FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN KENYA

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International Academic Journal of Economics and Finance (IAJEF) | ISSN 2518-2366

Received: 30th April 2023

Published: 9th May 2023

Full Length Research

Available Online at: https://iajournals.org/articles/iajef_v3_i9_31_78.pdf

Citation: Mutai, G., Miroga, J. (2023) Financial management practices and financial performance of commercial banks in Kenya. *International Academic Journal of Economics and Finance, 3(9), 31-78.*

ABSTRACT

The financial performance of commercial banks has been a subject of research due to financial management-related issues because higher credit growth will not viably bring higher profits if banks fail to manage financial risk using effective financial management. The study sought to determine the effect of financial management practices on the financial performance of commercial banks in Kenya. Capital structure management practices, liquidity management practices, credit risk management practices, and working capital management practices were adopted as the measure for the independent variable, while Return on Assets was used as the measure for the dependent variable. The research used 39 operational banks in Kenya as the target population, covering five years from 2017-2021. Stata 17 was used to analyze the data, and the following findings were obtained; Liquidity management practices revealed an insignificant positive relationship of 0.004 at a 5% level of significance to the financial performance of commercial banks in Kenya. Capital structure management practices indicated a significant positive relationship of 0.001 at a 10% significance level to the financial performance of commercial banks in Kenya. Credit risk management practices revealed a significant negative relationship -0.381 at a 1% significance level between credit risk management practices and the financial performance of commercial banks in Kenya. Finally, working capital management practices indicates a significant positive relationship of 0.063 at a 10% level of significance to the financial performance of commercial in Kenya. The research recommends that bank management should make sure that they maintain substantial levels of liquidity to maintain competitive performance. Commercial banks must have a feasible capital structure management that addresses issues such as flexibility where changes in the capital market should be well adapted to the capital structure management. Further studies should also be carried out on other variables not studied to determine whether they significantly influence the financial performance.

INTRODUCTION

Background of the Study

Financial management practices are an essential element in the performance and management of the banking industry (Alnajjar, 2019). Therefore, banks' management must seek strategic ways of enhancing profitability to realize sustained growth and stability of the financial institutions. Today, all businesses, including banks, are under constant pressure to develop, implement, and rapidly revise their financial management strategies (Kirkpatrick, 2019). To do this, commercial banks must create and implement sound financial strategies to help them manage their business risk and improve their financial performance (Devi, 2017).

Financial management is a discipline that deals with the financial decisions corporations make and the tools and analysis they use to make the decisions (Brigham & Houston, 2018). Regulations in the banking sector are an approach used by the government to control the behavior of the banks. The bank regulations encourage transparency since they focus on the limitations, requirements and guidelines that must be followed in the banking sector. Effective and successful bank regulations aim to accomplish two goals; to protect the depositors, creditors, and investors' private interests, investors, and creditors; and to protect the interest by endorsing a good reputation and integrity of financial markets. Llewellyn (2017) posits that banks are essential players in the economy of any nation, implying that banks need to be supervised and controlled to protect clients and investors and attain stability in the banking sector.

Financial management Practice is one of the several functional areas of management, but it is the center of the success of any business. Inefficient financial management practices, combined with the uncertainty of the business environment, often leads business enterprises to serious problems (Chandra, 2017). The growing importance of this issue raises interesting questions on whether companies are improving their abilities to have effective financial management and implementing changes that will enable them to analyze results, interpret, forecast future performance and improve their business decisions (Barker 2017). This study thus seeks to assess the effect of financial management on financial performance of commercial banks in Kenya.

Global Perspective of Financial Management Practice

In China, Elliott and Yan (2019) revealed that the financial system has been improved to play the critical of fuelling the economic growth and expansion in the different sectors. Sound financial management adopted by the national government and the set policies implemented by all sectors of the economy, have pushed country to grow and become the second largest economy in the world. The government through strong business ethical conduct has led to the thriving of the business sector with high returns from investment. The government has implicit and open transactions that have cut down on corruption meaning that all the government resources are allocated and used properly. In the USA, McKinney (2017) shares that for effective financial management, there is need to strengthen the public financial management and governance through developing policies and regulations. This can be done by having a stringent budget and financial reporting and tracking how the finances are put into usage.

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

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

Regional Perspective of Financial Management Practice

Although sub-Saharan Africa has witnessed a substantial improvement in informational efficiency, economic growth and, in some instances, political stability, managing financial risk for corporates on the continent still remains a high priority (Deloitte, 2019). Despite attempts to formalise and improve the local equity, interest rate and currency markets, progress is often slow in this region and is further hindered by legal, regulatory and other market factors. RMB Global Markets Research in March, 2019 reported that the illiquidity in these markets is exacerbated by the fact that banks are not willing to warehouse substantial illiquid risks, and there are almost no secondary markets to lay these off.

According to Golda (2019), careless financial management practices are the leading cause of failure for banks in Sub-Saharan Africa. Hunjra, Butt and Rehman (2019) observes that if the financial decisions of a firm are wrong, profitability of the company will be adversely affected. Consequently, a business organization's performance could be damaged because of improper financial management practices. Business enterprises have often failed due to lack of knowledge of efficient financial management practices. In the Brong Ahafo Region of Ghana, credit risk has an impact on the profitability of rural and community banks (Akotey et al., 2018). Credit risk management efficiency in Nigerian commercial banking sector from 2014 through 2019 provides some further insight into credit risk as profit enhancing mechanism (Onaolapo, 2020).

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

Local Perspective of Financial Management Practice

Banking sector in Kenya is exposed to various risks which originate from both the internal and external environment. Financial risk threatens their financial viability and long-term sustainability. According to Ongore (2017), poor financial management is attributed to the poor performance of commercial banks in Kenya. The banking sector is very important in respect of the financial

allocation in the world due to its intermediation functions of transferring funds from surplus units to deficit units (Eken et al., 2018). In performing and sustaining these functions, good financial performance must be generated from which financial management may not be avoided.

Kithinji (2017) found that most of the Kenyan Commercial banks outline credit risk, liquidity risk, market risk, interest rate risk and foreign exchange risk as the most important types of financial risks they face. The banking sector in Kenya, over the last three years, has been under a crisis related to financial management with one bank being put under statutory management, two other banks being put under receivership with several other banks issuing profit warnings. Regrettably, there is dearth of local research on the influence of financial management practices on the banks' financial performance which is the area that this study seeks to contribute. Ongore (2017) on the other hand argued that the financial performance of commercial banks in Kenya was driven mainly by board and management decisions, while financial management practices had insignificant contribution. Opuya (2016) studied on financial management and financial performance of commercial banks in Kenya, using primary data and found that financial management influences profitability in only stable banking environment. Ontiri (2017) studied on the effect of financial on profitability of commercial banks in Nairobi County. The study results using primary data showed that financial management influences profitability; though use of primary data was criticized as too subjective instead of using secondary data which objectively measures financial performance.

Financial Performance

Financial performance is a subjective measure of how well firms use their assets from their primary mode of business to generate revenue (Kirkpatrick, 2019). According to Yusuf et al. (2018) financial performance is explained as the degree to which an organization's financial objectives are being or has been accomplished. It is the process of measuring the results of a firm's policies and operations in monetary terms. It is used to measure firm's overall financial health over a given period of time and can also be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Alnajjar, 2016).

Financial performance of commercial banks has always been determined by various profitability measures. For instance, Return on Assets (ROA) falls within the domain of financial performance measures and tracks commercial banks' ability to generate income based on its assets. The ratio excludes non-operating income and donations (Peterson, 2017). ROA thus provides a broader perspective compared to other measures as it transcends the core activity of commercial banks namely, providing loans, and tracks income from operating activities including investment, and also assesses profitability regardless of the commercial banks' funding structure.

Financial performance of commercial banks mainly depends on effective financial management that minimizes financial risks. That is, although commercial banks are required to set up reserves for bad debts, commercial banks are at high risk of incurring losses as a result of bad loans which makes non-performing loan (NPL) ratios the best proxies for asset quality (Kabir & Dey, 2018). ROA is expected to be positive as a reflection of the profit margin of the commercial banks, otherwise it reflects non-profit or loss. In banks and other commercial institutions, the commonest measures of

profitability are Return on Equity (ROE), which measures the returns produced for the owners, and Return on Assets (ROA), which reflects that organization's ability to use its assets productively (Peterson, 2017)

For the purpose of this study, the return on assets ratio will be used to evaluate the financial performance of the commercial banks in the country. ROA is used in this study because it gives commercial banks an idea as to how efficient a financial institution management is at using its assets to generate earnings.

Commercial Banks in Kenya

The banking sector in Kenya is regulated by the Central Bank of Kenya (CBK). Commercial banks in Kenya are licensed and regulated under the Banking Act cap 488. According to the Central Bank of Kenya reports, the banking sector is made up of 42 commercial banks, 1 mortgage finance company, 12 microfinance banks, 8 representative offices of foreign banks, 86 foreign exchange bureaus, 14 money remittance providers and 3 credit reference bureaus (CBK, 2019). As depicted from the CBK reports, local banks dominate the Kenyan banking sector in terms of numbers, but only account for 48.2% of the sector's total assets, closely followed by the foreign owned banks with 43% of the sector's assets (CBK, 2019). The commercial banks in Kenya have formed the Kenya Bankers Association (KBA) which works as the lobby for the local banking industry while at the same time providing a forum to address issues affecting the local banking sector (Mwangi, 2018).

Commercial banks are further classified into three different classes depending on the market share by net assets, advances, customer deposits and pre-tax profits by Central Bank of Kenya. Large banks have asset size of over 15 billion shillings, medium more than 5 billion shillings and small with asset size of less than 5 billion shillings. Six banks are classified as large, fifteen as medium and twenty-one as small (CBK, 2021). This study will target the 43 commercial banks in Kenya as the study units.

Statement of the Problem

Sustained financial performance of commercial banks in the wake of volatile business environment occasioned by the COVID-19 pandemic requires tactful resilient financial measures by commercial banks in Kenya. The collapse of Continental Bank of Kenya and Trust bank of Kenya are largely attributed to ineffective financial management, so is the act of putting Imperial and Chase banks under receivership hence poor performance (Kithinji, 2017). The rapid non-performing loans growth rates recorded in 2016 dissipated in second half of 2017 through 2018 (CBK, 2019). However, the ratio of gross NPLs to gross loans has maintained a steady upward trend, signifying elevated credit risk management in the banking industry. The banks' assets quality reflected by non-performing loans deteriorated in 2018 compared to 2017. The gross nonperforming loans (NPLs) rose by 19.69 percent to Ksh.316.7 billion in December 2018 from KSh 264.6 billion in 2017 (CBK, 2019). Similarly, gross NPLs to gross loans rose from 12.3 percent by end 2017 to 12.7 percent by end 2018.

