

**CURRENT ASSET MANAGEMENT AND FINANCIAL PERFORMANCE OF
LICENSED MICROFINANCE INSTITUTIONS IN KENYA**

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**A Thesis Submitted in Partial Fulfillment for the Degree of Master of Business
Administration (Finance) of Masinde Muliro University of Science and Technology**

NOVEMBER, 2024

DECLARATION

This thesis is my original work and has not been presented for any degree in any other University or institution of higher learning.

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CERTIFICATION

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DEDICATION

I dedicate this thesis to my parents, wife and children for their moral and financial support they have provided throughout this study.

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ABSTRACT

Microfinance Institutions (MFIs) in Kenya have been experiencing increase in losses in the last three years. Central Bank of Kenya (CBK) reported a total asset decline of 8.8% in 2023. That is from Kshs 70.4 billion to Kshs.64.2 billion in 2022 and 2023 respectively. Further, there was a loss of Ksh 980 million in 2022 from 877Millions in 2021. This was occasioned by decline in customers deposits from Ksh 50.4 billion in 2021 to Ksh 46.5Billion in 2022. This also affected the value of asset quality which increased the gross non-performing loans from Ksh 12.3Billion in 2021 by Ksh 2.4 billion in 2022. The overall objective of this study was to; examine the effect of current asset management on financial performance of licensed MFIs in Kenya. The specific objectives were to determine the effect of cash management, debtors' and the moderating effect of firm size on current assets management and financial performance of licensed MFIs in Kenya. The study was guided by theories like resource-based, shift ability, and debt management. The study adopted descriptive survey and causal research design. Yamane (1967) formula was used to derive to a sample size of 100 from a population of 134 respondents in 13 registered microfinance Institutions (MFIs). Both primary and secondary data were collected by use of questionnaires and document analysis of financial reports after piloting was done in Muungano MFI. A Cronbach Alpha of 0.895 was obtained after testing for reliability. Construct validity was tested by factor analysis which indicated a rotation value of 0.766. The study's findings revealed that only two MFIs U&I and Sumac had positive Return on Asset (ROA) of 2% and 1% respectively. The study concluded that cash management and debtors' management had an influence on financial performance. Additionally, firm size had a moderating influence on current asset management and financial performance. The study concluded that though the MFIs had adequate assets, they did not have adequate cash at hand to support banking operations like withdrawals and lending. This was partially attributed to inefficient expense tracking systems such that the available funds were poorly accounted for. Notably, the study established that the value of assets was irregularly growing with the exception of three MFIs that registered consistency in growth of assets. The, study recommends that the management of MFIs should restructure their products and services to a more reliable customer experience perspective, in order to improve cash at hand to support its operations. The study's recommendations were that the management of MFIs should develop policy framework on the need to strictly adhere to the improved system; The MFIs management should develop procedural policies such that appraisal of potential borrowers is not made a branch level affair; The management should develop long-term financing strategies to incorporate more products and services.

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LIST OF ABBREVIATIONS AND ACRONYMS

BOE	Bank of England
CAM	Current Asset Management
CBK	Central Bank of Kenya
CRM	Credit Risk Management
EIB	European Investment Bank
GP	Gross Profit
IMF	International Monetary Fund
MFI	Microfinance Institutions
MMR	Moderated Multiple Regression
NPL	Non-performing loans
NPM	Net profit
NSE	Nairobi Securities Exchange
PLC	Public Limited Company
ROA	Return on Assets
SPSS	Statistical Package for the Social Sciences
TZS	Tanzanian Shillings
UNCTAD	United Nations Conference on Trade and development
UNECA	United Nations Economic Commission for Africa
WPC	Women Peace Council
WTO	World Trade Organization

OPERATIONAL DEFINITIONS OF KEY TERMS

Cash Management

These are all operations that deal with online funds transfers, budgeting of cash, setting policies of money, tracking expenses to have adequate cash to deposit and liquidity ratios

Debtors' Management

The process that involves debtors' appraisal, debtor's monitoring, bad debt mitigation, developing and adhering to debt collection policies so as to have adequate core capital to total deposit liabilities

Financial Performance

This is the ability of a firm to use its assets and generate revenue and is measured by Return on Assets

Firm Size

This is the capacity of an MFI and is measured by total assets.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Current Asset Management (CAM) is defined as the process of how Microfinance Institutions (MFIs) ensure that any monetary and other resources that can be easily liquidated to money, undergo the process of forecasting, purchase, functioning, maintenance and disposal. This is in the most cost-effective way bearing the charges, risks and performance characteristics (National Treasury and Planning (NTP), 2022). CAM was measured using cash management, debtors' management and firm size (UNCTAD, 2020). Cash management is the process through which an individual or an institution accumulates and carefully performs the administration function on cash flow (Brampton, 2022). This could be in terms of all operations that deal with online funds transfers, budgeting of cash, setting policies of money, tracking expenses to have adequate cash to deposit and liquidity ratios.

Debtors' management is the process of ensuring that qualified borrowers are issued with financial resources from an MFI and are able to consistently pay their dues on time (Agasha *et al.*, 2020). This involves debtors' appraisal, debtor's monitoring, bad debt mitigation such as setting credit limit, developing and adhering to debt collection policies so as to have adequate Non-Performing Loans (NPL) to total loans ration and core capital to total deposit liabilities. Firm size is the capacity of any MFI and is measured by total assets (Remer & Kattilakoski, 2021). Notably, when a firm has a goal of increasing their

size, develops systems which enables an organization accumulate resources in a fast, efficient and legal manner. The main objective is to improve the financial performance of the MFIs. Financial performance is the process of assessing the fiscal reliability of an MFI in regards to its ability of maximizing the shareholder's wealth and paying its liabilities when they fall due (Central Bank of Kenya [CBK], 2020). There are various studies done that depict issues affecting MFI's performance.

Globally, International Monetary Fund [IMF] (2020) noted that the MFIs' performance in American states such as Georgia, have been experiencing high liquidity risk whereby borrowers have been increasing with a decreasing margin of customer deposit. Additionally, there have also been tough government regulations that govern the institutions thereby making it a challenge for start-up MFIs to thrive based on minimum cash deposit they need to reserve at the Federal Reserve Bank [FRB]. In Canada, there have been high expenditures related to operations since MFIs have to keep advancing in technological innovations to maintain a desirable position in the competitive market (IMF, 2021). Further, MFIs in Sweden have experienced substandard inventories due to over reliance to one supplier.

In Europe, MFIs have experienced inflation related issues on cash management due to Brexit effects. There are also increasing default of loans issued to borrowers due to post covid-19 pandemic effects to the economy (EU, 2021). In addition, many MFIs in Scotland have experienced poor contract bound negotiation of inventories (Bank of England [BOE], 2019). In Asian nations such as China and Japan, the push to become world class leaders in financial matters have raised unrealistic business demands which in turn have pushed MFIs to have increased operating expenses and high taxes. There have

also been complains of low performance related to organizational political interference (Bank of Japan, 2019).

Regionally in South Africa Mandipa & Sibindi (2022), established that the performance of MFIs has swindled due to challenges related to cyber security and weak capital base. Additionally, corruption within and out of the institution have also negatively impacted on their performance. In West African nations, there has been decreased deposits by customers, deteriorating quality of assets, and poor financial management particularly among the MFIs in nations such as Nigeria, Ghana and Niger respectively (UNECA, 2020).

In East Africa, European Investment Bank [EIB] (2022) reveals that the performance of MFIs in Rwanda has been greatly affected due to poor practices on warehouse management. In Tanzania, the MFIs have suffered mainly due to biased tendering process and lack of qualified personnel to manage current assets. As per CBK (2021), there are 14 MFIs authorized and regulated to operate in Kenya. These institutions have experienced various performance related problems such as an increase in risky weighted assets and aggressive competition from other financial institution such as Saccos and banks (Issack & Mutswenje, 2022).

Additionally, the Kenyan MFIs have been struggling with tough government regulations that require huge investment on start-ups and deposit amounts at the CBK coffers. The management of the MFIs have also experienced challenges related to unprofessional management of the institution such that the daily operations are greatly hampered with corruption and internal politics (Nyawira, 2021).

1.2 Statement of the Problem

According to CBK (2023), total assets of MFIs have experienced a decline of 8.8% from Kshs 70.4 billion to Kshs.64.2 billion in 2022 and 2023 respectively. Notably, the same case was experienced on loans where there was a 4.7% decline from Kshs. 39.3 billion to Kshs. 37.5 billion in 2022 and 2023 respectively. Further, CBK (2022) noted that MFIs registered an increased combined loss of kshs 980 million from 877 million in 2022 and 2021 respectively. This loss emanated from a decline of customer deposits from Kshs 50.4 billion to Kshs 46.5 billion in 2021 and 2022 respectively on all MFIs. Specifically, MFIs such as Maisha and Rafiki had gross losses of 477million and 314 million in 2022 correspondingly, which is an indication of cash management complications. Further, the value of asset quality in MFIs was low whereby the gross non-performing loans increased by Kshs 2.4 billion in 2022 from 12.3 billion in 2021 which indicated poor debtors' management (CBK, 2021). Notably, an MFI like Choice had high non-performing loans of 214 million in 2022 to an extent of being sold to Wakanda Network Ltd at 85% signifying extremely low performance concerns (The Kenyan Wall Street, 2021).

If MFIs fail to address three key performance concerns-low total assets, declining customer deposits, and poor asset quality-they risk facing liquidity problems. This situation could ultimately lead to insolvency. This means that the customers who have invested their financial resources in form of deposits will experience loss of personal investments. Past studies on cash management such as Githaiga (2022) indicated a helpful relationship between revenue diversification and MFIs' sustainability. Further, Orichom and Omeke (2021) established that credit management of credit positively affected the MFIs' performance. Additionally, Fadeyi *et al.* (2021) indicated that firm

size had a positive influence to instigate growth in an MFI. Notably, Githaiga (2022) used financial data from 2013-2018. The current study would thus combine both primary and secondary data to assess whether cash management had any influence on performance.

Further, Orichom and Omeke (2021) did not assess other credit (debtor's) management such as evaluation of defaulted loan. Unlike Orichom and Omeke (2021), this study comprehensively evaluated the impact of both cash and debtors' management on MFI performance, including an analysis of defaulted loans. Fadeyi *et al.* (2021) reviewed articles from individual authors as secondary data while the current study reviewed secondary data from audited financial records. Therefore, there were few studies addressing the direction of the current study hence sought to determine the influence of current asset management on financial performance of licensed MFIs in Kenya.

1.3 Objectives of the Study

1.3.1 Overall Objective

The study examines current asset management and financial performance of licensed microfinance institutions in Kenya.

1.3.2 Specific Objectives

- i. To determine the effect of cash management on financial performance of licensed microfinance institutions in Kenya.
- ii. To examine the effect of debtors' management on financial performance of licensed microfinance institutions in Kenya.

- iii. To examine the moderating effect of firm size on current assets management and financial performance of licensed microfinance institutions in Kenya.

1.4 Research Hypothesis

The study was guided by the following hypotheses:

H₀₁: Cash management has no statistically significant effect on financial performance of licensed MFIs in Kenya.

