs and simple frequency tables. The qualitative data obtained through open ended questions will be presented by themes and narrative forms based on study objectives.

RESEARCH RESULTS

The first objective was to establish the effect of accounting information system on the loan performance of the MFIs in Kenya. The results establish that holding all other independent variables at constant, one unit increase in accounting information systems leads to a 0.852 increase in loan performance of microfinance institutions in Kenya. The p value obtained was 0.000 reveals that the impact of accounting information system on loan performance was significant. Similar findings were found by Muturi (2012) in his study on performance and sustainability of formal microfinance institutions in Nairobi County. The findings of the study indicated that there is high correlation between performance and management information system. In another study conducted by Wangui (2013) on organizational factors influencing micro finance institution transformation strategy to formal banking sector in Kenya, it was found that efficient management information system has high significance on transformation of micro finance institutions to formal banking.

The Second aim of the research was to establish the effect that working capital management has on the loan performance of MFIs in Kenya. From the findings, a unit increase in working capital management will lead to a 0.657 increase in loan performance of microfinance institutions in Kenya other factors held constant. The effect of working capital management on the loan performance of MFIs was significant as revealed by the p value of 0.000. A similar study done by Juan García-Teruel & Martinez-Solano, (2007) on the relationship on the net trade credit and profitability for sampled firm on the US stock exchange listing established that working capital management do have a positive impact on the profitability. The results presented reliable confirmation that reducing the net trade credit increases organizations' profitability. The results also agree with the findings in a study by Wang (2002) who analyzed on the association between cash conversion cycle and performance. The results indicate the shorter cash conversion cycles are related to improved operating performance. A recent study by Kipkemoi (2012) on the relationship between the working capital management and profitability sampling selected companies in the Nairobi stock exchange also came up with similar findings.

The third objective was to examine the consequence of financial reporting analysis on the loan performance of MFIs in Kenya. The outcome shows that a unit increase in financial reporting analysis will lead to a 0.578 increase in loan performance of microfinance institutions in Kenya other factors held constant. A p value of 0.000 was obtained which indicates that the effect of financial reporting analysis on the loan performance was significant. The findings however disagree with that of Kaburu (2014) on the effect of conventional financial record-keeping on the performance of micro and small enterprises: A case of MSEs in Nkubu, Imenti South District.

The study findings indicated that record keeping systems had no relation with return in investment; only the operation cost was reported to have an effect on the financial performance in MSEs. Nevertheless, the outcome agree with the study results by Martens, Vanthienen, Verbeke, &Baesens, (2011) who established that financial reporting was vital as it guided decisions that lead to improved performance.

The fourth aim of the research was to determine the effect of fixed asset management practices on the loan performance of MFIs in Kenya. The outcome reveals that a unit increase in fixed asset management practices will lead to a 0.643 increase in loan performance of microfinance institutions in Kenya. A p value of 0.000 was obtained meaning that the effect of fixed asset management on the loan performance was significant. The findings are consistent with the results in the study by Macharia (2012) on asset liability management practices in Kenya Commercial Banks. The study findings revealed that systematic and regular appraisal of asset management policies was vital to the performance as it influences the policies made by the board.

INFERENTIAL STATISTICS

This research also used general Linear Model to establish the ideal power of the factors that influence loan performance of microfinance institutions in Kenya and in particular Starehe constituency. This included regression analysis. The analyzer applied a multiple regression model in order to examine the relationship among variables (independent) on the loan performance of microfinance institutions in Kenya, particularly in Starehe constituency. Coefficient of determination illustrates the degree to which changes in the dependent variable may be elaborated by the change in the independent variables or the percentage of variation in the dependent variable (loan performance) that is explained by all the four independent variables (accounting information systems, working capital management, financial reporting analysis and fixed asset management variables). The extent to which the four independent variables influence loan performance in MFIs in Starehe constituency is summarized and presented in the table 1 below.

Table 1: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.935[a]	.875	.801	.71600

a. Predictors: (Constant), Accounting information system, Working capital management, Financial reporting management, Fixed asset management

Table 1 shows that, 80.1% of the four independent variables influenced loan performance in microfinance institutions in Kenya as indicated by R^2. ANOVA of the regression was used to

determine statistical significant of the four independent variables on loan performance in MFIs in Kenya.

Table 2: ANOVA of the Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.354	4	1.257	8.356	.000[b]
	Residual	9.204	82	2.372		
	Total	11.558	86			

a. Dependent Variable: Loan Performance of MFIs
b. Predictors: (Constant), Accounin information system, Working capital management, Financial reporting management, Fixed asset management

The results in table 2, the value of significance is .000 it is below 0.05 making this model to be statistically considerable in indicating how accounting information systems, working capital management, financial reporting analysis and fixed asset management variables significantly influence loan performance in microfinance institutions in Kenya. The F critical at 5% level of significance was 2.25. Thus F computed is greater than the F critical (value = 8.356), this means that the overall model was significant. Regression analysis was used to establish the relationship between the four independent variables and dependent variable. Representation is shown in the table 3.