From the performance trend, the practice and requirement of the financial management practices is vital to regain financial health. Empirical scrutiny of previous studies outcome on effects of financial management practices on financial performance has been empirically inconclusive. Previous studies have produced mixed outcomes regarding the effects of financial management practices on financial performance. Girmay (2016) carried out a study on relationship between financial management practices on profitability on selected private manufacturing companies in Mekelle City. The research found that profitability was inversely related with age of the company, capital budgeting and capital structure management practices. Abaniset (2017) conducted a study in Western Uganda aimed at determining the influence of financial management practices on financial performance of SME and found out a positive effect existed. Mensa, (2016) investigated the financial management practices adopted by SMEs in Ghana and also established a positive relationship existed. Saah (2016) on the other hand conducted a study on how SMEs in Tamale region in Ghana conducted their financial management practices and established that accounting, reporting and investing had a positive impact on financial performance. On the other hand, Odongo (2018) studied the effects of financial management practices on financial performance of large construction companies in Nairobi County, Kenya. The research revealed that financial reporting, working capital management, internal control and financial planning had a positive and significant effect on performance of construction companies in Kenya. Addo (2017) established the effect of financial management practices on the financial performance of top 100 small and medium enterprises in Kenya.

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

Objectives of the Study

The study will be guided by a general objective and five specific objectives

General Objective

The general objective of this study is to assess the effect of financial management practice on financial performance of commercial banks in Kenya.

Specific Objectives

This study will be guided by the following specific objectives;

i. To assess the effect of liquidity management practice on financial performance of commercial banks in Kenya
ii. To establish the effect of credit risk management practice on financial performance of commercial banks in Kenya
iii. To determine the effect of capital structure management practice on financial performance of commercial banks in Kenya
iv. To find out the effect of working capital management practice on financial performance of commercial banks in Kenya

Research Hypothesis

This study will seek to test the following research Hypothesis;

H_{01}: Liquidity management practice has no effect on financial performance of commercial banks in Kenya.

H_{02}: Credit risk management practice has no effect on financial performance of commercial banks in Kenya

H_{03}: Capital structure management practice has no effect on financial performance of commercial banks in Kenya

H_{04}: Working capital management practice has no effect on financial performance of commercial banks in Kenya

Significance of the Study

Various stakeholders are expected to benefit from this study findings. They include:

Central Bank of Kenya

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

Management of Commercial Banks and Stakeholders in Banking Industry

The management of the commercial banks in the country will obtain an understanding of the effects of their firms' financial management practices on the performance of their firms. By establishing the correlation between financial management practices and performance of the commercial banks, the findings of this study will assist the managers of the commercial banks in their firm financial management decisions with a view of improving firm performance. Other stakeholders in the banking sector such as potential investors will find this study useful as a source of information on an important variable that affects the banks' performance.

Researchers and Academicians

The study is expected to add value to researchers and scholars as it will contribute to the literature on financial management practices and organizational performance and provided a basis for further research to other scholars with an interest on the subject. It is hoped that the findings will be of benefit to the academicians, who may find useful research gaps that will stimulate interest in further research in future. Recommendations have been made on possible areas of future studies.

Scope of the study

The study will only focus on investigating the effect of financial management practices on financial performance of commercial banks in Kenya. The study will focus on four financial management practices affecting financial performance of commercial banks which includes liquidity management, credit risk management, working capital management and capital structure management.

The study will be conducted in all the 43 commercial banks in Kenya. Secondary data will be collected over a 5-year period between 2017 and 2021. The choice of the 5-year period is to enable the researcher to establish the trend in the study variables. This is the time the banking sector in Kenya has experienced banks closures, mergers and acquisition and others rebranding.

Limitation of the study

The research concentrated on four financial management practices, including working capital management, credit risk management, capital structure management, and liquidity management, that impact the financial performance of commercial banks. According to literature reviews and earlier research, these are the main financial management strategies that Kenya's commercial banks use.

The research was conducted in Kenyan commercial banks, which were chosen because they comprise most of the country's financial institutions and are essential to economic growth by providing financing. The study's results are limited to commercial banks and may not apply to all other financial institutions, such as microfinance. Since the study's limited scope, its conclusions can only be considered accurate to a certain degree. The research encompassed the years 2017 through 2021, 5 years. The results will only be valid for that time frame and cannot be extrapolated to determine the effects of the study variables over the long run. The researcher chose a 5-year time frame to determine the pattern in the study variables. During this period, Kenya's banking industry has seen a number of bank closures, mergers, acquisitions, and rebranding by other companies.

LITERATURE REVIEW

This chapter encompass theoretical review where theories that inform the study are reviewed, conceptual framework, conceptual review of study variables, empirical review of literature related

to the study, critique of literature, summary of literature review and research gaps. A topical approach guides presentations in the section.

Theoretical Review

Kothari (2004) assert that theories provide a generalized explanation to an occurrence while Muiruri and Ngari (2014) posited that a theoretical framework guides research, determining what variables to measure, and what statistical relationships to look for in the context of the problems under research. Thus, the theoretical literature helps the researcher to clearly conceptualize the variables of the study; provides a general framework for data analysis; and helps in the selection of applicable research paradigm. This study will be guided by Liquidity Preference Theory, Credit Risk Theory, Agency Theory, Cash Conversion Cycle Theory, and Economic Model of Firm Performance.

Liquidity Preference Theory

First, the liquidity concept was developed for the first time by John Keynes in 1936 and explained the process that is used to determine interest rates based on the supply and demand for money. Keynes argued that money is the most liquid asset in the world and that the easier an asset can be changed into cash, the more liquid it is (Keynes, 1989).

Liquidity preference theory thus claims that investors demand premiums for securities that have high maturities because they prefer holding cash that is less risky. According to this theory, the more liquid an asset is, the faster it is to dispose for its total worth (Shanken & Smith, 1996).

Further, according to liquidity preference theory, three motives namely transaction, speculative and precautionary motives drive the demand for liquidity. The transaction motive claims that people fancy liquidity because it assures them basic transactions when their incomes are not available. As a result, liquidity in this case is determined by income meaning that the higher the income the more money is required to cater for increased spending. The speculative motive claims that investors retain liquidity in the hope that bond prices will fall at one time. Consequently, a fall in interest rate, leads to an increase in the demand for liquidity to hold unto until the interest rates increase. The precautionary motive claims that people prefer to stay liquid in order to meet social unexpected needs that may call for unusual costs. The liquidity in this case is determined by the levels of incomes (Al- Khouri, 2011).

When applying liquidity preference theory to banks, a commercial bank lending credit to investors may experience default problems if investors are unable to repay their debts when they fall due. This would force the banks to adopt risk rating measures to identify the credit risk exposed by the borrowers. The analysis would then help the banks to sort the risk depending on their importance. The higher the income of the borrower the lesser risky they are and vise vasa. In return, the bank's management team would develop the necessary risk management practices to reduce the non-repayment rates. According to this theory, it is therefore in the interest of the lending institutions to reduce the levels of credit risks by making sure the loaners are credit worth before loan is advanced

(Myers & Mjluf, 2004). This theory is therefore applicable in examining the financial management practice of liquidity management.

Credit Risk Theory

Credit risk theory was proposed by Melton in 1974 from a model of credit risk originated from the development of option-pricing techniques together with its application in the study of corporate liabilities; and referred to the credit risk theory as the event where default originates and therefore presents the foundation for efforts to measure and control credit risk exposure. This theory views default as an embedded put option offered to the borrower when circumstances are economically attractive for borrowers to exercise their option to default (Lando (2009).

When applying the credit risk theory, Woolcock and Narayan (2000) proposed that markets for credit or loans are highly shaped by the lending institutions' strategies for prospective borrowers screening and by addressing the opportunistic behavior which may be encouraged by the nature of loan contracts. Lenders would therefore increase the credit pricing to a point where they suppose income to beat maximum.

More so when applying the credit risk theory Mattius (2009) asserted that a cost increase of a loan raises the expected return of a lender, but on the other hand, leads to an increase in the probability that the borrower will default. In this regard, credit risk theory influences the development of credit guidelines that outline the extent of credit or asset allocation and diversification together with management of credit related risks.

When applying credit risk theory in financial related researches in Kenya, Tanui, Wanyoike and Ngahu (2015) asserted that demand for credit often tends to be inversely correlated to both interest rate and the required collateral. Lending institutions apply the credit risk management theory by taking advantage of opportunistic behavior presented by the prospective borrowers. Consumption of credit is related to the collateral requirements and a variable interest rate pricing policy may be utilized by individual lenders in diverse environments. This theory is therefore applicable in this study in explaining the credit risk management practice in commercial banks.

Agency Theory

The agency theory was first introduced by Stephen Ross and Barry Mitnick in 1973 (Mitnick 2013 and is characterized through the conflict of interest between principal (owners) and agents (managers), known as an "agency problem". Agency theory asserts that the capital structure management of a firm is influenced by management personnel who are conflicted by their pursuit of personal enrichment before the maximization of shareholder value. This theory is based on the relationship between principal and agents whereby one-party acts on behalf of another designated party, protecting their interests in the process. It was theory was propagated by Jensen and Meckling in 1976, with their intention being to accurately describe the relationship between managerial behavior and the interest of other relevant stakeholders. It also included the aspects of agency costs and capital structure management within the organization. The founders divided this theory into two

key parts; namely the positivist agency theory and the principal-agent theory. Both are closely related as the principal's main objective is to get the maximum return from investment while the agent's key concern is to receive adequate compensation (Schaltegger & Burritt, 2010).

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

Cash Conversion Cycle Theory

Cash conversion theory was propounded by Blinder and Maccini (2001), cash conversion cycle theory is the time it takes a company to convert its resource inputs into cash. It evaluates how effectively a firm is managing its working capital. According to this theory amount of money that is needed for any kind of sales level can be computed by the use of constituents of working capital management and that of the cash drift in an organization, both of which are part of the cash conversion cycle theory (Gitman, 2015). The theory is a component of the operating cycle of which is calculated through summations of both the inventory time and accounts receivables and then taking accounts payables which is subtracted from the whole sum. Additionally, the theory focuses centers on several aspects on timelines and the inflow of cash such as those of raw materials acquisitions, additional efforts and the periods of time when they are acquired, and finally those of the finished goods of which the money they bring in is considered (Gupta & Huefner, 2016). It also takes into consideration the aspects of financing, particularly on the number of days when it is required for operations.