H₀₂: Debtors' management has no statistically significant effect on financial performance of licensed MFIs in Kenya.

H₀₃: Firm size has no statistically significant moderating effect on current assets management and financial performance of licensed microfinance institutions in Kenya.

1.5 Scope of Study

The study examined current asset management and financial performance of licensed MFIs in Kenya. The current asset management aspects such as cash management, debtors' management and how they are moderated by firm size were explored. This study utilized both primary and secondary data sources. Primary data was collected through administering questionnaires to the 13 compliance managers, 13 investment manager, 13 operations manager, 13 credit manager, 13 finance managers, and 35 accountants of the MFI's, hence a total of 100 respondents. The selected respondents, including compliance managers, investment managers, and accountants, are key decision-makers in the management of MFIs, ensuring that diverse perspectives on asset management are

represented. Additionally, secondary data was collected from MFI's reports such as income statement and statement of affairs over a period of 5 years (2018-2022). The study was conducted from November 2023 to February 2024.

1.6 Significance of the Study

The study is pertinent to various MFI's since it provides a review of how MFIs have been performing in relation to current asset management. The findings provide the major areas to capitalize in relation to cash, debtors and firm size management. The findings will help MFIs strategize their cash management practices and enhance their operational efficiency. Additionally, the study provides various development that other MFI's globally and regionally have been having so as to provide some ideas on how to improve performance from the Kenyan perspective. Notably, it provides insights into current asset management practices for MFIs.

The study is vital to policy makers since it clarifies how cash management systems need to operate and the need of use of credit and debit cards, as well as the involvement of the staff. Additionally, borrowing processes is more defined when borrowing timelines and borrower appraisals are anchored on the key accounting principles and strictly adhering to the improved system. Further, it offers policy recommendations for regulators like the CBK.

Government regulators such as CBK may find the study useful since the findings provides both the issues surrounding various policies and regulations that MFIs have been using. Getting this revelation enables the regulators either make improvement, review or eliminate unfavorable policies to facilitate high performance of MFIs.

Additionally, the regulators could adopt the suggested recommendations from the study as a means of having alternative solutions in relation to improved asset quality, total assets and customer deposits.

The study also provides more data on demystifying the assets quality concern. Future researchers may find the study useful since they can easily build their argument further based on suggested areas of future research. The study provides new knowledge in finance once the assessment of the influence of current asset management on financial performance of MFIs in Kenya is known.

1.7 Limitations of the Study

The study was limited due to the possibility of missing financial statements in some years in the MFI website which raised uncertainty concerns, particularly regarding position of profitability in those gaps. The impact of relying on incomplete reports to make conclusion would expose the study to biasness affecting the accuracy of the cash flow assessments and overall financial performance evaluation due to incomplete data. This was a limitation to the study since it had the impact of halting the data collection process and gathering of data that reflect the truthful financial status of the MFIs. Additionally, the MFIs' staff had fear of giving information.

1.8 Delimitations of the Study

The researcher obtained the information from the CBK website where annual financial reports provided the information in each year. This prevented discrepancies in cashflow, accurate debtor value, and firm size. Additionally, in handling the second limitation, the study sought authorization from various bodies such as NACOSTI, the university and

also from the management of the MFI to collect data hence creating further assurance on the legality of the entire process.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The theoretical, literature review, and conceptual framework of the study are presented in this chapter. The literature review is coordinated in view of all factors of the review including financial performance, management of cash, debtor management and firm size. Conceptual framework concludes the chapter.

2.2 Theoretical Framework

Three theories that guided the study were resource-based theory, shift ability theory, and debt management theory. Resource-based view theory was the main theory of the study firm size, liquidity, and levels of debtors' variable. Shift ability theory guided cash management variable. Debt management theory guided debt management variable.

2.2.1 Resource-Based View Theory

Resource-based view theory was developed by Wernerfelt (1984) and it was the main theory of the study guiding liquidity, levels of debtors and firm size. Authors such as Mulwa (2020) and Kamchape (2020) have used this theory in their studies. The theory stated that every firm has resources both internally and externally that could be used to ensure that it gained competitive advantage over other firms in bid of surviving in a very competitive market. Therefore, as the availability of resources dictated whether its liquidity, levels of debtors and firm size would have uninterrupted growth or would have an undesirable decline rate.

This means that the liquidity, levels of debtors and firm size were highly pegged on the resources that the MFI generated over the course of doing business. These resources were obtained through total income, total assets. The total income that an MFI made over a particular period of time generated enough income that was used to settle expenses and as well as increase their capital reserves which improved on liquidity.

Additionally, when an MFI was able to increase its assets such as good will, it is able to register increased firm size over time due to improved lending operations. Additionally, when there were more people willing to provide funds in form of buying shares, the MFI's value was able to increase based on the market value hence attracting international clients. According to Dalci and Tanova (2019), the firm size had the ability to shorten or extend the cash conversion cycle. That is, if the firm size became small over time, converting capital to cash took more time hence the financial performance declined and when the firm size became large over time, converting capital to cash took less time hence the financial performance increases.

Resource-based view theory was criticized by Priem and Butler (2001) that it did not provide a clear picture of how resources increased firms' value. Be that as it may, this analysis didn't influence the review since institutional development could be evaluated in view of customers of organization, group, and table banking.

2.2.2 Shift Ability Theory

Shift ability theory was developed by Moulton (1918) and it guided cash management. Authors such as Gichobi and Omwaga (2021), and Shahale and Ibrahim (2022) have used this theory in their studies. The theory stated that the capacity of liquidity to be

maintained in an institution, required its management to ensure there were assets that could be easily converted to cash or any other investments that had high monetary value to ensure that its operations were a going concern. Therefore, as MFIs strived to ensure that they were able to conduct their operations, make strategic and financial decisions, they firstly maintained liquidity. This aspect ensured that they were able to pay their obligations once they fall due to avoid accumulating creditors which was an ultimate liability.

Shift ability theory explained the cash management variable in that the ability of the MFIs to come up with several cash systems such as reliable online funds transfer technique was key in ensuring that clients were able to fund their accounts over time. Additionally, when the operations department was able to have cash budgets hence minimizing unnecessary expenditures, they were able to increase their cash reserves for future use as a result of conducting business. In addition, when MFIs were guided by policies regarding the maximum amount of cash that could be used at a time, it enabled them be able to minimize wastages and maximize on the cash kitty. The MFIs also came up with various methods of diversification of revenue to invest in planning, implementing, monitoring and evaluation of new products as a means of increasing the income basket of the institution.

Additionally, having cash equivalents such as treasury bills, commercial papers, and treasury notes, provide an avenue for an institution to generate liquid money in a shorter duration of time. This enables the microfinance to settle expenses in a very quick and reliable manner which does not have to involve borrowing. Therefore, when there are

diverse options such as treasury bills invested, it gives the shareholders a sense of belonging and stability that their wealth is well secured.

Shift ability theory was criticized by Mitchell (1923) that in as much as a bank may had enough assets that could be converted to cash, it could not be done in specific timelines. The timelines such as when there was a bank run may affect the entire banking system when a large bank disposes its assets

2.2.3 Debt Management Theory

Debt management theory was developed by Leong (1999) and it guided debt management variable. Authors such as Chemesunde and Gichure (2020) and Njue et al. (2020) have used this theory in their studies. The theory elaborated that desired market results could be gotten in an institution when they hold and issue the required non-risky loans with less chances of ever becoming bad debt that have different payment dates and maturities. This meant that all the operations that were required in ensuring that loan facilities in MFIs are disbursed to qualified borrowers to be repaid within the less risky timeframe and in the best possible monthly, quarterly or semi-annual payment system.

Debt management theory was used in the study since every time an MFI was issuing loan facilities to borrowers, they were putting the institutional resources at risk. That is the risk of default hence money was lost. However, since they wanted to make substantial amounts of profits, they needed to assess and mitigate all the risky scenarios to make informed financial decisions that were much needed in banking business. To do so, they needed to have various policies that guided the MFI staff on how to go about appraising potential borrowers. This could be through initiating the Know your Customer (KYC)

method. This was where the information of the applicant was captured using the authentic documents such as identification card. Thereafter, the borrower was appraised on the need for the loan and how they intended to repay it back with interest.

From there, the bank ensured that in the one hand, if the borrower was qualified and a loan facility was issued with securities of guarantors and property that a borrower held and agreed that it could be sold if they were unable to make payment. The MFIs monitored the borrower's payment methods and frequencies through the help of a credit officer. If the officer noticed that a client had not made monthly payments as required, they were reminded as a measure of mitigating default. The MFI also put effort in bid of ensuring that outstanding balances were paid accordingly as agreed at the point of issuance.

In case a client did not pay their loan amounts, the MFI had various policies that guided on how they began the process of forcing the clients to make payments. The end term solution came to sale of collateral as a way of regaining the MFI lost money. On the other hand, if the borrower did not qualify based on low income they earned, the assessor was able to suggest a lower amount they qualified for. Additionally, if they also had any history of default, the appraiser could either offer lower credit with a high interest payment system or ultimately reject their application. All these were internal control measures implemented to ensure the MFI did not unknowingly offer credit to a defaulter hence losing the shareholder's resources.

Debt management theory was criticized by Faraglia et al. (2008) that when debt levels were not managed, good debt changed to become bad debt. This meant that in as much as

the qualification was convenient, when the amounts lent was not balanced, it led to default, such as the top-up loan facilities.

2.3 Conceptual Review

2.3.1 Cash Management

Cash Management is the process through which an individual or an MFI accumulates and carefully perform the administration function on cashflow (Fidelity National Information Services Inc [FNIS], 2019). Cash management process is important in an institution since it provides an avenue for adequate planning and control of money so that the institution has the required amount of money based on the need at hand. Therefore, this enables the institution to forecast any monetary expenses and hence able to finance its operations with ease without necessarily halting its activities. There are various authors who have dealt with cash management before and measured it using different methods. Mwambui and Koori (2019) measured cash management through cash reserve and cash flow forecasting Shahale and Ibrahim (2022) used cash budget, cash forecasting, and cash policies as measuring metrics. Nso (2018) used cash budgeting, collection, tracking expenses, credit policy and pre-authorized debt.

Cash management was measured through two ratios which are cash to deposit ratio and liquidity ratio. Cash to deposit ratio is the money that a bank has as a percentage to the money that the clients have deposited. Liquidity ratio is considered as how a bank is able to pay short-term expenses. Other measures that the study concentrated with are online funds transfers, utilization of cash budgets, utilization of cash policies, tracking expenses diversification of revenue and cash equivalents such as treasury bills, commercial papers,

treasury notes (CGAP, 2020; Shahale & Ibrahim, 2022). According to Njue *et al.* (2020) online funds transfers is the process through which financial transactions is done via use of ICT applications and system. The process involves sending e-money to a receiver who has similar ICT application. A cash budget entails the use of planned financial structure that provides how available funds would be spent based on the demanding needs. Tracking expenses is the process of ensuring that use of finances is recorded to have a clue of how much was spent and for what purpose. Revenue diversification is the process through which an institution ensures that it expands the channels meant for increasing income. These channels could relate to introducing more products, investing in financial securities and cash generating assets. Cash equivalents are the monetary value assets such as treasury bills, commercial papers, and treasury notes. These assets are short-term in nature and could be converted to assets easily to settle emergent expenditures.