Table 3: Coefficient of Determination

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B	
	B	Std. Error	Beta			Lower Bound	Upper Bound
1 (Constant)	1.103	.215		5.123	.000	.865	1.341
Accounting information system	.852	.130	.191	6.569	.000	.668	1.036
Working capital management	.657	.166	.118	3.968	.000	.516	0.799
Financial reporting management	.578	.106	.527	5.458	.000	.453	0.703
Fixed asset management	.643	.127	.321	5.063	.000	.504	0.782

a. Dependent Variable: Loan Performance of MFIs

Multiple regression analysis was applied in table 4.10 in order to determine the relationship between the loan performance of microfinance institutions in Kenya and the four variables. The results in table 3 were used to generate the regression equation below;

$$Y= 1.103+ 0.852X1+ 0.657X2+ 0.578X3+ 0.643X4$$

As per the established regression equation, and all factors (accounting information system, working capital management, financial reporting analysis and fixed asset management variables) held at a constant, the loan performance of microfinance institutions in Kenya is 1.103. The study results indicate that considering all other independent variables at constant, a unit increase in accounting information systems will drive to a 0.852 increase in loan performance of microfinance institutions in Kenya. Based on the p value of 0.000 the effect is significant. Secondly, in terms of working capital management, a unit increase will lead to a 0.657 increase in loan performance of microfinance institutions in Kenya other factors held constant. The effect is also significant as the p value of 0.000 was obtained. Thirdly, a unit increase in financial reporting analysis will lead to a 0.578 increase in loan performance of microfinance institutions in Kenya other factors held constant. The increase is significant as seen from the p value of 0.000. Lastly, a unit increase in fixed asset management practices will lead to a 0.643 increase in loan performance of microfinance institutions in Kenya. This effect was also considered to be important based on the p value of 0.000.

CONCLUSIONS

The major conclusion from the findings of this study is that, management practices employed by different microfinance institutions in Kenya have great influence on loan performance. Effective management practices have positive significance and influence loan performance in microfinance sector. From the study findings, most managers were aware of the effects of management practices on loan performance in their institutions.

The first objective was to establish the effect of accounting information system on the loan performance of the MFIs in Kenya. The results indicate that the association between accounting information system was significant with a p value of 0.000. The study thus concludes that efficient accounting information system results to an improved loan performance of MFIs in Starehe constituency, Nairobi County, in Kenya.

The Second objective of the research was to establish the effect that working capital management has on the loan performance of MFIs in Kenya. From the findings, it is apparent that the effect of working capital management on the loan performance of MFIs was significant based on the p value of 0.000. based on this finding, the study concludes that efficient working capital administration has a positive impact on the loan performance of MFIs.

The third objective was to evaluate the influence of financial reporting analysis on the loan performance of MFIs in Kenya. The outcome shows that a unit increase in financial reporting analysis will leads to a significant increase in loan performance of microfinance institutions in Starehe Kenya other factors held constant. A p value of 0.000 was obtained. Based on the finding, the researcher concluded that financial reporting analysis influence the loan performance of MFIs in Starehe Kenya.

The fourth goal of the research was to determine the effect of fixed asset management practices on the loan performance of MFIs in Kenya. The outcome reveals that a unit increase in fixed asset management practices will lead to a significant increase in loan performance of microfinance institutions in Kenya. A p value of 0.000 was obtained. On the basis of the result, the study came to the conclusion that fixed asset management had an influence in the loan performance of the MFIs in Kenya.

RECOMMENDATIONS

From the findings of this study it was revealed that management practices has high influence on loan performance in microfinance institutions. The study first recommend that financial institutions must commit resources towards establishing a strong and effective accounting information system on the loan performance of the MFIs in Kenya.

Secondly, for any microfinance institution to perform better on loans, its management need to put more focus on its working capital through a proper credit policy that will ensure that current liabilities are minimized through prompt settling of the financial obligations. Additionally MFIs ought to critically evaluate potential borrowers concerning their credit worthiness before offering loans to them to minimize non-performing loans.

Thirdly, the managers must ensure total compliance with the financial reporting analysis by ensuring that there is total compliance to the International financial reporting standards. The study recommends that the MFIs should do regular benchmarking in terms of its reporting verses the international financial reporting standards.

Lastly, MFIs need to establish a good fixed asset management policy that will ensure that its assets are optimized for better performance.

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