The cycle combines some financial statements data specifically those from the income statement and balance sheet to create an appraisal with the dimension of time and can therefore measures the ongoing liquidity management. Although a business cycle for a specific company provides great assistance, it may differ from one industry to another and therefore, for improvement purposes it is highly important for any firm to be able to evaluate any opportunities it may be presented with as well as its cycle performance through the use of industry benchmarks. Therefore, comparing a particular company to the sector its main business is engaged is the most appropriate way (Hutchinson, 2009). The cash conversion cycle shows the time lag amidst expenditure for buying the raw materials and the assortment of sales of complete products and is applied as an all-inclusive measure degree of a working capital management (Padachi, 2011). Businesses that are able to meet their financial obligations and those that have prospects over a long period of time and are also

sustainable over time cannot do so when good liquidity is lacking and thus running of the business's daily activities for its short-term assets and liabilities is very crucial for it to achieve success.

The theory is pertinent to this study because shortening the cycle is important for firms, because managers reduce the cycle to a reasonable minimum creating value for their shareholders and secondly, the increase in a banks sale can be identified if it has a longer cash conversion cycle and if it relaxes its policies especially on credits or high inventories it can be able to meet the competition. On the other hand, a higher cycle increases the time that cash is tied to non-interest-bearing account for example the account receivable that can damage the profitability of a business. Shortening the cash conversion cycle means cash is received quicker resulting to a higher net present value of the company's cash flows. The making use of the management of trade credit and inventory uses the accounts payables, total number of days of the account's receivables and inventories (Sharma & Kumar, 2011). This study uses this theory to explain the working capital management practice in commercial banks in Kenya.

Conceptual Framework

A conceptual framework is a concise description of the phenomenon under study accompanied by a graphical visual depiction of the major variables of the study (Cooper & Schingler, 2016). Young (2019) indicated that a conceptual framework is a representation of response and predictor variables in a diagrammatic form. In this study the conceptual framework diagrammatically represents the association between financial management practices and financial performance of commercial banks in Kenya. Figure 2.1 presents the conceptual framework that guides this study.

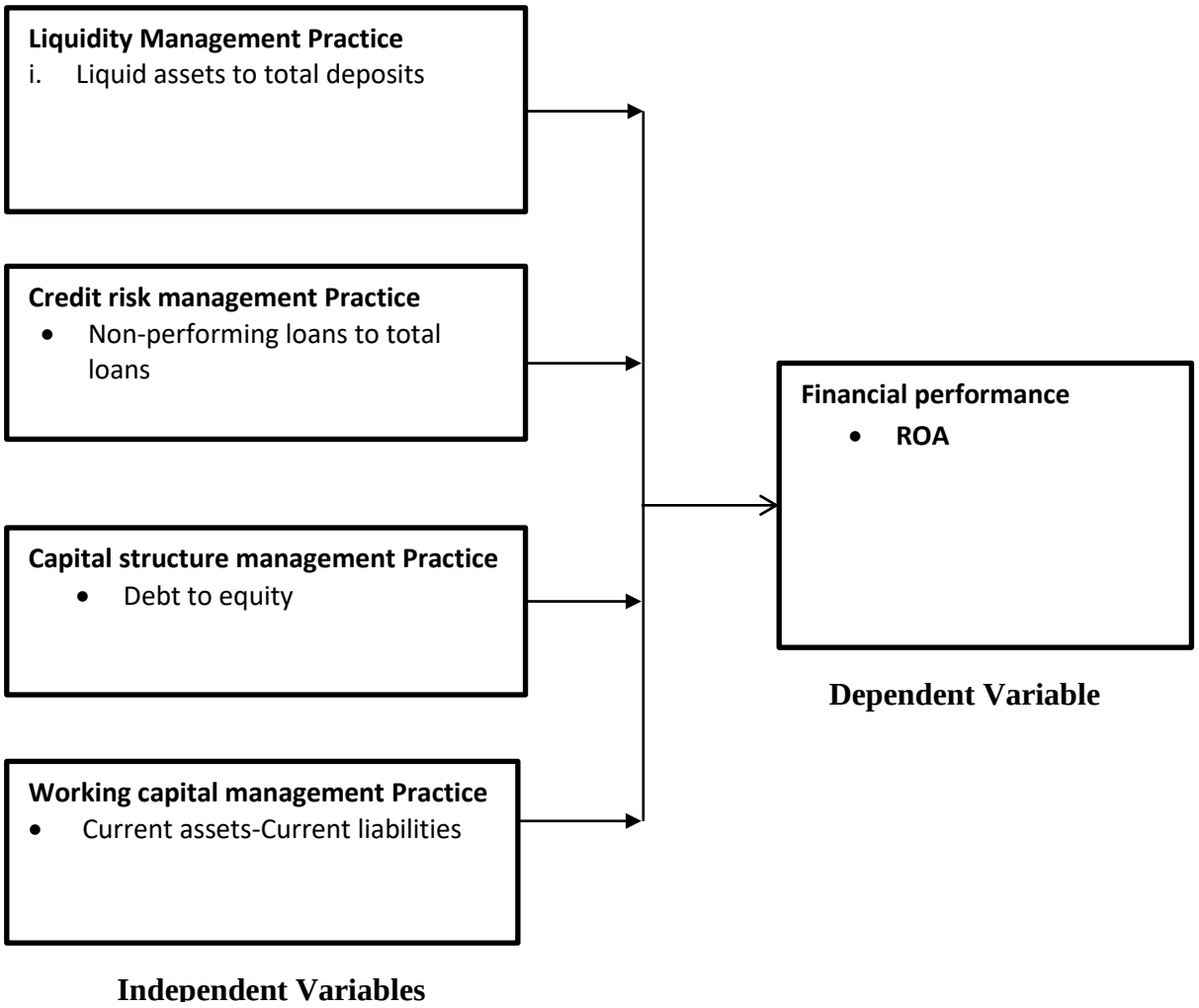

Figure 2.1: Conceptual Framework

Liquidity Management Practice

Liquidity refers to the ability to trade an asset, such as a stock or bond, at its current price (Graham & Bordeleau, 2019). This involves managing the relationship between a firm's short-term assets and short-term liabilities. Liquidity and bank performance are key factors that determine the development, sustainability, survival, growth and performance of a banking industry and the ability to handle the trade-off between liquidity and performance is a source of concern for bank managers (Girmay, 2016). Poor liquidity affects earnings and capital. In extreme cases it leads to insolvency and bank failure (Alemayehu & Ndung'u, 2012). Distressed banks can only access funds from the market at high interest rate (Saeed & Zahid 2016). This eventually causes a decline in the banks' performance.

Moreover, a bank's further borrowing to meet depositors' demand may place the bank's capital at stake. Eljelly (2019) argues that adequate level of liquidity is positively related to profitability. Managers usually face the tough balancing act of ensuring that funds are available to cater for

withdrawals. Kaaya and Pastory (2017) noted that liquid assets to liquid liabilities ratio can be used to measure a bank's liquidity management.

Credit Risk Management Practice

Credit risk management relates to a bank's policies against the risk that a borrower will default on any type of debt/loan by failing to make required payments as agreed (Kargi, 2017). According to Saeed and Zahid (2016) the goal of credit risk management is to maximize a bank's risk-adjusted rate of return by maintaining its credit risk management exposure within acceptable parameters. Caouette et al. (2017) noted that credit risk management refers to the probability of loss due to a borrower's failure to make payments on any type of debt on time. Credit risk management is the practice of mitigating those losses by understanding the adequacy of bank's capital and loan loss reserves at any given time. Credit risk management thus refers to the identification, measurement, monitoring and control of risk arising from the possibility of default in loan repayments (Golda, 2019).

According to Agbaje et al. (2018) credit risk management has significant effect on financial performance of commercial banks and further recommend that maintaining minimum level of non-performing loans vis-à-vis provision for loans and advances will enhance financial performance through its positive effect on return on equity. In any organization especially commercial banks, financial performance is affected by credit risk management. According to Gupta and Huefner (2016) the effective management of credit risk is a critical component of comprehensive risk management which is essential for long-term success of a banking institution. Credit risk management practices and poor credit quality continue to be a dominant cause of bank failures and banking crisis worldwide (Mwega, 2019). The extent to which banks manage their credit risk management have an impact on their entire financial performance or survival.

Capital Structure Management Practice

Capital structure management, according to Arnold (2018) means overseeing the capital structure management of a financial institution. A company's capital structure management refers to the mix of its various sources of funding. Most companies are funded by a mix of debt and equity. Capital structure management is defined as the relative amount of debt and equity used to finance a firm. It is the relative amount of permanent short-term debt, long-term debt, preferred stock and common equity used to finance a firm (Shubita & Alsawalhah, 2016).

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

accountability on the part of management that is aimed at improving financial performance and maximization of shareholders' wealth.

Moffett et al. (2015) however, maintained that conflict between lenders and shareholders will always work in favor of shareholders. Because if the firm's capital structure management is composed of more debt than equity, shareholders can afford to undertake risky projects. If a firm is reporting profits and is financially sound, it is better placed to settle its financial obligations including servicing debts. On the contrary, if the performance is poor, financiers will incur higher losses attributed to un-serviced loans. A firm's future profitability is dictated by the mix of debt and equity in its capital structure management (Jain et al., 2017). The debt element of the capital structure management mix is composed of both short-term debt and long-term debt. Debt increases a firm's risk of making future profits thus raising a firm's expectations of higher future returns.

Working Capital Management Practice

Working capital management is a part of a firm's current assets. Working capital management is defined as a company's total investment in current assets or assets that a company expects to be converted into cash within a year or less (Lartey, et al., 2017). The investment in working capital management involves carrying costs and shortage costs, so the firms have to find the tradeoff between them (Jain, et al., 2017). Working capital management is a vital issue in financial decision making since it is a part of investment in asset and it directly affects the liquidity and profitability of the company. The way of managing working capital management can have a significant impact on both the liquidity and profitability of the company as concluded by Shin and Soenen (2016).

Rafuse (2018) observed that many failures of small businesses are working capital management starvation as a result Working capital management is important to businesses whether listed or unlisted. In managing working capital, a firm is in a place where it can meet its short-term financial obligations, thus a firm is able to finance its day-to-day operational activities. If working capital management isn't managed well the survival of a firm becomes difficult (Myers, 2016). Cash conversion cycle determine time taken between acquisition of raw materials and time when money starts flowing into the firm through sales. This demonstrates the linkage between working capital management and performance in that by managing its working capital management efficiently a firm is able to post better shares to investors.