2.3.2 Debtors Management

Debtors' Management is the process of ensuring that qualified borrowers are issued with financial resources from an MFI and are able to consistently pay their dues on time (Shymaa & Dimity, 2022). Debtors are also referred to as borrowers who request MFIs' credit to repay at a later date with interest. There is need to management these types of clients to ensure that the institution's fund is not lost as a result of default, it becomes peculiar that an MFI could be in the business of lending money but ending up losing it.

Therefore, the amounts and duration of the loan are key towards establishing a working debtor's management system. There are various authors who have dealt with debtors' management before and measured it using different methods. Kiai *et al.* (2021) used Net bad debt ratio to measure debtors while Chemesunde and Gichure (2020) considered debt

collection policy, communication between the loan officers and debtors, credit limits, methods of paying debt, and background check of debtors. Agong & Otinga (2020) used credit standards and diversification of loan portfolio. Nyawira (2019) considered policies regarding debt collection, debt monitoring, and credit extension.

The study measured debt management through ratio such as NPL to Total loans which indicates the percentage of defaulted loans vi-a-vis the issued loan, and Core capital to total deposit liabilities which indicates shareholders wealth as a percentage of client deposits. Other measures that the study concentrated with are assessing debtors' appraisal, debtors' monitoring, bad debt mitigation (credit limit), debt collection policy. It is the sole responsibility of the management to evaluate debtors, monitor debt, ease bad debt through limiting credit to specific borrowers, following internal control policies and employing various debt collection strategies as stipulated by the organization (European Investment Bank [EIB], 2022).

2.3.3 Firm Size

Firm size refers to the capacity of any MFI that is related to market value and fundamental aspects such as asset base, clientele base and good will (Mulugeta & Leyla, 2022). The ability of an MFI to grow in terms of capacity and resources has to do with how it managed its current assets. This is because, its relevance dictates a lot on how it would continue thriving in a highly competitive business environment. There are various authors who have dealt with firm size before and measured it using different methods. (Díaz-Martín et al, 2021; Ertiro & Mohammed, 2022; Ishmail et al., 2023) considered liquidity and total assets as measures of firm size while Mulwa (2020) measured firm size through total assets and customer deposits. Additionally, used total assets. The study

measured firm size through considering its total assets which include everything an institution own such as cash, buildings, and vehicles among others (Gichobi & Omwaga, 2021).

2.3.4 Financial Performance

The ability of a firm to use its assets and generate revenue hence ending up maximizing the shareholder's wealth and paying its liabilities when they fall due is the basic definition (Central Bank of Kenya [CBK], 2020). Financial performance is key in an MFI since it enables the institutions to frequently appraise their current assets and risk management, make improved policies of cash management, and frequent communication with debtors to avoid bad debts, increase trainings offered to staff on financial management and developing creative fund drive campaigns to increase funding of client's MFIs accounts (EIB, 2022).

There are various authors who have dealt with debtors' management before and measured it using different methods. Njue et al. (2020) considered ROE while Shahale and Ibrahim (2022) considered profitability and gross revenue as measures of performance. (Agong and Otinga (2020) and Kiai et al. (2021) used ROA while Nyawira (2019) used a combination of ROA and quick ratio. Financial performance was measured using ROA and profitability. ROA is a ratio derived through dividing net income by total assets (CBK, 2020). ROE is a ratio derived by dividing equity of the shareholders to assets. (CBK, 2020). There are various studies done that depict issues related to financial performance of MFIs.

2.4 Empirical Review

The study provided past studies that have been documented relating to the variables of the study such as financial performance, cash management, debtors' management and firm size.

2.4.1 Cash Management and Financial Performance

Pellegrina *et al.* (2021) assessed how trainings in 56 MFIs were affected by management of institutional money and how that brought around productivity in Italy. The study involved administering of questionnaires and review of financial reports on how the loans were repaid, saved and withdrawn. The participants were Women Peace Council [WPC] and loan borrowers and credit officers. The study by Pellegrina *et al.* (2021) considered two groups of people, where one received training and forced to attend while the other group was not forced to attend the training. The various money management practices examined were profits calculation and tracking income and expenses.

The findings related to money management aspects on microfinance institution's officers as revealed by Pellegrina *et al.* (2021), indicated that the officers that were forced to attend the training, did not have any major changes in their personal and professional money management practices, hence their work performance remained unchanged. However, the credit officers who attended the training without being forced indicated that they should significant improvement in their performance. This is whereby, they were able to track MFI's revenue such as loan payments more efficiently, became conscious on personal and work-related expenses since it affected the availability of money in the institution's coffers and were able to learn on how profitability on MFI's income was

calculated. Notably, Pellegrina *et al.* (2021), did not reveal the numbers of respondents nor the sampling methods used. In the current, study the identity of the respondents would be revealed and as well as how they were sampled.

Abebe (2022) observed how MFIs' performance was inclined by the administration of their assets and liabilities in Sub-Saharan part of Africa. The study sampled 106 MFI's report from 2014-2018 and used cost-accounting technique. The results as presented by Abebe (2022) revealed that only net loan portfolio was positively influenced by financial performance (specifically the ROA). However, other assets such as cash and its equivalents negatively affected its ROA. Therefore, Abebe (2022) suggested that the MFIs in Sub-Saharan part of Africa should improve their asset portfolios to widen their perspective. Notably, the study did not provide ways of improving management of assets such as cash to improve its performance. The current study would inquire on how cash improved performance of MFIs.

Duramany-Lakkoh (2021) investigated how sustainability of the MFIs was measured prior to outbreak of Ebola in Sierra-Leone. The study included 17 MFIs whose performance was measured using ROA, ROCE and Net Operating Profit Margin (NOPM) for the financial year 2011/2012. The results indicated that there was an increment in loan portfolio coupled with declined costs of operations and provisions of bad debt in 2011. Notably, the Operational Self-Sufficiency [OSS] declined end of 2012 from 114% to 45% which was an indicator that the MFIs could only cover 45% of their expenses from cash received. Therefore, the decline indicated that the MFIs were struggling with cash management methods which were mainly affected by poor

collection methods on the loans issued. Regrettably, Duramany-Lakkoh (2021) did not reveal the kind of methods used to collect the cash.

Njue *et al.* (2020) assessed how MFIs' performance was affected by liquidity management in Kenya. The study adopted a census method to select twenty-six MFIs. Secondary data from the MFI between 2012-2016 was used. The results related to asset quality indicated that it negatively affected MFIs performance. It was regrettably noted that MFIs had low client deposit which meant that their operations were not adequately funded. This was because they lacked both long-term and short-term assets that had high cash equivalence in case a need developed. Therefore, this made it hard to have adequate cash management methods since they did not have assets that would be liquidated. However, Njue *et al.* (2020) did not provide various strategies implemented by MFIs to improve long-term and short-term assets that had high cash equivalence. Further, the study consulted both audited and unaudited reports to make conclusions weakening their conclusions since they could have analyzed statistics that were not factual. The current study included only the audited financial reports to ensure that the presented data was factual.

Mwambui and Koori (2019) surveyed how the MFIs' performance was impacted by the administration of liquidity in Kenya. Among the factors of the review, the impact of administration on performance was evaluated. Cash management, according to Mwambui and Koori (2019), had a positive impact on financial performance. The review targeted branch managers, credit managers and credit officers who were a total of thirty-nine from thirteen MFIs. The study administered questionnaires to the respondents and as well as secondary data from reports to measure ROA. The results related to cash management

indicated that having cash policies, ratios, forecasts, standard liquidity minimums, and reserves that were high improved performance. However, Mwambui and Koori (2019), did not include ROE, a relevant financial performance measurement metric for MFIs.

2.4.2 Debtors' Management and Financial Performance

A study by Mia *et al.* (2021) explored on how MFI's performance was affected by female participants as borrowers and officers. The study explored one hundred and seventy-two MFIs that were located in Eastern part of Europe and Mid-Asia. Their reports dating from 1996-2014 was analyzed and the results revealed that the female borrowers paid promptly their outstanding loan facilities led to improved performance in the sense that there was principal and interest paid. This was because, women were considered more efficient in utilization of loans in profitable ventures. Additionally, this prompted the MFI reduce the provision for bad debt expenses. That notwithstanding, Mia *et al.* (2021) found out that female staff were facing with cultural restrictions and their safety concerns hence unable to demand for late debts from the male clientele. In as much as Mia *et al.* (2021) were informative it became rather imperative to use secondary data in defining the challenges women borrowers and officers were facing. The study could have interviewed the women or issued them with open-ended questionnaires to get more elaborate results on their challenges. Therefore, since the current study was dealing with cash and debtors related details, the best suitable method was through secondary data to get factual data.

A report by CGAP (2020) documented on various methods by MFIs to restructure their debts portfolios post the covid-19 pandemic period. As per the report, the trust concerns between the MFIs and their borrowers due to covid-19. As a result, the various restructuring measures implemented included legal and regulatory constrictions; new

agreement of loan repayments methods and actions on eventualities of uncertainties such as provision of collaterals that could guarantee non-failure of payments; and tenure payment commitments such that loans are paid on time.

Orichom and Omeke (2021) evaluated how the MFI's performance was affected by management of credit and structure of ownership in Uganda. Cross-sectional design was adopted in collection of data from sixty-four MFIs. The study used statement of affairs and profit and loss accounts to make conclusions on viability, portfolio quality and operational efficiency. The various credit management aspects measured included appraisal, monitoring, and mitigation. According to Orichom and Omeke (2021), credit management had a positive influence while structure of ownership had a negative influence on performance. There was failure to include other credit (debtor's) management such as evaluation of defaulted loan facilities. The current study would therefore collect data on defaulted loan facilities

Danstun and Harun (2019) examined how the MFIs' portfolios were affected by changes on policies related to collection of debts in Tanzania. The study selected two hundred and nineteen MFIs participants from the three regions randomly. The policies in question related to charged interest rate, size of the loan, grace period and tenure of the loan. Data was derived from the senior managers of the MFIs and as well as secondary data from financial reports. According to Danstun and Harun (2019), grace period and the size of the loan had a positive influence while charged interest rate and tenure of the loan had a negative influence on the performance, which increases portfolio risk. However, since loan repayment is done over a long period of time which at time is affected by inflation

and policies changes enacted by the government, Danstun and Harun (2019) could have assessed the impact they had on interest rates.

Kiai *et al.* (2021) investigated how MFIs' performance was influenced by the characteristics of an organization in Kenya. Among the characteristics, credit (debtors') management was assessed. The study worked with financial reports and records from thirteen licensed MFIs. The findings revealed that management of credit did not affect performance. These results contradicted Orichom and Omeke (2021) who was of the contrary opinion. However, Kiai *et al.* (2021) assessed bad debt ratio as a credit management practice on ROA as a financial performance measure. Probably, if Kiai *et al.* (2021) could have included ROE, NOPM and ROCE, as measures of performance while appraisal and monitoring of credit as measure of credit management, the results could have been different.

2.4.3 Firm Size, Current Assets Management and Financial Performance

Ahmad *et al.* (2023) examined how corporate governance and firm size moderated the relationship between financial performance and crisis in United Kingdom (UK) firms. The study included 351 firms reports from 2002 to 2018 using the random effect model. The study adopted the profit maximization theory to elaborate the variables of the study. Therefore, the findings indicated that the financial performance of firms in UK became low particularly after the covid-19 pandemic. Additionally, the corporate governance and firm size had a positive moderating influence on financial performance and crisis.

Díaz-Martín *et al.* (2021) explored on how eighteen MFI's performance came about as a result of gender representation in Argentina. The various aspects assessed included

solvency, productivity, loan quality portfolio and firm size. The study assessed and relied on secondary data which included financial reports of 2002-2018. The attributed measured under firm size included total net assets while ROA measured financial performance. The results related to firm size indicated that it had a low influence on financial performance as compared to solvency, productivity, loan quality portfolio.

According to Díaz-Martín *et al.* (2021), the growth or decline of the firm size, is highly dependent on other aspects such as quality of the loans offered, productivity of the operations departments and liquidity of the MFI. This is because, these aspects increase or decrease the expenditures which in turn could either increase or decrease the total net assets. That notwithstanding, Díaz-Martín *et al.* (2021) failed to include respondents such as managers and officers who would offer firsthand information on the concerns that were causing high expenditures withing the Argentina's MFIs. Therefore, the current study would include various management staff to get their opinion in regards to current asset management metrics.

Dalci and Tanova (2019) explored on how the interaction between firm profitability and management of capital was influenced by firm size as a moderating factor in Germany. The study assessed various 285 non-financial firms' profitability cycles for a period of eight years (2006-2013) using their reports. According to Dalci and Tanova (2019), the firm size had the ability to shorten or extend the cash conversion cycle. That is, if the firm size becomes small over time, converting capital to cash take more time hence the ROA declines and when the firm size becomes larger over time, converting capital to cash takes less time hence the ROA increases. However, Dalci and Tanova (2019)

assessed only non-financial firms and not including the financial firms in their study. The current study would only consult secondary data from registered financial MFIs.

Further, Adusei (2019) investigated if size of an MFI mattered in the relationship between gender diversity in the Board of Management (BOM) and technical efficiency. The study included 418 MFIs in 64 nations. The secondary data was collected from the institutions from 2010-2014. According to Adusei (2019), when there is not gender diversity in the BOM, the technical efficiency was negatively affected however, the size of MFI dictates a lot on the inclusivity of each gender (33% on minority gender) to boost technical efficiency. Nevertheless, this was not been achieved in global nations such as America and Europe where the debate to allow a 20% and 40% women representation respectively in MFIs was proving to be a difficult task but it is slowly and surely happening. Regrettably, Adusei (2019) did not address policy interventions that have been currently suggested to fasten the process of gender inclusivity in BOMs.

Fadeyi *et al.* (2021) reviewed the growth aspects of MFI banks particularly related to small holders in Nigeria. The study reviewed articles related to the subject matter from 2007 to 2019. The study had various tiers such as interest rates, firm size and credit limit. According to Fadeyi *et al.* (2021), firm size and credit limit had a positive influence to instigate growth in MFI banks but interest rates had a negative influence. In relation to firm size, when the MFI made adequate sales, it had the ability to improve its performance since there would be reliable cashflows. That notwithstanding, the most reviewed studies related to journal and articles written by individual authors. Relying on these sources limited the study to make conclusions which are biased on the basis of

personal opinions rather than facts. The current study would collect data from audited financial reports from CBK that contained MFI's performance information.

Mulugeta and Leyla (2022) assessed what internal and external factors affected MFIs' financial performance in Ethiopia. The study sampled seventeen MFIs whose panel data between 2011-2018 was examined. The aspects assessed under performance were ROA while firm size was examined by total assets. According to Mulugeta and Leyla (2022), the external factors such as concentration in the market were significant, while the internal factors such as capital to asset ratio and debt to equity ratio had negative influence while operational efficacy, portfolio quality and firm size had a positive influence on ROA. Therefore, the study suggested that the MFIs need to come up with more robust savings strategies that would motivate their clientele to save more hence improve their deposits which is a current asset hence in the long run improving their performances. That notwithstanding, Mulugeta and Leyla (2022) did not examine other indicators of firm size such as total income.

Ayo and Muba (2021) paid attention to how listed firms' performance were influenced by the structure of the capital controlled by the firm size in Tanzania. The results revealed that when firm size is in the relationship, total debt to asset ratio and total equity ratio had a positive influence on ROA while total debt to equity ratio had a negative influence. Therefore, Ayo and Muba (2021) advised that firms should evaluate their strategies that are related to clientele base, net assets, and sales, as a means of increasing not only their profitability by ensure they thrive and increase their sizes in a competitive market niche.

Ishmail *et al.* (2023) explored on how the interaction between MFIs' performances and risk associated with lending was affected by firm size in Kenya. Thirteen MFIs were selected and their 9-year (2011-2019) reports analyzed. The study concluded that firm size had a significant moderating effect on risk associated with lending and performance. Therefore, the larger the MFI, the easier it was managing risks associated with lending. Nevertheless, there were specks of deteriorating quality of assets and non-performing loans portfolios in Kenyan MFIs. That notwithstanding, Ishmail *et al.* (2023) did not examine other indicators of firm size such as total income and market value of equity which the current study would do.

Gichobi and Omwaga (2021) investigated how MFIs' performance was influenced by practices that related to financial management and moderated by firm size. The study used causal research design to collect data from thirteen MFIs in Kenya selected using census method. The main data collected as secondary in nature based on financial reports dating 2015-2019. According to Gichobi and Omwaga (2021), firm size had a positive influence on the relationship between MFIs' performance and financial management. This was because the board characteristics, financing mix, asset and liabilities management were pegged on how big or small an MFI was. That notwithstanding, Gichobi and Omwaga (2021) provided descriptive findings on the gender of the board members based on secondary data. The study could have used questionnaires to inquire such kind of information since financial reports were documented every financial year which was a long period of time to ascertain their exact numbers. Some could have resigned in the cause of the year, hence ending up with misleading information.

Mulwa (2020) conducted a study on how deposit taking MFIs' financial performance was affected by its size. The study had noted that most of the financial literature had examined firm size as a moderating variable with very few considering its effect on performance. The study used reports from 6 MFIs dated 2011 to 2018. Notably, Mulwa (2020) measured MFI size on the metric of total assets and customer deposits while financial performance was examined using ROA. Therefore, the study established that total asset had a positive influence but customer deposits had a negative influence on performance. Regrettably, since Mulwa (2020) had used purely secondary data, it was not possible to ascertain the reason why clients had reduced making deposits in the bank. The study could have used a mixture of quantitative data such as questionnaires to get this particular information. The current study collected data using questionnaires and secondary data.

2.5 Summary of Gaps

The study provided the summary of the gaps based on the studies that were reviewed.

Table 2.1: Summary of Gaps

CASH MANAGEMENT

Past Studies	Year	Title of the Study	Methodology	Findings	Gaps
Pellegrina <i>et al.</i>	2021	Assessed how trainings in 56 MFIs were affected by management of institutional money and how	The study involved administering of questionnaires and review of financial reports. The participants were Women Peace	Officers that were forced to attend the training, did not have any major changes in their personal and professional	Did not reveal the numbers of respondents nor the sampling methods

		that brought around productivity in Italy.	Council [WPC] and loan borrowers and credit officers	money management practices, hence their work performance remained unchanged. However, the credit officers who attended the training without being forced indicated that they should significant improvement in their performance	used.
Duramany-Lakkoh	2021	Investigated how sustainability of the MFIs was measured prior to outbreak of Ebola in Sierra-Leone	The study included 17 MFIs whose performance was measured using ROA, ROCE and NOPM for the financial year 2011/2012.	The results indicated that there was an increment in loan portfolio coupled with declined costs of operations and provisions of bad debt in 2011.	Did not reveal the kind of methods used to collect the cash.
Abebe	2022	Examined how MFIs' financial performance was influenced by the management of their assets and liabilities in Sub-Saharan part of Africa.	The study sampled 106 MFI's report from 2014-2018 and used cost-accounting technique	The results as presented by Abebe (2022) revealed that only net loan portfolio was positively influenced by financial performance (specifically the ROA).	Suggested that the MFIs in Sub-Saharan part of Africa should improve their asset portfolios to widen their perspective. Notably, the study did not provide ways of improving management of assets

					such as cash to improve its performance
Njue <i>et al.</i>	2020	Assessed how MFIs' performance was affected by liquidity management in Kenya.	The study adopted a census method to select twenty-six MFIs. Secondary data from the MFI between 2012-2016 was used	It was noted that MFIs had low client deposit which meant that their operations were not adequately funded.	Did not provide various strategies implemented by MFIs to improve long-term and short-term assets that had high cash equivalence.
Mwambui and Koori	2019	Assessed how the MFIs' performance was influenced by management of liquidity in Kenya.	The study administered questionnaires to the respondents and as well as secondary data from reports to measure ROA	The results related to cash management indicated that having cash policies, ratios, forecasts, standard liquidity minimums, and reserves that were high improved performance.	Did not ROE which was relevant in an MFI.

DEBTORS MANAGEMENT

Past Studies	Year	Title of the Study	Methodology	Findings	Gaps
Danstun and Harun	2019	Examined how the MFIs' portfolios were affected by changes on policies related to collection of debts in Tanzania.	The study was conducted from three regions which were Dar es Salaam, Dodoma and Morogoro. The study selected two hundred and nineteen MFIs participants from the three regions	Grace period and the size of the loan had a positive influence while charged interest rate and tenure of the loan had a negative influence on the	Since loan repayment is done over a long period of time which at time is affected by inflation and policies changes enacted by the government, they could have assessed the impact they had on

			randomly. The study collected data from the senior managers of the MFIs and as well as secondary data from financial reports.	performance, which increases portfolio risk.	interest rates.
Mia <i>et al.</i>	2021	Explored on how MFI's performance was affected by female participants as borrowers and officers.	The study explored one hundred and seventy-two MFIs that were located in Eastern part of Europe and Mid-Asia	The results revealed that the female borrowers paid promptly their outstanding loan facilities led to improved performance in the sense that there was principal and interest paid.	In as much as study was informative it became rather imperative to use secondary data in defining the challenges women borrowers and officers were facing. The study could have interviewed the women or issued them with open-ended questionnaires to get more elaborate results on their challenges.
Kiai <i>et al.</i>	2021	Investigated how MFIs' performance was influenced by the characteristics of an organization in Kenya	Among the characteristics, credit (debtors') management was assessed. The study worked with financial reports and records from thirteen licensed MFIs.	The findings revealed that credit management had no influence on performance	They could have included ROE, NOPM and ROCE, as measures of performance while appraisal and monitoring of credit as measure of credit management, the results could have been different.