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

Financial Performance

Erasmus (2018) noted that financial performance measures like profitability and liquidity among others provided a valuable tool to stakeholders to evaluate the past financial performance and the current position of a firm. Financial performance has implications to organization's health and ultimately its survival. High performance reflects management effectiveness and efficiency in making use of company's resources and this in turn contributes to the country's economy at large (Naser & Mokhtar, 2018). A firm's financial performance is a measure of how well a firm uses its assets from its core operations and generates revenues over a given period of time. This measure is thus compared to some given industrial average standard of similar firms in the same industry.

Matz (2017) considered return on equity as an important measure of financial performance involving organizational effectiveness in terms of management and governance practices (Davison, 2019). It is also a metric that many investors give attention to while making investments decisions about a firm. According Brigham and Houston (2018) return on equity provides shareholders with a quick and easy way to understand metrics and has been used by many organizations across the globe to measure financial performance. Return on Assets is an indicator of how profitable a company is in relation to its total assets and calculated by dividing a company's annual earnings by its total assets (Philip 2019). ROA provides an idea of how governance practices in relation to management uses a firm's assets to generate earnings.

Return on Assets (ROA) is a ratio of Income to its total asset (Jao, 2016). It measures the ability of the bank management to generate income by utilizing company assets at their disposal. In other words, it shows how efficiently the resources of the company are used to generate the income. It further indicates the efficiency of the management of a company in generating net income from all the resources of the institution (Jao, 2016); thus, a higher ROA shows that the company is more efficient in using its resources.

Empirical Review

Liquidity Management Practice on Financial Performance

Xiani (2017) carried out a study to establish the relationship between liquid assets and bank profitability for 90 banks in Europe, North America and Australia from 1972 to 1981, the study used econometric framework presented in an equation. The dependent variable, profitability, was regressed against a non-linear expression of relative liquid asset holdings, as well as a set of control variables. Liquid assets were generally included as a control variable in this study with very limited discussion around the estimated parameter. From the study a company with low liquidity and high profitability has to increase its borrowing leading to an increase of the financial costs. This would certainly lead to increasing interest rates, since the cheaper sources are quickly exhausted. Furthermore, having increased its debt, the company raises its credit risk management, causing an increase in interest rates charged by their financiers. The study concluded that profitability and solvency are necessary condition for the healthy existence of the company and both are conditioned by the strategy adopted in the medium and long term.

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

Graham and Bordeleau (2019) reviewed the impact of liquidity on bank profitability for 55 US banks and 10 Canadian banks between the period of 1997 and 2009. The researchers analyzed the impact of liquid asset holdings on bank profitability for a sample of large US and Canadian banks. The study employed quantitative measures to assess the impact of liquidity on bank profitability. Results from the study suggested that a non-linear relationship exists between bank profitability and liquidity, whereby profitability is improved for banks that hold some liquid assets. However, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. They concluded by noting that while it is generally agreed upon those banks undervalued liquidity prior to the recent financial crisis (of 2008), banks must also consider the tradeoff between resilience to liquidity shocks and the cost of holding lower-yielding liquid assets as the latter may impact banks' ability to generate revenues, increase capital and extend credit.

Onwumere et al. (2018) did a study to investigate the impact of liquidity policies of Nigerian firms on their profitability for the period 2004-2008. Adopting the aggressive investment liquidity policies and aggressive financing policies as the independent variables and return on assets as the dependent variable, the study revealed that aggressive investment liquidity policies of Nigerian firms had a positive significant impact on their profitability while aggressive financing policies had a positive non-significant impact on their profitability. The result indicated that as the firm grows and outsiders' contribution increases; the use of aggressive financing liquidity policy decreases the profitability of the firm. The study concluded that appropriate management of liquidity is therefore essential if firms are to achieve their objective of improved profitability and value creation for shareholders.

Kaaya and Pastory (2019) studied credit risk management and commercial banks' performance in Tanzania. The study targeted 11 banks in Tanzania. The study employed panel data model. The main data sources were published financial statements of the banks. Casual research design and descriptive research design were employed as the study was keen to establish the relationship between the variables. Performance of the banks was analyzed using return on asset (ROA) while credit risk management was analyzed using loan loss to gross loan, non-Performing loan, loan loss to net loan and impaired loan to gross loan ratios. The credit risk management indicators produced negative correlation which indicated that the higher the credit risk management the lower the bank performance.

Mwangi (2018) investigated the effect of liquidity risk management on financial performance of commercial banks in Kenya. The study adopted a descriptive study design and relied on secondary data obtained from the commercial banks' annual financial reports. The population of the study was the 43 commercial banks in Kenya as cited within the CBK's website and the analysis was done for the period between 2010 and 2013.The study results showed that a unit increase in liquid assets to total assets ratio decreased the return on assets by 1% while a unit increase in liquid assets to total deposits ratio decreased the return on assets by 2.2%. Further, a unit increase in borrowings from banks decreased the return on assets by 14.2%. The study concluded that liquidity risk management had a significant negative relationship with the financial performance of commercial banks.

Karani (2018) did a study on the effect of liquidity on profitability of commercial banks in Kenya. The population of the study comprised of all 44 commercial banks in Kenya operating in the years 2009 to 2015. For a bank to qualify it needed to have been in operation during the whole period of the study and therefore institutions that merged or were not in operation in the whole period of study were eliminated. The study used secondary data obtained from audited financial statements of the banks at the end of the years of study. The study used descriptive statistics and regression analysis to establish the relationship between the study variables. The study established that there was a positive relationship between profitability and liquidity of commercial banks in Kenya and called for strengthening of the liquidity requirements that have been set by CBK.

Credit Risk Management Practice on Financial Performance

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

Kargi (2017) studied the impact of credit risk management on the profitability of Nigerian banks. Financial ratios as measures of bank performance and credit risk management were the data collected from secondary sources mainly the annual reports and accounts of sampled banks from 2011-2016. Descriptive, correlation and regression techniques were used in the analysis. The findings revealed that credit risk management has a significant impact on the profitability of Nigeria banks. Therefore, management need to be cautious in setting up a credit policy that might not negatively affects profitability and also, they need to know how credit policy affects the operation of their banks to ensure judicious utilization of deposits.

Kolapo et al. (2016) investigated credit risk management and commercial banks' performance in Nigeria using a panel model approach over an 11-year period between 2006 and 2015. Five commercial banks were selected on a cross sectional basis. The traditional profit theory was employed to formulate profit, measured by Return on Asset (ROA), as a function of the ratio of Non-Performing Loan to Loans & Advances (NPL/LA), ratio of Total Loan & Advances to Total

deposit (LA/TD) and the ratio of loan loss provision to classified loans (LLP/CL) as measures of credit risk management. Panel model analysis was used to estimate the determinants of the profit function. The results showed that the effect of credit risk management on bank performance measured by the Return on Assets of banks is cross-sectional invariant. That is the effect is similar across banks in Nigeria, though the degree to which individual banks were affected was not captured by the method of analysis employed in the study.

Gatuhu (2017) did a study on the effect of credit management on the financial performance of microfinance institutions in Kenya. The study adopted a descriptive survey design. The population of the study consisted of 59 MFIs in Kenya that are members of AMFI. A census study was used to carry out the research. Primary data was collected using questionnaires where all the issues on the questionnaire were addressed. Descriptive statistics were used to analyze data. Furthermore, descriptions were made based on the results of the tables. The study found that client appraisal, credit risk management control and collection policy had a positive effect on financial performance of MFIs in Kenya. The study established that there was strong positive relationship between financial performance of MFIs and client appraisal, credit risk management control and collection policy.

Oludhe (2017) studied the impact of credit risk management on financial performance of commercial banks in Kenya. A causal research design was undertaken in this study and this was facilitated by the use of secondary data which was obtained from the CBK publications on banking sector survey. The study used multiple regression analysis in the analysis of data and the findings have been presented in the form of tables and regression equations. The study also found that there is a strong impact between the CAMEL components on the financial performance of commercial banks with the R: values being lowest at 0.594 in 2007 and highest at 0.943 in 2009 implying that in 2007 CAMEL components could explain 59.4 percent variations in financial performance and 94.3 percent variations in financial performance in 2009. This study concluded that CAMEL model can be used as a proxy for credit risk management.

Capital Structure Management Practice on Financial Performance

To study the effect of capital structure management on profitability of the industrial companies listed on Amman Stock Exchange during a six-year period (2004-2009), Shubita and Alsawalhah (2018) found a significantly negative relation between debt and profitability. This suggests that profitable firms depend more on equity than debt. The study sample consisted of 39 randomly selected companies with correlations and multiple regression analysis as techniques of analysis. The findings contravene Myres and Majluf (1984) pecking order hypothesis that debt is preferred to equity.

Yusuf et al. (2018) to investigate the relationship between capital structure management and profitability of firms quoted in the Nigeria Stock Exchange, sample data was collected from ten randomly selected firms among three industries from 2007 to 2016. The study used Return on Asset (ROA) and Return on Equity (ROE) as performance proxies while the debtequity ratio (DER) and debt-asset ratio (DAR) were used as capital structure management proxies. The relationship

between the performance and capital structure management proxies were analyzed using correlation coefficient and regression techniques. The study results showed that capital structure management's effect on ROA was insignificant across all firms except for 7up and Nestle. The study findings also showed an insignificant relationship between ROE and DAR. However, almost all firms had a significant relationship between ROE and debt-to-equity ratio. They concluded that highly geared firms tend to have higher profitability.

Muathe et al. (2018) studied the relationship between capital structure management and non-financial companies' performance in the Nairobi Securities Exchange, Kenya. The study employed an explanatory non-experimental research design. A census of 42 non-financial companies in the Nairobi Securities Exchange, Kenya, was taken. The study used secondary panel data in the annual reports and financial statements of listed non-financial companies. The data was extracted from the Nairobi Securities Exchange handbooks for the period 2006-2012. The study applied panel data models (random effects). Feasible Generalized Least Square (FGLS) regression results revealed that financial leverage had a statistically significant negative association with performance as measured by return on assets (ROA) and return on equity (ROE). The study recommended that managers of listed non-financial companies should reduce their reliance on long-term debt as a source of finance. Siro (2017) evaluated the effect of capital structure management on the financial performance of firms listed at the Nairobi Securities Exchange. Financial performance was measured regarding return on equity, while capital structure management was measured regarding debt ratio. The population of the study consisted of all 61 listed firms duly registered with the capital market authority of Kenya in 2012. Secondary data was obtained from the Nairobi securities exchange handbook and the firm's publications. Data analysis was done using a regression analysis model with the help of Statistical Package for Social Sciences Software. The study found an inverse relationship between capital structure management and the financial performance of the listed firms in the securities exchange in Kenya.

Orua (2019) carried out a study to establish whether there was a relationship between capital structure management and the profitability of MFIs in Kenya. This study used descriptive statistics. The study found that capital structure management decision is crucial for any business organization. The decision is important because of the need to maximize returns to various organizational constituencies and the impact such a decision has on an organization's ability to deal with its competitive environment. The study found that most of the MFIs in Kenya were using equity and or donations as their primary source of finances in Kenya, which accounted for 72.42% and 27.58% in the form of debt. The study further found a positive relationship between equity financing and the profitability of MFIs in Kenya.

Maina (2018) did a study on the effect of capital structure management on financial performance of small and medium enterprises in the dairy sector in Kiambu County. The causal research design was used to carry out the study. The population of the study was all the 71 dairy SMEs in Kiambu County as at 31st December 2013. Probability sampling technique was employed to select a sample of 50 firms. The study used secondary data from the SMEs annual reports and newsletters. Multivariate regression and correlation analysis were used for data analysis. Capital structure management was analyzed using the debt equity ratio, debt-asset ratio and liquidity while financial

performance of the SMEs was analyzed using ROA. The results indicated that debt-equity ratio was significant at 5% level of significance (0.009) with a coefficient of -0.179; debt-asset ratio was significant at 5% level of significance (0.006) with a coefficient of 0.195 and the liquidity ratio was significant at 5% level of significance (0.01) with coefficient 0.012 which indicated that the three factors were predictors of financial performance of small and medium enterprises in dairy sector in Kiambu County.

Working Capital Management Practice on Financial Performance

Eljelly (2019) carried out a study in Saudi Arabia that involved 929 joint stock companies, which aimed to examine the association between financial performance and Working capital management of the firms. Using current ratios, it was found that between an organization's share performance there was a substantial undesirable association, whereby the presence of cash alteration cycles for a firm shows a more pronounced relationship. However, the researcher discovered that the measure of liquidity is better elaborated through the use of the cash alteration cycle or the money opening at an industry level, then existing ratio that affects share performance.

Gull et al. (2017) also carried out a study of the Karachi Stock exchange in Pakistan for a period between 2012 to 2016 involving small medium enterprises to investigate on their share performance under the influence of working capital management. The study used correlation and multiple regression analysis. The study found that Working capital management had significant influence on share performance of firms. Further, the study established that cash conversion cycle influenced to a great extent the profitability of small and medium firms.

Oladipupo and Okafor (2017) conducted a study of the Nigeria Stock Exchange between the year 2012 to 2016, on share performance and working capital management. The study employed product moment Pearson correlation regression method in the analysis and examination of how a firm's share performance is impacted by its Working capital management exercise, while also focusing on the extent of its effects on both factors. The financial data utilized by the company was sourced from 12 manufacturing establishments quoted on the stock exchange. The results of the study were that share performance was promoted by a shorter net trade cycle and debt ratio. Additionally, they found out that corporate profitability suffers a significant negative impact from the level of leverage. Uwonda and Okello (2021) through a cross sectional exploratory study conducted research in the Northern parts of Uganda on small medium enterprises to examine their share performance and how it's influenced by working capital management. The research concentrated on areas of cash management in the small enterprises particularly projection of the cash flow; determining and understanding financial reports and statements, tax planning; and control of the budget which formed part of the data sampled from 120-service sector SMEs. The data was then analyzed, and it was found that other concerns that surrounded the SMEs were the deployment of terminated fixed assets, deprived credit policies, timely discounts, failure to offer cash and lack to prepare bank reconciliation and. The study suggested several recommendations that if utilized would see the SMEs reach their potential especially in the design of their business plans, how they handle cash flows, and their spending habits. The study above adapted exploratory research design while the current study uses cross sectional survey.

A study aimed at investigating the connection between management of working capital management and share performance was conducted on several manufacturing firms listed on the NSE (Makori & Jagongo, 2017). The sample utilized multiple regression for the analysis whereby a sample of twenty firm's whose facts and figures for 5 years from 2014-2015 was designated for the research. The study found that Working capital management influence share performance. On the other hand, Mathuva (2019) also carried out a study on the effect of managing working capital management on share performance. The study period was 2013 to 2018 where the used a sample of 30 organizations registered on NSE. Regression model was used for data analysis. The study established that between the average payment period and share performance there exists a highly substantial affirmative relationship. He held that firms are able to achieve higher share performance if they take longer to pay their creditors.

Critique of Literature Review and Research Gaps

Studies by Karani (2018); Khan and Ali (2016) evaluated the effect of liquidity as a financial management practice on the profitability of firms in the banking sector in Pakistan and Kenya respectively. These two studies reported similar findings that there was a significant positive relationship between liquidity and the profitability of the banks. While the current study was similar to these studies in the choice of liquidity as one of the study variables, the current study was however different in that adopted a descriptive research design while the aforementioned studies adopted correlational and causal design as their research design.

Similarly, there is a methodological difference between the current study and that of Gatuhu (2017) which though focused on the effect of credit management as a financial management practice on firm performance adopted a descriptive research design while the current study is using a quantitative research design. There are also contextual differences in the studies carried out by Maina (2018) which was based on small and medium enterprises in the dairy sector in Kiambu County. The study was insightful in pointing out the effect of capital structure management as financial management practices on firm financial performance. The study established that capital structure management is significant predictor of financial performance of the studied organizations. The current study however will be conducted among commercial banks in Kenya.

Similarly, Xiani (2017) carried out a study to establish the relationship between liquid assets and bank profitability for 90 banks in Europe, North America and Australia from 1972 to 1981. The study concluded that profitability and solvency are necessary condition for the healthy existence of the company. However, the study was conducted among developed countries while the current study is based on banks in a developing country. Studies carried out by Graham and Bordeleau (2019) and Lartey et al. (2017) established that the existence of a positive relationship between liquidity and the financial performance of banks in US and Ghana respectively. Similarly, studies by Shubita and Alsawalhah (2016) reported that capital structure management had a statistically significant impact on the profitability of firms in India, respectively.

On their part, Saeed and Zahid (2016) as well as Kolapo et al. (2016) investigated the effect of credit risk management and performance of banks in UK and Nigeria respectively. These studies reported

that both credit risk management is significant predictor of firm financial performance. While these studies inform the current study, the current study nonetheless departs from these studies given that they evaluated the effect of a single component of financial management practices on firm financial performance. The current study will however expand the scope of these studies by considering the effect of several financial management practices including liquidity management, capital structure management, credit risk management and accounting information systems on the financial performance of commercial banks in Kenya.

While the current study shares similar conceptual context as the studies by Graham and Bordeleau (2019); Kargi (2017) and Xiani (2017) the studies differ on the basis of the study period under review. The current study will be based on secondary data for the period 2017- 2021. Further, while studies Yusuf et al. (2018), Oladipupo and Okafor (2017), and Siro (2017) were able to identify financial management practices as critical elements in firm growth and survival, they failed to establish the association between financial management practices and firm financial performance which is the research gap that the current study seeks to fill.

Finally, while the literature reviewed provide an insight as to the relationship between various financial management practices and financial performance of firms, the studies fail to provide a consensus as to whether the relationship is positive or negative. For instance, Studies done by Yusuf et al. (2018), Maina (2018) and Orua (2019) concluded that highly geared firms tended to have higher profitability compared to those that were lowly geared. However, contrary findings were reported by Shubita and Alsawalhah (2016), Siro (2017) as well as Muathe et al. (2018) which established an inverse association between the levels of debt and firm financial performance. Consequently, these contradictory results indicate the need for more research in this study area. The empirical studies reviewed above showed that various financial management practices have an impact on the financial performance of firms and as such are of particular importance to firms. However, the researchers defer on the kind of impact that the financial management practices have on financial performance of firms. For instance, some researchers (Khan & Ali, 2016; Onwumere et al., 2018) found a positive relationship while others found a negative relationship (Kaaya & Pastory, 2019; Muathe et al., 2018; Mwangi, 2018). For other researchers such as Kolapo et al. (2016), Graham & Bordeleau (2019) and Kargi (2017), different components of the financial management practices have different impact on the financial performance of firms.

A lot of the local studies (Muathe et al., 2018; Orua, 2019; Siro, 2017) have focused on single variables in their study of the effect of financial management practices on organizational performance. As such there is dearth of local studies that have focused on financial management practices and organizational performance from the holistic (multi-variable) perspective. Informed by this research gap, this study seeks to determine the influence of financial management on the financial performance of commercial banks in Kenya.

Summary of Literature Review

This chapter reviewed the various theories that explain the independent, moderating and dependent variables. Specifically, the reviewed theories are Liquidity Preference Theory, Credit Risk Theory, Agency Theory, Cash Conversion Cycle Theory, and Economic Model of Firm Performance. The chapter also presented the conceptualization of the independent, moderating and the dependent variables by analyzing the relationships between the three set of variables. The chapter also discussed various financial management practices; liquidity management, credit risk management working capital management and capital structure management. In addition, empirical review, critique of existing studies and research gaps were discussed.

RESEARCH METHODOLOGY

This chapter discusses the methodology that was used. It provides information on the research design, the target population, sampling technique and sample size and the method used to collect data. It also captures how the data collected will processed, analyzed and presented.

Research Design

A research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in research procedure. That is, it a framework of a study that indicates what the researcher will do from writing the hypothesis and its operational implications to the final data analysis (Kothari, 2004). The research adopted an explanatory design. The explanatory design was suitable for doing cause-effect relationships, which explain people's behavior or reactions to a given phenomenon in society (Peshkin, 1990). This design was structured to ensure correct information capture of quantitative data needed to capture all aspects of financial management practices and financial performance of commercial banks in Kenya.

Target Population

A study's target population is the entire group of people, cases or events (Cooper and Schinder, 2007), that a researcher intends to examine; while a population element, is the individual item on which measurement is taken (Kothari 2004). The target population of this study was all the commercial banks in Kenya, as provided by the CBK database. The choice of commercial banks in Kenya as the study population was based on the fact that their audited annual financial reports are readily accessible from the CBK's databases. Currently, there are 39 operational commercial banks in Kenya (CBK, 2022). This study will focus on all 39 commercial banks as the study units.

Therefore, since the target population is less than 100, no sampling was done; thus, a census method was adopted. This is because when the study population is not large (less than 100), no sampling should be applied, as this would increase sampling error (Mugenda and Mugenda, 2003).

Data Collection

The study adopted secondary data collected using secondary data collection sheets. The secondary data was obtained from the audited annual financial reports of the commercial banks in Kenya from the individual firms' websites and databases and CBK spanning five years (2017-2021). The five-year study period of 5 years enabled the researcher to gather sufficient data on the study variables, thereby establishing the trend in the commercial banks' financial management practices and financial performance.