FIRM SIZE

Past Studies	Year	Title of	Methodology	Findings	Gaps
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		the Study			
Díaz-Martín <i>et al.</i>	2021	Explored on how the interaction between firm profitability and management of capital was influenced by firm size as a moderating factor in Germany.	The study assessed and relied on secondary data which included financial reports of 2002-2018.	The results indicated that it had a low influence on financial performance as compared to solvency, productivity, loan quality portfolio.	Failed to include respondents such as managers and officers who would offer firsthand information on the concerns that were causing high expenditures withing the Argentina's MFIs.
Dalci and Tanova	2019	Explored on how the interaction between firm profitability and management of capital was influenced by firm size as a moderating factor in Germany.	The study assessed various 285 non-financial firms' profitability cycles for a period of eight years (2006-2013) using their reports	Firm size had the ability to shorten or extend the cash conversion cycle. That is, if the firm size becomes small over time, converting capital to cash take more time hence the ROA declines and when the firm size becomes larger over time, converting capital to cash takes less time hence the ROA increases.	They assessed only non-financial firms and not including the financial firms in their study.
Adusei	2019	Investigated if size of an MFI mattered in the relationship between gender diversity in the Board of	The study included four hundred and eighteen MFIs in sixty-four nations. The secondary data	According to Adusei (2019), when there is not gender diversity in the BOM, the technical	Did not address policy interventions that have been currently suggested to fasten the process

		Management (BOM) and technical efficiency.	was collected from the institutions from 2010-2014.	efficiency was negatively affected however, the size of MFI dictates a lot on the inclusivity of each gender (33% on minority gender) to boost technical efficiency	of gender inclusivity in BOMs.
Mulugeta & Leyla	2022	Assessed what internal and external factors affected MFIs' financial performance in Ethiopia.	The study sampled seventeen MFIs whose panel data between 2011-2018 was examined. The aspects assessed under performance were ROA while firm size was examined by total assets	The external factors such as concentration in the market were significant, while the internal factors such as capital to asset ratio and debt to equity ratio had negative influence while operational efficacy, portfolio quality and firm size had a positive influence on ROA.	Did not examine other indicators of firm size such as total income and market value of equity.
Ayo and Muba	2021	Paid attention to how listed firms' performance were influenced by the structure of the capital controlled by the firm size in Tanzania	Secondary data was collected	The results revealed that when firm size is in the relationship, total debt to asset ratio and total equity ratio had a	There was need to expand in to Kenya.

				positive influence on ROA while total debt to equity ratio had a negative influence	
Ishmail et al.	2023	Explored on how the interaction between MFIs' performances and risk associated with lending was affected by firm size in Kenya	Thirteen MFIs were selected and their 9-year (2011-2019) reports analyzed	Firm size had a significant moderating effect on risk associated with lending and performance. Therefore, the larger the MFI, the easier it was managing risks associated with lending.	Did not examine other indicators of firm size such as total income and market value of equity which the current study would do.
Mulwa	2022	Conducted a study on how deposit taking MFIs' financial performance was affected by its size.	The study used reports from 6 MFIs dated 2011 to 2018. Notably, Mulwa (2020) measured MFI size on the metric of total assets and customer deposits while financial performance was examined using ROA.	The study established that total asset had a positive influence but customer deposits had a negative influence on performance.	The study used purely secondary data. It was not possible to ascertain the reason why clients had reduced making deposits in the bank. The study could have used a mixture of quantitative data such as questionnaires to get this particular information.

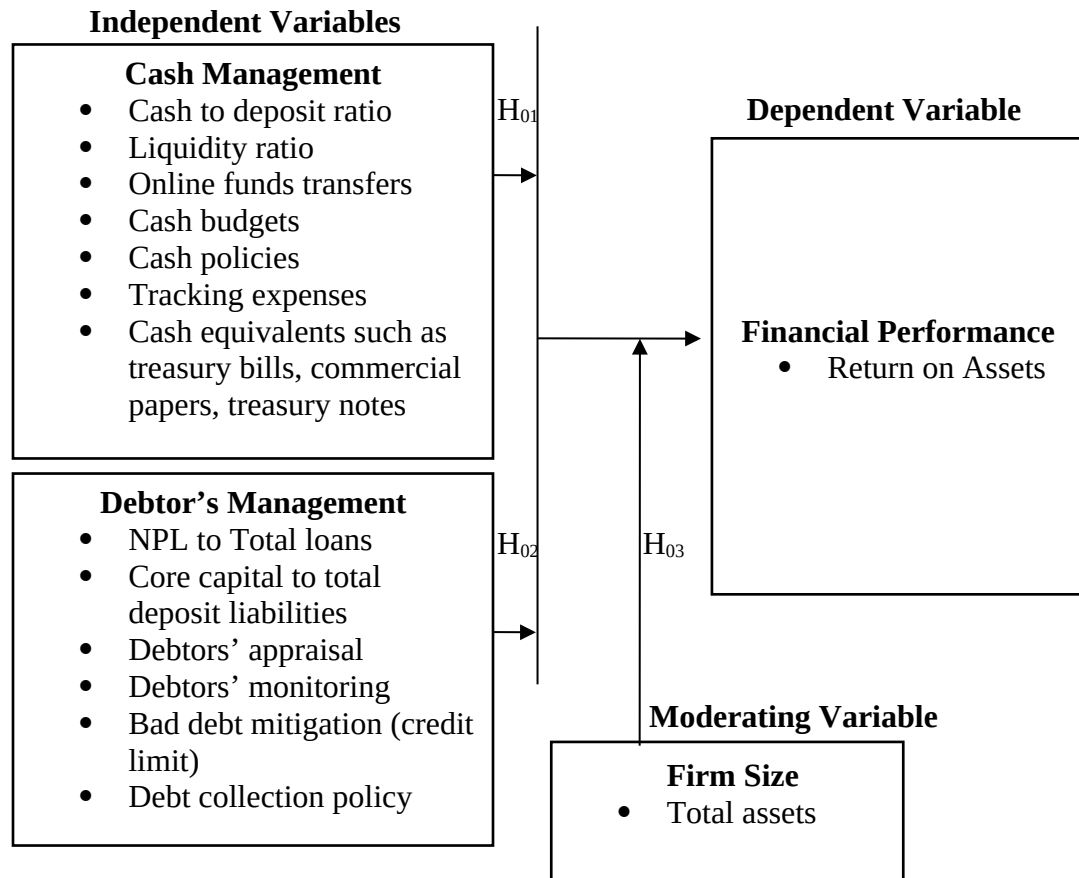
Source: Author (2023)

2.6 The Conceptual Framework

The study developed a diagrammatic representation to indicate the relationship that the variables have with each other. The dependent variable was financial performance while

the independent variables was cash management and debtors' management. The moderating variable was the firm size. Figure 2.2 indicates the conceptual framework of the study.

Figure 2.1: *Conceptual Framework*



Source: EC (2020); European Investment Bank (2022); CBK (2022)

The financial performance's indicator was Return on Assets (ROA). Cash management had indicators like cash to deposit ratio, liquidity ratio, online funds transfers, cash budgets, cash policies, tracking expenses and cash equivalents such as treasury bills, commercial papers, treasury notes. Debtor's management had indicators like NPL to Total loans, core capital to total deposit liability, debtors' appraisal, debtors' monitoring, bad debt mitigation (credit limit), and debt collection policy. Firm size had an indicator like total assets.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

In order to achieve the study's goals, the procedures for gathering useful data are described in this chapter. It looks at the study's area, population, and research design. The use of sampling methods, instruments for data collection, piloting, data collection procedures, and data analysis methods are also highlighted. Moral contemplations embraced finishes up the section.

3.2 Research Design

A research design is considered to be a plan that a study used when collecting information from various sampled participants (Sileyew, 2019). Descriptive survey design was appropriate for gathering data about current practices and opinions, while causal design helped to identify possible causes and effects among the variables of interest. Additionally, the study used descriptive survey and causal research design since the study gathered information regarding what were the reasons of consistent declining performance in asset quality of MFIs (Siedlecki, 2020). Additionally, the adoption of the design enabled the study to inquire on how are the MFIs sorting the problem and when is it likely to be addressed. Further the study inquired about where exactly is the problem in various aspects such as cash management, debtors' management and firm size, through quantitative data.

3.3 Area of the Study

The study was conducted in Kenya at the headquarters of the licensed MFIs. The headquarters of MFIs will be considered since the current asset management operations related to financial policy strategies are mainly done at the headquarters and minimally at branch levels such as extension of credit. The Kenyan MFIs have been faced with issues related to high financial risks exposure as they vehemently compete with other banks and Saccos who offer analogous products (Muthama & Warui, 2021). There have also been cases where the microfinance institutions lack adequate capital to lend huge amounts of credit to qualified clients hence ending up disappointing potential clients. Additionally, the MFIs have also experienced tough government regulations particularly in paying high levies and taxes hence reducing their assets in a great way (Shakir, 2022).

3.4 Target Population and Sample Size

A target population is defined as an item or institution which has the required respondents to participate and provide relevant results in a study (Mishra, et al., 2019). The unit of analysis was 13 licensed MFIs from which a target population of 134 respondents (compliance managers, investment managers, operations managers, credit managers, finance managers, and accountants) was derived. The study collected both primary and secondary data on all MFI registered at CBK as at December 2022.

A compliance manager was a staff in charge of the risk management attributes and policy structure amenability. An investment manager was any senior personnel in charge of the investment operations. They were relevant in the study since they explained the aspects that have been affecting their MFI size in relation to various cash and debtor's

management methods used. Operations and finance managers were any senior staff in charge of supervising deposit and withdrawal records and receiving cash in form of deposits and issuing withdrawals.

They explained in more details on the procedures for assessing debtors' risk, and how the MFIs manage cash in their operations. Credit manager was any senior staff in charge of supervising loan portfolios and oversee the appraisal of borrowers. They shed light on how various debtors are managed in regards to appraisal methods, debt monitoring, bad debt mitigation (credit limit), and debt collection policies in place. The target population is indicated in Table 3.1.

Table 3.1: *Target Population*

No	MFI	Compliance Manager	Investment Manager	Operations Manager	Credit Manager	Finance manager	Accountants	Total
1.	Branch	1	1	1	1	1	5	10
2.	Caritas	1	1	1	1	1	3	8
3.	Choice	1	1	1	1	1	4	9
4.	Daraja	1	1	1	1	1	5	10
5.	Faulu	1	1	1	1	1	10	15
6.	Kenya Women	1	1	1	1	1	8	13
7.	LOLC	1	1	1	1	1	5	10
8.	Maisha	1	1	1	1	1	4	9
9.	Salaam MFI	1	1	1	1	1	3	8
10.	Rafiki	1	1	1	1	1	6	11
11.	SMEP	1	1	1	1	1	6	11
12.	Sumac	1	1	1	1	1	5	10
13.	U & I	1	1	1	1	1	5	10
	Total	13	13	13	13	13	69	134

Source: Licensed MFIs (2023)

3.5 Sample Size and Sampling Technique

Sampling is the process of sieving a population to have representatives that are consulted in collection of data hence making the study practical and effective (Memon et al., 2020). Further on, the study used Yamane (1967) formula to sample the 134 respondents. The formula by Yamane was used since it is reliable and had previously been used by diverse studies to establish the sample size. The 5% margin error was chosen as a representative of accuracy level of the formula in determining the sample. It is as elaborated:

Where:

n = Sample size

N = Target population

e = Proportion of the study (0.05)

$N = 100$ Sample population

Therefore, the managers and accountants were selected using stratified simple random sampling method. This resulted to 13 compliance managers, 13 investment managers, 13 operations managers, 13 credit managers, 13 finance managers and 35 accountants.