Data Processing and Analysis

The data was collected, coded, and imported into STATA software for analysis. The 39 commercial banks formed the panels for the data. The data contained columns for liquidity management, credit risk management, working capital and capital structure management, and financial performance. Coding consisted of technical events whereby symbols, usually numbers, were used to identify the raw data and transform it into a format that can be accounted for and easily tabulated (Startz, 2019). It also assisted the researcher in reducing the response to a few categories that contained information needed for analysis. Therefore, codes were assigned to each answer. The data set was then verified if the data correlated with captured data into STATA Version 13.

The Model

The present study used a multiple regression model to model the linear association between explanatory dependent (financial performance) and independent variables (liquidity management, credit risk management, working capital management, and capital structure management). The multiple regression analysis was used in the present research for several reasons: to determine the relationship between each element under investigation and determine the relationship between dependent and independent variables (Russell, 2017). Other studies that have also adopted the regression model include Gachini (2017) used it to determine the relationship between microeconomic and economic growth determinants in Kenya, while Ajmair (2017) used it when studying determinants of economic growth in the state of Pakistan.

The primary model for statistical analysis was derived from the study's primary objective, with variables such as liquidity management, credit risk management, working capital management and capital structure management, and financial performance.
The primary model for statistical analysis will be:

$$ROA = \beta_0 + \beta_1 LM_{it} + \beta_2 CR_{it} + \beta_3 CS_{it} + \beta_4 WC_{it} + \varepsilon_{it}$$

Where;
Y is the financial performance
β_0 =constant
$\beta_{1\text{-}4}$= Regression coefficient for $X_{1\text{-}4}$
LM is liquidity management,
CR is credit risk management,
CS is capital structure management,

WC is working capital management and,
ε_{it} = error term

Diagnostic Tests

Diagnostic tests were run to detect potential problems with residuals and model specification when performing a panel regression analysis. To rely on the estimated coefficients and consider them accurate representations of actual parameters, the assumptions of linear regressions formulated in the Gauss-Markov theorem were met. Most of the assumptions are related to the characteristics of the regression residuals. The various diagnostic checks that were conducted to ensure the adequacy of the panel regression model include:

Test of Multicollinearity

A multicollinearity test was conducted to test if there was a strong relationship between any two independent variables. Multicollinearity was tested using variance inflation factors (VIF). A VIF value of 1-10 indicates no Multicollinearity. When the assumption of multicollinearity is violated, the collinear variables can cause significant inflation, leading to the model showing high significance, while in reality, the significance is less. When multicollinearity exists, one of the variables was excluded from the model.

Autocorrelation Test

An autocorrelation test was conducted to ensure statistical independence of the residuals in successive years in the 5 years. Wooldridge test was used to test for autocorrelation. A statistic was chosen where significantly less than 0.05 indicated that data is not autocorrelated. If there were autocorrelation, the study would add one lag order to the panel regression model if the violation was not serious. However, if the violation is serious, the study will evaluate the transformations that would have been applied to the independent and dependent variables. The study then enhanced the data's stationarity through appropriate deflating, logging, and differencing.

Stationarity Test

According to Chandra and Sharma (2013), examining the stationary of data is essential because if the data is not stationary, the regression obtained will be spurious. Also, it’s impossible to conduct validity hypothesis tests regarding regression parameters. A stationary series can be one with constant means, auto covariance, and variance of each lag. Several unit root tests can be applied in examining the stationarity of series. These include Dicey Fuller (DF) test or augmented DF (ADF) (Suleman, 2014). This study used the ADT test. ADF tests the null hypothesis that the data has a unit root. This is a negative statistic; the more negative it is, the stronger the rejection of the null hypothesis. If the data would have had a unit root, this indicates that it is non-stationary

Normality Test

Normality is a critical assumption in multivariate analysis (Hair *et al.,* 2010). It assumes that the errors in the prediction value of Y (dependent variable) are normally distributed. The normality of the data will be tested using degrees of skewness and kurtosis of the study variables. The study adopted Kolmogorov-Smirnov and Shapiro-Wilk tests to check for normality (Ghasemi & Zahediasi, 2012). Furthermore, the data is not normally distributed if the tests are significant. Therefore, the K-S and S-W tests should not be significant for data to be considered normal. Similarly, the study used histograms or normal probability plots to check for normality in the data distribution

Linearity Test

It assumed that the relationship between independent and dependent variables is linear. Thus, linearity is the degree to which the dependent variable changes due to a difference in the predictor variables (Hair *et al.,* 2010). Scatterplots will be used to assess the study's linearity between independent and dependent variables.

Heteroscedasticity Test

Heteroscedasticity occurs when the error terms do not have constant variances (Knaub, 2007a). Similarly, according to Gujarati (2003), heteroscedasticity in the regression model is present when the disturbances have unequal spread or variance. The heteroscedasticity problem may affect regression results, leading to inefficient estimates if not corrected (Nyarko & Nakato, 2016), and standard errors of such estimates will be biased (Baltagi, 2008). White General Tests were used to test for heteroscedasticity. This test assumes that the null hypothesis is constant variance; therefore, heteroscedasticity is present if the chi-square is insignificant (Williams *et al.,* 2013).

Hausman Test

Hausman model specification test specifies when to use the fixed effect model or the random effect model whenever the research data comprises of the time series and cross-sectional data (Greene, 2008). Hausman model specification test is founded on the proficiency and the reliability of the fixed effect estimators and the random effect estimators which rely on the correlation between the random effect or the fixed effect estimators and the independent variables. Hausman model specification test also is used to identify whether there is any significant correlation between the undetected firm specific random effects and the independent variables. Random effect model is applied where there is no correlation between the random effects and the independent variables while the fixed effect model is used where there is an association of the fixed effects and the independent variables.

Where the Hausman specification test points to use of Random effect model, it would be important to evaluate whether the research data have panel effects to come up with pointers in deciding whether to apply the simple ordinary least squares (OLS) regression or the random effect model.

The Lagrange multiplier test as suggested by Breusch and Pagan (1980) will be used by the researcher to choose whether to use the Random effect or the simple ordinary least squares regression model. The null hypothesis is stated to be that the variance across the commercial banks in Kenya is equal to zero.

Test of Hypotheses

This study tested the validity of the multi-regression models using ANOVA and F distribution as proposed by (Mason *et al.*, 2019). ANOVA is also the data analysis procedure used to determine whether there are significant differences between two or more groups or samples at a selected probability level (Mugenda & Mugenda, 2018). T-test will be performed to test the significance of the regression coefficient (Mason *et al*., 2019). The study performed individual tests of all independent variables to determine which regression coefficient may be zero or which may not. The conclusion was based on the p-value where if the null hypothesis of the beta is rejected, then the overall model is significant, and if the null hypothesis is not rejected, the general model is insignificant. The decision rule is summarized in Table 3.1

Table 3 1: Hypotheses Test

Hypotheses statement	Hypothesis test	Decision rule
H01: Liquidity management has no effect on financial performance of commercial banks in Kenya	Karl-Pearson's coefficient of correlation -F-test (ANOVA) -T-test **H01** : β1 = 0	Reject H01 if P- value ≤ 0.05 otherwise fail to reject H01 if P is > 0.05
H02: Credit risk management has no effect on financial performance of commercial banks in Kenya.	Karl-Pearson's coefficient of correlation -F-test (ANOVA) -T-test **H02** : β2 = 0	Reject H02 if P- value ≤ 0.05 otherwise fail to reject H02 if P is > 0.05
H03: Capital structure management has no effect on financial performance of commercial banks in Kenya	Karl-Pearson's coefficient of correlation -F-test (ANOVA) -T-test **H03** : β2 = 0	Reject H02 if P- value ≤ 0.05 otherwise fail to reject H03 if P is > 0.05
H04: Working capital management has no effect on financial performance of commercial banks in Kenya	Karl-Pearson's coefficient of correlation -F-test (ANOVA) -T-test **H04** : β4 = 0	Reject H04 if P- value ≤ 0.05 otherwise fail to reject H04 if P is > 0.05

Operationalization and Measurement of Variables

The research variables, the indicators of the variables and the measurement of the variables are contained in the following table.

Operationalization of the Variables

Variable	Operationalization	Indicator	Measurements
Dependent Variable			
Financial Performance	ROA	•Net Income •Total Assets	$ROA = \frac{NetIncome}{TotalAssets}$
Independent Variables			
Financial management Practices	Liquidity Management	•Liquid assets •Total deposits	$LM = \frac{LiquidAssets}{TotalAssets}$
	Credit risk management	•Non-performing loans •Total loans	$CR = \frac{NPL}{TotalLoans}$
	Capital structure management	•Total liabilities •Total equity	$CS = \frac{TotalDebt}{TotalEquity}$
	Working capital management	•Current assets •Current liabilities	$WC = \frac{CurrentAssets}{CurrentLiabilities}$

RESEARCH FINDINGS AND DISCUSSION

This chapter presents the research findings and a discussion of the identical in line with the study's objectives as guided by the techniques mentioned in chapter three. The data collected was cleaned, edited, and arranged for analysis and presentation. Descriptive statistics and diagnostic tests were performed to validate the appropriate techniques' utilization. Correlation and multivariate analysis of the study variables were carried out to explain the interactions between the effect of financial management practices on the financial performance of commercial banks in Kenya. The target population consisted of all 39 commercial banks in Kenya.

Descriptive Statistics

The study determined the central tendency measure for all the financial management practices' independent and control variables, including calculating the mean, maximum, minimum, variance, skewness, kurtosis, and Shapiro-wilk values of the variables over time, which was presented in tables and interpreted appropriately.

Table 4. 1:Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
LiquidityManagement	195	42.768	16.373	13.22	94.73
ReturnOnAssets	195	15.84	6.43	4.25	48.61
WorkingCapitalMana~t	195	25.398	14.956	2.75	73.42
CreditRiskManagement	195	12.856	6.128	1.42	21.175
CapitalStructureMa~t	195	5.691	1.655	1.996	7.647
FirmSize	195	10.833	1.354	7.201	13.781

From the findings in figure 4.7, it can be noted that the liquidity mean value is 42.768 with a standard deviation of 13.22. The maximum liquidity value among commercial banks in Kenya is 94.73, with a minimum value of 13.22. This indicates that the commercial banks in Kenya, through 2017-2021,

maintained a high volume of quick assets in cash and cash balance in reserves and deposits in CBK. The high level of liquidity is a strong indicator of the financial stability of commercial banks in Kenya. The return on asset mean is 15.84 with a standard deviation of 6.43; this means the commercial banks in Kenya utilize their total assets to generate enough income for their investors and the bank. The working capital management practices have a mean of 25.4 and a standard deviation of 14.95; this explains the ability of the commercial banks in Kenya to meet current obligations and daily operational costs. The credit risk management practices of the commercial banks are at 12.85 with a standard deviation of 6.12, showing a challenge for the commercial banks to deal with Non-Performing Loans. The increase in non-performing loans could be attributed to the challenges of COVID-19, which affected most businesses whose models depended on the banks for financing. The capital structure means 5.69, and a standard deviation of 1.655 reveals how the commercial banks in Kenya have substantial equity to cover up their liabilities.