3.6 Data Collection Instruments

These are techniques used to assemble data that is useful in a review. The study collected data using quantitative instruments (Busetto *et al.* 2020; Schoonenboom, 2023). The primary data was collected using questionnaires from the managers

(appendix II). Secondary data which involved balance sheets and income statements reports from 2018-2022 and was collected from the website of the MFIs (appendix III).

Table 3.2: *Primary and Secondary Data Metrics*

PRIMARY DATA		
Variable	Measure	
Cash Management	Five Point Likert Scale	
Debtors' Management	Five Point Likert Scale	
Firm Size	Five Point Likert Scale	
Financial Performance	Five Point Likert Scale	
SECONDARY DATA		
Variable	Measure	Formular
Cash Management	Cash to deposit ratio	<u>Cash and bank balances</u> Customer deposits
	Liquidity ratio	<u>Current assets</u> Current liabilities
Debtors' Management	NPL to Total loans	<u>NPL</u> Advances to customers
	Core capital to total deposit liabilities	<u>Core capital</u> Total deposit liabilities
Firm Size	Total assets	Natural log of total assets
Financial Performance	Return on assets	<u>Profit before tax</u> Total assets

Source: Field Data (2023)

3.6.1 Questionnaires for Managers

The study administered closed-ended questionnaires to managers (appendix II). The questionnaires had Ordinal Likert Scale whereby it indicated strongly disagree, 2 indicated disagree, 3 indicated neutral, 4 indicated agree and 5 indicated strongly agree. The Likert scale was chosen to capture the degree of agreement or disagreement with

specific statements, which can provide quantitative insights into managers' perceptions of financial practices and risk management. The questionnaire was divided in five sections. Questions relating to the staff's background were included in the first section.

Six questions on financial performance and cash management were included in the second section. Six questions about debtors' management and financial performance were included in the third section. The moderating effect of firm size on current asset management and financial performance was the subject of six questions in the fourth section. Six questions about MFIs' financial performance were included in the fifth section. In addition, the study's questions were closely guided by the indicators of each variable and study gaps identified in reviewed studies.

3.6.2 Secondary Data

Secondary data was also gathered from the MFIs' financial reports for the study. (appendix IV). Therefore, the study used financial reports such as income statement and balance sheet so as to derive various information regarding cash to debt ratio, liquidity ratio, NPL to total debt, core capital to total deposit liabilities, total income, total assets, and return on assets.

3.7 Pilot Test

A pilot test is a test carried out to guarantee that the data collection instruments have questions that are relatable to the study and could be used in more than one study (Wadood *et al.*, 2021). Pilot test study was conducted in Muungano MFI and it was not included in the main study. This is because it offers microfinance products hence has required staff capacity to elaborate on the study's subject matter. The study by O'Neill

(2022) indicated that a pilot test should always be ten percent of the sampled population. In relation to this, the respondents therefore were 1 compliance manager, 1 investment manager, 1 operations manager, 1 credit manager, 1 finance manager and 5 accountants sampled using stratified simple random method.

3.7.1 Validity

Validity is the process of ensuring that the instruments of data collection are able to measure what they are supposed to measure with uttermost clarity (Surusu *et al.*, 2020). The study examined three types of validity which are face, content, criterion and construct validity. Face validity was measured by ensuring that the data collection instruments assess the influence of each current assets' management variables on the financial performance.

That is the influence of cash management, debtors' management and firm size on financial performance. Content validity was measured by ensuring that the questionnaires ask questions related to the variables of the study and not off topic questions. It was thus tested using industry experts. Criterion validity was ensured when every finding generated by the study was compared to past studies. Construct validity was measured through a factor analysis to examine validity of the instruments. Notably, Istiyono and Supahar (2019) provided that it should have a cumulative percentage of 50% is acceptable but more preference is on 60% and above.

3.7.2 Reliability

Reliability is the process of making sure that the data collection instruments become trustworthy and could be used in more than one study, over and over (Taber, 2018). The

study ensured that the results derived on data collection instruments during piloting are measured using Cronbach Alpha Coefficient (Taber, 2018). This was a method that had a range from 0 to 1 whereby from 0 to 0.69 indicated unreliability while 0.7 to 1 indicated reliability of the instruments. A Cronbach's alpha of 0.7 is generally accepted as the minimum threshold for reliability, indicating that the data collection instruments provide consistent results across various items measuring the same concept.

3.8 Data Collection Procedure

The study got all the required approvals from university through an introduction letter. Thereafter, the study obtained government approvals of NACOSTI research permit. The researcher did not consult the services of research assistants but rather personally collect data. On the day of data collection, the researcher visited each of the sampled MFIs and met with the manager. The purpose of the meeting was to request for authorization to collect data from the MFI (appendix I). The researcher provided a small background information on the objectives and sampled population. Once the manager approved data collection to proceed, the researcher requested to be shown how to identify other respondents.

After the researcher identified them, their consent was requested and when they agreed, the self-administered questionnaires were distributed to them using drop and pick method (appendix II). Thereafter, the researcher thanked the managers and securely stored the information derived for further data analysis. If the managers were not present to answer the questionnaires, the researcher offered them a period of one week to come and collect data after a week duration of time. After a week, the researcher came and collected data

as agreed from the respondents. This agreement helped mitigate delays and ensure high data collection standards. Secondary data was collected through downloading the central bank financial reports for the required timelines to provide information required on cash management, debtors' management and firm size indicators. The information derived from the secondary data analysis was later forwarded to the analysts for further analysis.

3.9 Data Analysis and Presentation

The study analyzed quantitative data where the researcher cleaned and sort out the questionnaires to remove the incomplete questionnaire and unanswered ones. There will be a minimum completion rate of 80% of questions answered, to ensure transparency in the data cleaning process. Thereafter, the data was entered into SPSS version 25 for reports generation. This software was paramount since it had capabilities in handling complex statistical tests such as regression analysis and it was easy to use during data interpretation. The study analyzed descriptive statistics such as frequencies, percentages and mean. Additionally, the study also analyzed inferential statistics such as Pearson correlational analysis to test the hypothesis and Ordinary Least Squares [OLS] multiple regression model to examine the percentage influence of current asset management on performance. The first model was as follows:

$$Y_{\text{perf}} = \beta_0 + \beta_1 \text{CM} + \beta_2 \text{DM} + \epsilon$$

Where: Y = Financial performance

β_i = Coefficients to be estimated

β_0 = Constant

CM = Cash management

DM = Debtors management

ϵ = Error term

Further, for the effect of moderation, hierarchical regression was undertaken as indicated:

$$Y_{\text{perf}} = \beta_0 + \beta_1 \text{CM} + \beta_2 \text{DM} + \beta_3 \text{FS} + \beta_4 \text{CMFS} + \beta_5 \text{DMFS} + \epsilon$$

Where:

Y = Financial performance

β_i = Coefficients to be estimated

β_0 = Constant

CM = Cash management

DM = Debtors management

FS= Firm Size

ϵ = Error term

CMFS= Interaction term

DMFS= Interaction term

Notably, CMFS and DMFS assessed how firm size moderated the relationship between cash/debtors' management and financial performance. In relation to presentation, the study used tables, figures, and explanations to elaborate the findings.

3.10 Diagnostic Tests

The study satisfied various regression assumptions through conducting diagnostic tests such as normality, linearity, multicollinearity and autocorrelation.

3.10.1 Normality Test

The normality test was employed to examine if the set of data was adequately modelled and normally distributed. Therefore, this enabled the study to calculate the likelihood that a value of the independent variable underpinning the collected data was normally distributed. Normality was majorly tested using Kolmogorov-Smirnov whereby the p-values was supposed to be above 0.05, for the data to be normally distributed (Mishra, 2019).

3.10.2 Linearity

This was the linear function of the independent variables on dependent variable so that a study could perform various linear regression analysis. It meant the two variables were related when their p-values are above 0.05 (Epshtein, 2019).

3.10.3 Multicollinearity

Multicollinearity test was used to ascertain the ability of independent variables to have an influence on the dependent variable and not the other way round. The Variance Inflation Factor (VIF) of less than 10 and tolerance level of above 0.2 was used in this study to assess multicollinearity (Daoud, 2019). Multicollinearity testing ensured variables did not overlap in their explanatory power.

3.10.4 Autocorrelation

The study tested autocorrelation to determine whether the independent variables had strong characteristics when they interacted with each other. A Durbin-Watson statistic between 1.5 and 2.5 generally indicates no significant autocorrelation, aligning with best

practices in regression analysis. Additionally, Pearson Correlation (p-values less than 1 at significant level), was also used to determine whether autocorrelation was present (Turner, 2019). Autocorrelation checks to confirm that observations are independent over time.

3.10.4 Homoscedasticity

The study also tested homoskedasticity to determine whether error term variance was constant across all the independent and dependent variables. The study used scatter plot to determine homoscedasticity among the variables. It was ascertained when the residuals were equally distributed. Homoscedasticity ensured consistent variance across independent and dependent variables, which was essential for accurate regression results.

3.11 Ethical Consideration

The study sought NACOSTI license to be in a position of collecting primary data from the MFIs. Further, the fact that managers reserved the right to allow their organization to participate in the study was respected in this study (appendix I). All participants were asked to give their consent to the study's request for their data. The assent was mentioned through an introductory letter which went with the data collection instruments (supplement II). The nature and motivation behind the exploration was cleared up for the respondents by the specialist in order to alleviate any apprehensions of other ulterior thought processes other than scholarly examination. The identities of respondents from whom data were gathered during the study were kept private. The participants had the

option to withdraw at any time without repercussions. This enhanced ethical transparency and demonstrated respect for participants 'autonomy.

Data was stored in a private place with password-protected files with only the analyst and researcher having access to data. Respondents were not expected to reveal their names as part of maintaining anonymity. The participants were not forced to complete the questionnaire at a time that was convenient for the researcher; rather, the completed questionnaires were returned at a time that was convenient for the researcher and agreed upon. Except for the purposes of data analysis, no other individuals were given access to the responses that were obtained from respondents. Incredible consideration was taken to guarantee genuineness during information examination and report composing. In data analysis, the study ensured that the findings were reported honestly and without data manipulation.

CHAPTER FOUR

RESULTS AND DISCUSSION

4.1 Introduction

The chapter provides the results and the resultant interpretations. It specifically addresses the response, reliability, demographics, and diagnostic tests. Demographic information will help understand the qualifications of respondents, and diagnostic tests will validate the reliability of statistical analysis. Additionally, the secondary data and descriptive results of cash management, debt management and firm size and financial performance are also provided in details. Notably, the linear, multiple and moderating regression analysis results concludes the chapter.

4.2 Response Rate

The study issued 100 questionnaires to various respondents and the results are provided in Table 4.1.

Table 4.1: *Response Rate*

Respondents	Response	Percentage
Issued Questionnaires	100	
Unreturned questionnaires	12	
Returned Questionnaires	88	88%

Source: Field Data (2023)

The results in Table 4.1 point out that there were 12 unreturned questionnaires while 88 questionnaires were returned and had been fully filled which translated to 88%. Notably, Wu et al. (2022), an 80% responses rate indicated excellent feedback on a survey. The outcome hence implies that the study was successful since the respondents answered the questionnaires in more than 80%. The 20% composing of the unreturned questionnaires was due to respondents not present during the data collection process and this did not pose a major weakness on the quality of the results.

4.3 Reliability Tests

The study pre-tested the questionnaires at Muungano MFI whereby randomly selected participants answered them. The rationale for selecting Muungano MFI for the pre-test, had similarities between its operational environment and those of the study's main MFIs. The outcome is in Table 4.2.

Table 4.2: *Reliability Test*

Variables	N	Cronbach Alpha
Cash Management	7	0.921
Debtors Management	6	0.887
Firm Size	5	0.910
Financial Performance	6	0.863
Overall		0.895

Source: Field Data (2023)

Based on the results presented in Table 4.2 provides that the Cronbach values for cash management is 0.921; debtors management is 0.887; firm size is 0.910; financial

performance is 0.863; and the overall coefficient is 0.895. A score of 0.921; 0.887; 0.910 for cash management, debtors' management and firm size implied high reliability in responses related to cash, debtors and firm size management practices. The results are all above 0.7 which was an implication that the questionnaires were reliable and could be trusted to be used even in future studies. This is because Taber (2018) pointed that a range of 0 to 0.69 indicated unreliability while 0.7 to 1 indicated reliability of the instruments.

4.4 Factor Analysis

The KMO test measures sampling adequacy, ensuring sufficient correlations between variables for factor analysis, while Bartlett's test checks for sphericity to confirm that factor analysis is suitable for the data.

4.4.1 KMO and Bartlett's Test Results

The study conducted a KMO and Bartlett's Test as indicated in Table 4.3.

Table 4.3: *KMO and Bartlett's Test Results*

Kaiser-Meyer-Olkin Measure of Sampling Adequacy.		.659
	Approx. Chi-Square	13.960
Bartlett's Test of Sphericity	df	6
	Sig.	.000

Source: Field Data (2023)

As determined in Table 4.3, the KMO index is 0.559 and a Bartlett's Test is 0.000. Therefore, since the KMO's index is greater than 0.5 and the p-value of Bartlett's Test is less than 0.01, it was significant and satisfactory.

4.4.2 Total Variance Test

The study conducted a total variance Test as indicated in Table 4.4.

Table 4.4: *Total Variance Explained*

Component	Initial Eigenvalues			Extraction Sums of Squared Loadings			Rotation Sums of Squared Loadings ^a
	Total	% of Variance	Cumulative %	Total	% of Variance	Cumulative %	Total
1	1.459	36.466	36.466	1.459	36.466	36.466	1.457
2	1.042	26.045	62.510	1.042	26.045	62.510	1.044
3	.821	20.524	83.034				
4	.679	16.966	100.000				

Extraction Method: Principal Component Analysis.

a. When components are correlated, sums of squared loadings cannot be added to obtain a total variance.

Source: Field Data (2023)

The results of Table 4.4 indicate that there were two factors that were above 1.000 and the variance explained by the values were 62.510%. This is whereby the contribution of the first factor to the variance was 36.466% while the second factor contributed 26.045%. When combined the two factors contribution was above 50% meaning that the study's instruments would be able to measure what they were purposed to measure. According to Istiyono and Supahar (2019), a cumulative percentage of 50% is acceptable but more preference is on 60% and above.

4.4.3 Factor Loading

The study conducted a factor loading using the component matrix as indicated in Table 4.5.

Table 4.5: *Component Matrix*

	Component	
	1	2
Cash Management	.772	.039
Debtors Management	.664	.125
Firm Size	.619	-.469
Financial Performance	.198	.897

Extraction Method: Principal Component Analysis.

a. 2 components extracted.

Source: Field Data (2023)

As shown in Table 4.5, cash management (0.772) and debtors management (0.664) showed strong correlation loading in component 1.

The study conducted a Factor rotation using rotated component matrix as indicated in Table 4.6.

Table 4.6: *Rotated Component Matrix*

	Component	
	1	2
Cash Management	.766	.100
Debtors Management	.652	.177
Firm Size	.654	-.419
Financial Performance	.127	.910

Extraction Method: Principal Component Analysis.

Rotation Method: Varimax with Kaiser Normalization.

a. Rotation converged in 3 iterations.

Source: Field Data (2023)

As shown in Table 4.6, the factor that had highest rotation was cash management with 0.766 followed by debtors' management with 0.652.

4.5 Demographic Information

The first section of the questionnaire inquired mainly on personal information such as job positions academic qualifications and experience of the participants. There was need to understand whether the people entrusted with the management of MFIs had requisite experience and the academic qualification to improve performance or not. Table 4.7 indicates the outcome.

Table 4.7: *Demographic Information*

Job Positions	Frequency	Percentage	Cumulative Percentage
Compliance managers	10	11.4	11.4
Investment managers	11	12.5	23.9
Operations managers	9	10.2	34.1
Credit managers	20	22.7	56.8
Finance managers	16	18.2	75
Accountants	22	25	100
Total	88	100	
Academic Qualifications	Frequency	Percentage	Cumulative Percentage
Post graduate	20	22.7	22.7
Bachelor's Degree	32	36.4	59.1
Diploma	22	25	84.1
Professional Certificate	14	15.9	100
Total	88	100	
Work Experience	Frequency	Percentage	Cumulative Percentage
Over 10 years	18	20.5	20.5
6-10 years	21	23.9	44.4
2-5 years	39	44.2	88.6
Less than 1 year	10	11.4	100

Total	88	100
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Source: Field Data (2023)

The results in Table 4.7 indicate that there were 22(25%) accountants and 20(22.7%) credit managers who were major respondents. However, 9(10.2%) operations managers comprised of the respondents who participated minimally in the study. Further, 32(36.4%) and 22(25%) of the participants had bachelor's degree and diploma respectively. Nevertheless, 14(15.9%) had a professional certificate. Notably, 39(44.2%) of the participants had worked in the MFI for 2-5 years while 21(23.9%) had worked for 6-10 years. However, 10(11.4%) had worked for less than 1 year.

The results implied that the respondents such as accountants participated in great numbers. It was also noted that the entire group of participants were qualified to work in the MFI and more specifically to manage current assets. In addition to that, they also had substantive years of experience needed to understand and implement management decisions on various current asset management strategies. Therefore, this shows that the poor performance in MFI was not as a result of years of experience nor the education level of the staff working in the institution. In support of the findings, Adusei (2019) indicated that managers' educational background and work experience dictated a lot on their quality of decisions. This had a direct impact on the success of an MFI in the long-term.

4.6 Diagnostic Tests

The study conducted various diagnostic tests to examine whether the data conformed to various regression analysis assumptions like normality, linearity, multicollinearity, homoscedasticity and autocorrelation.

4.6.1 Normality Test

Normality test was examined and presented through the help of Kolmogorov-Smirnov as presented in Table 4.8.

Table 4.8: *Normality Test*

		Cash Management	Debtors Management	Firm Size	Financial Performance
N		88	88	88	88
Normal Parameters ^{a,b}	Mean	21.1477	25.4598	16.352 3	24.4205
	Std. Deviation	5.08444	3.06065	3.7263 9	2.92324
Most Extreme Differences	Absolute	.114	.110	.069	.113
	Positive	.078	.069	.060	.059
	Negative	-.114	-.110	-.069	-.113
Kolmogorov-Smirnov Z		1.071	1.029	.643	1.057
Asymp. Sig. (2-tailed)		.202	.241	.803	.214

a. Test distribution is Normal.

b. Calculated from data.

Source: Field Data (2023)

The results in Table 4.8 indicate that the p-value for cash management is 0.202; p-value for debtors' management is 0.241; p-value for firm size is 0.803 and p-value for financial performance for financial performance is 0.214. As per Mishra (2019), the p-values should be above 0.05 for data to be considered normal. Therefore, since all the values are above 0.05, the study was certain that the analysed data was contemplated as portraying a normality acumen.

4.6.2 Linearity Test

The study conducted linearity test to determine whether there was any working relationship between the independent and the dependent variable as described in Table 4.9.

Table 4.9: *Linearity Test*

			Sum of Squares	df	Mean Square	F	Sig.
Financial Performance *	Between Groups	(Combined)	207.084	19	10.899	1.382	.166
		Linearity	7.810	1	7.810	.990	.323
		Deviation from Linearity	199.274	18	11.071	1.404	.159
Cash Management	Within Groups		536.359	69	7.888		
	Total		743.443	88			
Debtors Management	Between Groups	(Combined)	99.024	12	8.252	.948	.505
		Linearity	3.546	1	3.546	.407	.525
		Deviation from Linearity	95.478	11	8.680	.997	.457
	Within Groups		644.079	76	8.704		
	Total		743.103	88			
Firm Size	Between Groups	(Combined)	126.584	15	8.439	.985	.480
		Linearity	2.241	1	2.241	.262	.611
		Deviation from Linearity	124.343	14	8.882	1.037	.429
	Within Groups		616.859	73	8.567		
	Total		743.443	88			

Source: Field Data (2023)

The results in Table 4.9 indicate that the significance value for cash management was 0.159; significance value for debtors' management is 0.457; significance value for firm size is 0.429. According to Epshtein (2019), the significance had to be above 0.05 for the data to indicate that there was a linear relationship. Therefore, since all the values were above 0.05, the study ascertained that the data collected on the independent variable was linear to the dependent variables.

4.6.3 Multicollinearity Test

The study examined whether there were multicollinearity concerns on the set of the collected data as described in Table 4.10.

Table 4.10: *Multicollinearity Test*

Model		Collinearity Statistics	
		Tolerance	VIF
1	(Constant)		
	Cash Management	.881	1.135
	Debtors Management	.925	1.081
	Firm Size	.927	1.079

Source: Field Data (2023)

The results in Table 4.10 indicate that cash management has a tolerance value of 0.881 and VIF of 1.135; debtor's management has a tolerance of 0.925 and VIF of 1.081; and firm size has a tolerance of 0.927 and VIF of 1.079. According to Daoud (2019), for a data set to not have multicollinearity, its tolerance had to be above 0.2 And VIF of less than 5. Therefore, the data collected satisfied this requirement hence an indication that the influence came from the cash management, debtors' management and firm size of performance and not the influence from performance on each independent variable.

4.6.4 Autocorrelation Test

The study also conducted an autocorrelation test to assess whether the variables were correlated to each other using the Durbin Watson method as described in Table 4.11.