Diagnostic Tests

OLS regression analysis makes several major assumptions. The study performed statistical tests on the regression assumptions. This included a normality test, heteroskedasticity, autocorrelation, Hausman, and multicollinearity.

Multicollinearity Test

The application of linear regression makes assumptions that there is no multicollinearity among the independent variables. Multicollinearity arises when the independent variables are
too highly related to each other. Multicollinearity refers to the predictors that relate to other predictors in the model. Nevertheless, the choice to finally drop an item is also contingent on a second step, where the variance inflation factor (VIF) is used. The VIF detects multicollinearity by measuring the extent to which the variance has been bloated. A VIF greater than 10 is considered an indicator of destructive multi-collinearity, as proposed by (Baum, 2006).
The study detected multicollinearity using (VIF) as shown in Table 4.1 below.

Table 4. 2:Variance Inflation Factor

Variables	VIF	1/VIF
Credit Risk Management	1.595	.627
Liquidity Management	1.46	.685
Working Capital Management	1.163	.859
Capital Structure Management	1.011	.989
Mean VIF	1.307	.

The Variance Inflation Factor evaluates the seriousness of multicollinearity in a standard slightest squares relapse investigation. VIFs more prominent than 10 indicate multicollinearity; the higher the estimation of VIF, the more extreme the issue. Outcomes above show all variables (VIF) of less than 10: Liquidity Management (1.46), Capital structure management (1.011), credit risk

management (1.595), and Working capital management (1.163); this implies that there is no collinearity with the variables thus all the variables will be maintained in the regression model.

Heteroscedasticity

Linear regression models assume that the error terms are usually identically independently distributed with mean zero and constant variance (homoscedasticity). Heteroscedasticity assumes that the dependent variable(s) display an equal level of variance across the predictor variable(s) range. Heteroscedasticity is among the assumptions needed for multivariate analysis. The Breush-Pagan test of heteroscedasticity was applied, and the results are shown in Table 4.2

Table 4. 3:Heteroskedasticity

Breuschâ€“Pagan/Cookâ€“Weisberg test for heteroskedasticity
Assumption: Normal error terms
Variable: Fitted values of ROA
H0: Constant variance
chi2(1) = 15.86
Prob > chi2 = 0.0001

From table 4.2 above, the resulting P-value of the Breush-Pagan test is below the conventional 0.05 critical value, demonstrating that the obtained differences in sample variances are probable not to have occurred based on random sampling from a population with equal variances. Thus, there is a meaningful difference between the variances in the population. The study will treat the resulting unequal variances using a robust command in the Stata 17.

Normality Test

Normality is a critical assumption in multivariate analysis (Hair *et al.*, 2010). It assumes that the errors in the prediction value of Y (dependent variable) are normally distributed. The normality of the data will be tested using degrees of skewness and kurtosis of the study variables. The study used Shapiro-Wilk tests to check for normality (Ghasemi & Zahediasi, 2012). Furthermore, the data is not normally distributed if the tests are significant. Therefore, S-W tests should not be significant for data to be considered normal. Similarly, the study used histograms or normal probability plots to check for normality in the data distribution.

Table 4. 4:Shapiro Wilk W Test

Variable	Obs	W	V	z	Prob>z
ROA	195	0.918	1.362	0.602	0.274
LM	195	0.945	0.921	-0.161	0.564
WC	195	0.942	8.426	4.898	0.080
CS	195	0.908	1.535	0.834	0.202
CR	195	0.989	1.646	1.146	0.126

The study showed that all the variables had a p-value greater than 0.05, implying they were normally distributed. The study concluded that the variables data were normally distributed; hence, the residuals were also normally distributed. The OLS regression assumption of normality was thus not violated.

Hausman Test

Hausman model specification test specifies when to use the fixed effect model or the random effect model whenever the research data comprises the time series and cross-sectional data (Greene, 2008). Hausman model specification test is founded on the proficiency and the reliability of the fixed effect estimators and the random effect estimators, which rely on the correlation between the random effect or the fixed effect estimators and the independent variables. Hausman model specification test also is used to identify whether there is any significant correlation between the undetected firm-specific random effects and the independent variables. The random effect model is applied where there is no correlation between the random effects and the independent variables, while the fixed effect model is used where there is an association between the fixed effects and the independent variables.

Table 4. 5: Hausman (1978) specification test

	Coef.
Chi-square test value	2.807
P-value	.591

Where the Hausman specification test points to using the Random effect model, it would be essential to evaluate whether the research data have panel effects to develop pointers in deciding whether to apply the simple ordinary least squares (OLS) regression or the random effect model. The Lagrange multiplier test, as suggested by Breusch and Pagan (1980), will be used by the researcher to choose whether to use the Random effect or the simple ordinary least squares regression model. The p-value from these findings indicates an insignificant p> 0.05 (0.591); therefore, the study fails to reject the null hypothesis and assumes the data to have random effects.

Autocorrelation Test

An autocorrelation test was conducted to ensure statistical independence of the residuals in successive years in the 5 years. The Pesaran test was used to test for autocorrelation. A p-value greater than 0.05 signifies an absence of autocorrelation. The results of the Pesaran test are presented in table 4.5.

Table 4. 6: Autocorrelation

Pesaran's test of cross sectional independence = 1.181, Pr = 0.2376
Average absolute value of the off-diagonal elements = 0.552

The results show that the p-value was greater than 0.05; hence the study failed to reject the null hypothesis that there was first-order autocorrelation between the variable at the contemporaneous time and its lagged values.

Correlation Analysis

The study examined the association between study variables. The study adopted the Pearson correlation coefficient to explore the correlation between financial management practices, and financial performance. The research adopted bivariate correlation, where each explanatory variable was correlated with the dependent variable. The study findings are presented in Table 4.8

Table 4. 7:Correlation Analysis

Variables	(1)	(2)	(3)	(4)	(5)	(6)
ROA	1.000					
LM	0.269***	1.000				
WC	0.069	0.212***	1.000			
CS	-0.029	0.045	-0.082	1.000		
CR	-0.434***	0.001	-0.236***	-0.037	1.000	

**** p<0.01, ** p<0.05, * p<0.1*

The study found a Positive correlation between financial performance and liquidity management of commercial banks in Kenya. The coefficient value of 0.269, which is significant at a 1% significance level, reveals that any change in the liquidity practices value would enhance the financial performance of the commercial banks in Kenya. These findings concur with study observations by Lamberg and Valming (2013). Measuring liquidity risk is essential to make sure that liquidity problems are identified in time.

The study found a positive correlation coefficient between working capital management and the financial performance of the commercial banks in Kenya, as shown by a correlation value of 0.069, which was insignificant at a 5% level of significance, and this reveals that any positive change in working capital management practices would enhance the financial performance of the commercial banks in Kenya. These management practices are in line suggestion by Nthenge and Ringera (2017) that a Working capital management strategy is designed to ensure that business entities operate efficiently by monitoring and spending their current resources and liabilities up to the optimal levels. The study found a negative correlation coefficient (-0.029) between Capital structure management practices and the financial performance of commercial banks in Kenya. This reveals that any change in Capital structure management practices would hurt the financial performance of the commercial banks in Kenya. This finding is contrary to the assertions by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that provide a firm is managed and directed in such a way that guarantees accountability and maximization of financial performance.

The study found a negative correlation coefficient between credit risk management and the financial performance of commercial banks in Kenya, as shown by a correlation value of -0.434; the relationship is significant at a 1% significance level. The relationship reveals that any change in credit risk management practices would negatively affect the financial performance of commercial banks in Kenya. These findings contrast with the research conclusion by Juanjuan (2009) that credit management practices helped the bank achieve long-term investment plans; it also avails of the benefit of compounding interest and keeping capital safe.

Pooled Regression

The study sought to establish the effect of financial management practices on the financial performance of commercial banks in Kenya. A panel regression model was adopted after the Hausman test was performed to determine the nature of the data. The study also adopted the regression model's random effect, and the Peseran CD test revealed no statistical difference in the cross-sectional units.

Table 4. 8:Pooled Regression Results

	(1) ROA	(2) ROA	(3) ROA	(4) ROA	(5) ROA
LM	-0.063**	-0.067**	-0.066**	-0.060**	0.004
	(-2.208)	(-2.290)	(-2.252)	(-2.203)	(0.177)
WC		0.022	0.020	-0.006	0.063*
		(0.557)	(0.495)	(-0.160)	(1.706)
CS			-0.001	-0.002	0.001*
			(-0.207)	(-0.631)	(0.500)
CR				-0.429***	-0.381***
				(-5.675)	(-5.657)
					(-8.213)
_cons	18.537***	18.129***	18.152***	24.087***	64.303***
	(12.868)	(11.101)	(11.003)	(13.235)	(12.283)
Observations	195	195	195	195	195
r2_w	0.009	0.007	0.007	0.121	0.458

P-values are in parentheses
**** p<.01, ** p<.05, * p<.1*

Given the P values in table 4.9, hypotheses testing can be concluded below.

Ho: Liquidity management practices have no significant effect on the financial performance of commercial banks in Kenya.

The regression results shown in table 4.9 indicate that liquidity management is at a 10 percent level. The coefficient of Liquidity management practices is 0.177 and insignificant at a 5% significance level. The results indicate an insignificant positive relationship between liquidity management practices and the financial performance of commercial banks in Kenya as measured by ROA. The positive coefficient indicates that the financial performance decreased as the commercial banks utilized more total deposits in Kenya.

Therefore, the null hypothesis, which stated that there is no significant effect of liquidity management on the financial performance of commercial banks in Kenya, is not rejected. These results concur with Afza and Nazir (2007), who found a negative relationship between the aggressiveness of financing policy and accounting measures of profitability. However, these findings also contradict study observations by Lamberg and Valming (2013); measuring liquidity risk is essential to ensure liquidity management problems are identified in time.

Given the P values in table 4.9, hypotheses testing can be concluded below.
Ho: capital structure management practices have no significant effect on the financial performance of commercial banks in Kenya.

The regression results shown in table 4.9 indicate that capital structure management practices are significant at a 10 percent level. The coefficient of capital structure management practices is 0.005 significant at a 10% significance level. The results indicate a significant positive relationship between capital structure management practices and the financial performance of commercial banks as measured by ROA. Therefore, the null hypothesis, which states that there is no significant influence of Capital structure management on the financial performance of the commercial banks in Kenya, is rejected, and the alternative hypothesis, which states that ‘’there exists significant influence of Capital structure management practices on the financial performance of the commercial banks in Kenya is adopted. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that provide a firm is managed and directed in such a way that guarantees accountability and maximization of financial performance.

Given the P values in table 4.9, hypotheses testing can be concluded below.
Ho: Credit risk management practices have no significant effect on the financial performance of commercial banks in Kenya.
The regression results shown in table 4.9 indicate that credit risk management practices are significant at a 1 percent level. The coefficient of credit risk management practices is -0.381 and significant at a 1 percent level. The results indicate a significant negative relationship between credit risk management practices and the financial performance of commercial banks as measured by ROA. Therefore, the null hypothesis, which states that there is no significant effect of credit risk management and financial performance of the commercial banks in Kenya, is rejected, and the alternative hypothesis, which states that ‘’there exists significant effect of credit risk management on the financial performance of the commercial banks in Kenya is adopted. These findings concur with the research conclusion by Juanjuan (2009) that credit management practices helped banks achieve long-term investment plans, and it also avails of the benefit of compounding interest and keeping capital safe.

Given the P values in table 4.9, hypotheses testing can be concluded below.
Ho: Working capital management practices have no significant effect on the financial performance of commercial banks in Kenya.

The coefficient of credit risk management practices is 0.063 and significant at a 5 percent level. The results indicate a significant positive relationship between credit risk management practices and the financial performance of commercial banks as measured by ROA. Therefore, the null hypothesis, which states that there is no significant effect of Working capital management on the financial performance of the commercial banks in Kenya, is rejected, and the alternative hypothesis, which states that ‘’there exists significant effect of Working capital management on the financial performance of the commercial banks in Kenya is adopted. These management practices are in line

suggestion by Nthenge and Ringera (2017) that Working capital management is designed to ensure that business entities operate efficiently by monitoring and spending their current resources and liabilities up to the optimal levels.

Table 4. 9:Regression Results

ROA	Coef.	St.Err.	t-value	p-value	[95% Conf	Interval]	Sig
LM	-.004	.034	-0.13	.899	-.071	.063	
WC	.063	.031	2.02	.043	.002	.125	**
CS	.001	.001	1.76	.079	0	.003	*
CR	-.381	.073	-5.20	0	-.524	-.237	***
Constant	64.303	12.12	5.31	0	40.547	88.058	***

Mean dependent var	15.840	SD dependent var	6.430
Overall r-squared	0.297	Number of obs	195
Chi-square	64.396	Prob > chi2	0.000
R-squared within	0.458	R-squared between	0.288

**** p<.01, ** p<.05, * p<.1*

As per the stata-generated output as presented in the table above, the equation

$$ROA = \beta_0 + \beta_1 LM_{it} + \beta_2 CR_{it} + \beta_3 CS_{it} + \beta_4 WC_{it} + \varepsilon_{it}$$

is derived as follows Y= 64.03 - 0.004LM - 0.381 CR + 0.001CS + 0.063WC + ε_{it}

From the above analysis, it can be observed that financial management practices significantly positively affect the financial performance of commercial banks in Kenya. The findings imply that by holding the (liquidity management, capital structure management, credit risk management, and working capital management constant, the financial performance of commercial banks would remain at 64.03. Additionally, a unit change in liquidity while holding other factors constant would negatively affect the financial performance of commercial banks by a factor of -0.004. This contradicts Alemayehu and Ndung'u (2012) argument that liquidity and bank performance are key factors that determine development, sustainability, survival, growth, and performance. Results also show that a unit change in credit risk management practices while holding the other factors constant would decrease commercial banks' financial performance by a factor of 0.381. The finding concurs with the observation made by Agbaje et al. (2014) found a negative relationship between financial management practices and financial performance.

Concerning capital structure management, a unit change in capital structure management while holding the other factors constant would enhance commercial banks' financial performance by 0.001. These findings concur with the research conclusion by Jajuan (2009) that capital structure management practices helped banks achieve long-term investment plans; it also avails of the benefit of compounding interest and keeping capital safe. Finally, the test regression results show that a unit change in Working capital management practices while holding the other factors constant would enhance the financial performance of commercial banks by a factor of 0.063. These findings support Odongo's (2018) conclusion that cash flow analysis and ratio analysis helps measure the profitability and financial position of the business.

Discussion of Findings

This study sought to examine the effect of financial management practices on the financial performance of commercial banks in Kenya. The study findings established that liquidity management practices have an insignificant negative relationship financial performance of commercial banks in Kenya. Liquidity management indicates the commercial bank's ability to meet depositors' cash demands. A bank with enough liquid assets is said to be well-managed. In this study, liquidity management was measured in terms of cash and cash equivalents. These findings don't conclude that bank managers who invest their liquid assets can generate income and boost performance. These results are consistent with the findings of Bassey (2015), Molefe and Muzindutsi (2016), and Vintila and Nenu (2016), who found a negative relationship between the liquidity management practices and the financial performance of commercial banks in Kenya. However, this study is inconsistent with those of Olongo (2013), Wanjohi (2013), and Kavale (2016). The assessment of liquidity management practices of commercial banks by Wanjohi (2013) found a direct relationship between liquidity management and financial performance. Also, Olongo (2013) found that the performance of commercial banks is significantly affected by liquidity management ratios. The study found a positive correlation between ROA and liquidity management ratios.

The results have also established that credit risk management is negatively related to ROA. This implies that banks did not maintain customer credit scores register, which means that banks accorded trust to all types of customers without consideration of their credit score or history of their repayment of past loans. Moreover, this indicates that poor credit risk or high non-performing loans to total assets are related to poor bank performance. Thus, Commercial banks with high credit risk and low non-performing loans are more profitable than the others. These findings contradict Alshatti's (2015) study, which revealed a positive relationship between effective credit risk management and banks 'profitability.

The study found a positive relationship between capital structure management practices and the financial performance of commercial banks in Kenya. This means that banks in Kenya conduct yearly budget cost variance analysis on capital structure management to determine the capital levels required for the quality running of banks' operations and in the realization of investment, thus making high profits. This finding supports the assertion by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that provide a firm is managed and directed in such a way that guarantees accountability and maximization of financial performance.

Finally, the results show that working capital management practices have a significant positive relationship with the financial performance of commercial banks in Kenya. These findings support Odongo's (2018) conclusion that cash flow analysis and ratio analysis helps measure the profitability and financial position of the business.

SUMMARY, CONCLUSIONS, AND RECOMMENDATIONS

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

Summary of the Findings

Effects of Liquidity Management practice on Financial Performance

The study found a Positive correlation between financial performance and liquidity management of commercial banks in Kenya. The coefficient value of 0.269, which is significant at a 1% significance level, reveals that any change in the liquidity practices value would enhance the financial performance of the commercial banks in Kenya. These findings concur with study observations by Lamberg and Valming (2013). Measuring liquidity risk is essential to make sure that liquidity problems are identified in time.

Effects of Capital structure Management practice on Financial Performance

The study found a negative correlation coefficient (-0.029) between Capital structure management practices and the financial performance of commercial banks in Kenya. This reveals that any change in Capital structure management practices would hurt the financial performance of the commercial banks in Kenya. This finding is contrary to the assertions by Saah (2016) that capital structure management ensures that a business enterprise adopts procedures and mechanisms that provide a firm is managed and directed in such a way that guarantees accountability and maximization of financial performance.

Effects of Credit Risk Management practice on Financial Performance

The study found a negative correlation coefficient between credit risk management and the financial performance of commercial banks in Kenya, as shown by a correlation value of -0.434; the relationship is significant at a 1% significance level. The relationship reveals that any change in credit risk management practices would negatively affect the financial performance of commercial banks in Kenya. These findings contrast with the research conclusion by Juanjuan (2009) that credit management practices helped the bank achieve long-term investment plans; it also avails of the benefit of compounding interest and keeping capital safe.

Effects of Working Capital Management practice on Financial Performance

The study found a positive correlation coefficient between working capital management and the financial performance of the commercial banks in Kenya, as shown by a correlation value of 0.069,

which was insignificant at a 5% level of significance, and this reveals that any positive change in working capital management practices would enhance the financial performance of the commercial banks in Kenya. These management practices are in line suggestion by Nthenge and Ringera (2017) that a Working capital management strategy is designed to ensure that business entities operate efficiently by monitoring and spending their current resources and liabilities up to the optimal levels.

Conclusions

Based on the study findings, liquidity management practices have an insignificant negative relationship financial performance of commercial banks in Kenya. Liquidity management indicates the commercial bank's ability to meet depositors' cash demands. However, these findings don't conclude that bank managers who invest their liquid assets can generate income and boost performance. The results have also established that credit risk management is negatively related to ROA. This implies that banks did not maintain customer credit scores register, which means that banks accorded trust to all types of customers without consideration of their credit score or history of their repayment of past loans. Moreover, this indicates that poor credit risk or high non-performing loans to total assets are related to poor bank performance. The study also found a positive relationship between capital structure management practices and the financial performance of commercial banks in Kenya. This means that banks in Kenya conduct yearly budget cost variance analysis on capital structure management to determine the capital levels required for the quality running of banks' operations and in the realization of investment, thus making high profits. Finally, the results show that working capital management practices have a significant positive relationship with the financial performance of commercial banks in Kenya. These findings support Odongo's (2018) conclusion that cash flow analysis and ratio analysis helps measure the profitability and financial position of the business.

Recommendations

Commercial banks should also check their credit policy and practices. By this, they would reduce the loss on non-performing loans, which raises their expenses and consequent reduction in financial performance. All banks should have established Credit Policies that clearly outline the senior management's view of business development priorities and the terms and conditions that should be adhered to for loans to be approved. The Lending Guidelines should be updated annually to reflect changes in the economic outlook and the evolution of the bank's loan portfolio and be distributed to all lending/marketing officers.

The study also recommends that commercial banks try to keep their operational cost low as this negates their profit margin, thus leading to low financial performance. The strong effect of earnings on financial performance depicts this.

Suggestions for Further Research

The research aimed to establish the effects of selected financial management practices on the financial performance of commercial banks in Kenya. The research variables (liquidity

management, capital structure management, credit risk management, and working capital management practices) account for 44.2% of commercial banks' profitability variation. This study suggests that other factors accounting for 55.8 % of the variation in profitability of commercial banks should be investigated and their effects assessed as well.

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