Table 4.11: *Autocorrelation Test*

Model	Durbin-Watson
Cash Management	1.770
Debtor's Management	1.825
Firm Size	1.779

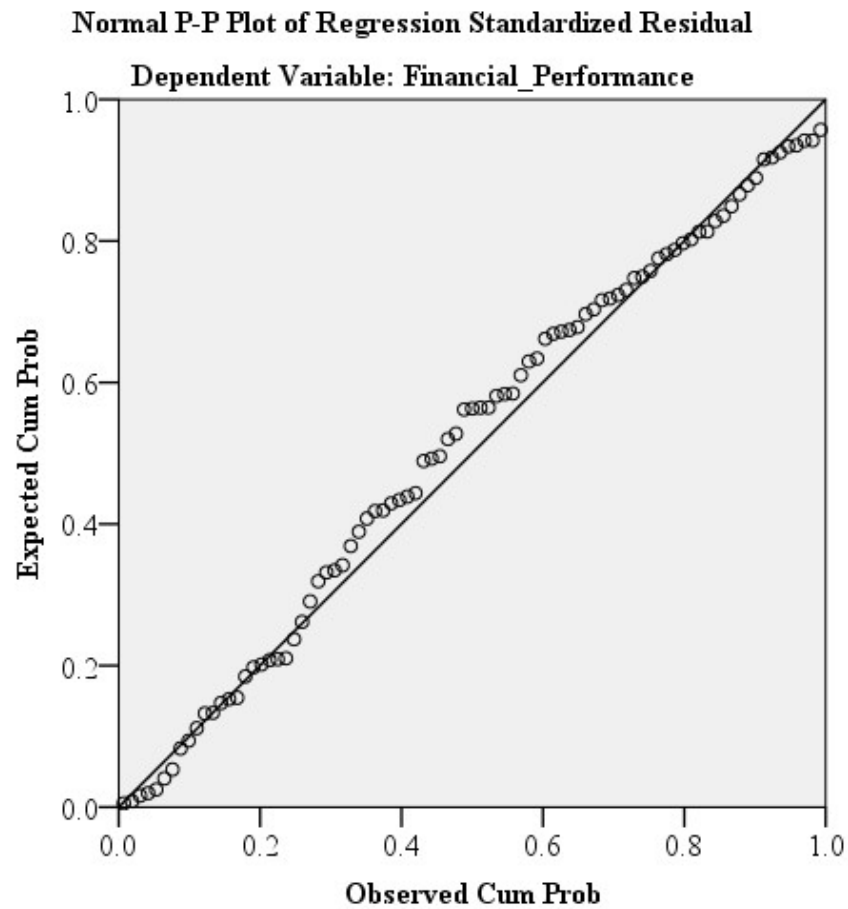
Source: Field Data (2023)

The results in Table 4.11 indicate that, cash management had a Durbin-Watson value of 1.770; Debtors' management had a Durbin-Watson value of 1.825; and firm size had a Durbin-Watson value of 1.779. According to Turner (2019), the Durbin-Watson had to have values within a range between 1.5 and 2.5 for no autocorrelation problem. Therefore, based on this enlightenment, the study substantiated that the variables were positively correlated to each other. This implied that they could easily interact and not influence the characteristics of each other. If high autocorrelation were present, it could indicate that certain omitted variables influence your dependent variable.

4.6.5 Homoscedasticity Test

The study also used scatter plots to test whether the data conformed to homoscedasticity assumption as described in Figure 4.1.

Figure 4.1: *Scatter Plot for Homoscedasticity*



Source: Field Data (2023)

The results in Figure 4.1 indicate that the residuals of the study's data are equally distributed over the specified area. This meant that the error term was constant in all variables hence signifying that the data was not skewed to any direction which could have indicated the presence of heteroskedasticity (Yang et al., 2019).

4.7 Descriptive Results of Cash Management

Cash management was measured using cash to deposit ratio, liquidity ratio, online funds transfers, cash budgets, cash policies, and tracking expenses. The study collected both secondary and primary data as described in sections 4.7.1, 4.7.2, and 4.7.3.

4.7.1 Secondary Data Results of Cash to Deposit Ratio of MFIs

The data was collected from the balance sheets of the MFIs dating from 2018 to 2022. The CBK (2018-2022) provided accurate source of information for the computation of the cash to deposit ratio as described in Table 4.12.

Table 4.12: *Secondary Data Results of Cash to Deposit Ratio of MFIs*

MFIs	2018	2019	2020	2021	2022	Min	Max	Mean
Kenya Women	0.15	0.18	0.04	0.11	0.06	0.04	0.18	0.11
Faulu	0.02	0.02	0.02	0.02	0.02	0.02	0.02	0.02
Rafiki	0.05	0.04	0.03	0.02	0.02	0.02	0.05	0.03
SMEP	0.02	0.02	0.02	0.02	0.01	0.01	0.02	0.02
Caritas	0.03	0.02	0.01	0.01	0.06	0.01	0.06	0.03
Summac	0.56	0.02	0.02	0.01	0.06	0.01	0.6	0.13
LOLC	0.36	0.30	0.05	0.3	0.02	0.02	0.4	0.21
U & I	0.21	0.02	0.02	0.06	0.01	0.01	0.21	0.06
Salaam	1.63	0.08	0.1	0	0.17	0	0.63	0.4
Daraja	0.22	0.01	0	0	0.04	0	0.22	0.05
Maisha	0.06	0.01	0.004	0.002	0.003	0.002	0.06	0.02
Branch	0.06	0.004	0.01	0.01	0.01	0.004	0.06	0.02
Choice	0.14	0	0	0	0.03	0	0.14	0.03

Source: CBK (2023)

The results in Table 4.12 indicated that salaam had the highest mean of 0.4, whereby the minimum recording was 0 and maximum recording was 0.63. This was followed by LOLC MFI which had the mean of 0.21, whereby the minimum recording was 0.02 and maximum recording was 0.4. Additionally, Summac and Kenya Women MFIs had the

mean of 0.13 and 0.11 respectively. However, MFIs that recorded a low cash to deposit ratio were Faulu, SMEP, Maisha and Branch, which all had a mean of 0.02.

The results implied that the amount of money that the bank had towards supporting the withdrawal operations from clients was below the required threshold of 4.25% (CBK, 2020). In support, Ertiro and Mohammed (2022) explored cash management as part of factors that were influencing performance in Ethiopian MFIs. From their perspective, having adequate cash enabled settlement of liabilities as they arose with ease, supported lending and provided withdrawal fund. Additionally, Githaiga (2022) provided facts on how MFIs could diversify their revenue to experience consistent cash flow for financial sustainability. Among the ways suggested by Githaiga (2022) included customized products and services.

4.7.2 Secondary Data Results of Liquidity of MFIs

This study also collected the data from the reports to compute the liquidity status of the MFIs as shown in Table 4.13.

Table 4.13: *Secondary Data Results of Liquidity of MFIs*

MFIs	2018 (%)	2019 (%)	2020 (%)	2021 (%)	2022 (%)	Min (%)	Max (%)	Mean (%)
Kenya women	21	24	20	26	20	20	26	22.2
Faulu	27	26	29	34	30	26	34	29.2
Rafiki	21	39	31	40	28	21	40	31.8
SMEP	30	27	23	24	25	23	30	25.8
Caritas	37	54	35	32	34	32	54	38.4
Sumac	33	3	37	41	49	3	49	32.6
LOLC	75	100	31	27	30	27	100	52.6
U & I	21	31	22	27	67	21	67	33.6
Salaam	106	74	95	720	363	74	720	271.6
Daraja	21	8	6	4	3	3	21	8.4
Maisha	26	30	25	30	130	25	130	48.2
Branch	44.8	20	23	42	97	20	97	45.4
Choice	3	2	1	29	207	1	207	48.4

Source: CBK (2023)

The results in Table 4.13 indicated that almost all liquidity ratios of the MFIs were above the required threshold of 20%. In regards to ranking Salaam registered a liquidity percentage of 271.6%, followed by LOLC with 52.6%, Choice 48.4%, and Maisha 48.2%. This implied that most MFI had adequate assets to support their operations in the long-term with the exception of Daraja MFI which recorded a low mean of 8.4% signifying a worrying trend towards its survival in the banking industry. This is because its performance was that, Daraja MFI was able to record the minimum statutory requirement of 21% in 2018 which dwindled to 8% in 2019, 6% in 2020, 4% in 2021 and 3% in 2022. This means that unless otherwise supported with emergency capital, its existence was unstable hence facing inevitable closure. The findings coincided with Mwambui and Koori (2019) who also affirmed that the management of liquidity should be a priority since the existence of an MFI highly depends on its ability to sort out expenses as they arise. Failure to which, it would mean they are continually making

losses which threatens their long-term existence. Further Njue et al. (2020) revealed that an institution that had mastered ensuring the liquidity thresholds are adequate, hardly experiences costs associated with fines issued for failure to pay their creditors on time.

4.7.3 Primary Results of Cash Management

The study also asked questions various respondents in form of questionnaires to compliment the secondary data as provided in Table 4.14.

Table 4.14: *Primary Results of Cash Management*

Statements N=88	5	4	3	2	1	Mean
Deposits are made using diverse channels	12 (13.6%)	9 (10.2%)	4 (4.6%)	12 (13.6%)	51 (58%)	3.92
Maximum limit of cash managed by staff	6 (6.8%)	22 (25%)	0 (0%)	28 (31.8%)	32 (36.4%)	3.66
Staff training on online transfers	23 (26.1%)	11 (12.5%)	10 (11.4%)	10 (11.4%)	34 (38.6%)	3.24
Involvement of staff in budget formulation	21 (23.9%)	17 (19.3%)	6 (6.8%)	22 (25.0%)	22 (25.0%)	3.08
Cash policies on expenditure	16 (18.2%)	15 (17.0%)	8 (9.1%)	25 (28.4%)	24 (27.3%)	4.32
Banking system used to track expenses	24 (27.3%)	15 (17.0%)	8 (9.1%)	25 (28.4%)	16 (18.2%)	2.93
Management operations of cash equivalents	26 (29.5%)	18 (20.5%)	12 (13.6%)	15 (17.0%)	17 (19.3%)	3.17

Source: Field Data (2023)

The results in Table 4.14 indicate that 24(27.3%) strongly concurred while 25(28.4%) concurred with the statement that there were cash policies present that provided

guidelines on how much money was spent at any particular time (mean-4.32). Additionally, 51(58%) strongly concurred while 12(13.6%) concurred with the statement that the microfinance bank allowed clients to make deposits using diverse channels such as mobile banking, agency banking, and ATM banking to improve cash to deposit ratio (mean-3.92). However, 24(27.3%) strongly disagreed while 15(17%) disagreed that there was a suitable banking system used to track expenses in the branch.

The results implied that the MFI have made efforts to incorporate cash policies to manage expenditures and also different payments options to receive client's deposits. Through this way, it was purposed to ensure that there was always funding and less expenses in the MFIs. Regrettably, it was not possible since the banking systems used were not effectively tracking accurate expenses especially at the branches. Therefore, the need to update the systems or offering training would improve staff handling of cash management. In support with the results, Pellegrina et al. (2021) also pointed out that part of training that should be offered to staff on the management of money encompasses misappropriation of funds. According to Pellegrina et al. (2021), when staff are not consistently trained on this, it could result to concealment of staff to engage in fund misappropriation or unnecessary wastages which actually explains a lot on why the cash to deposit ratios are negatively affected in the long-run.

4.8 Descriptive Results of Debtor's Management

Debtors' management was an independent variable which was measured using NPL to Total loans, Core capital to total deposit liability, debtors' appraisal, debtors' monitoring, bad debt mitigation (credit limit), and debt collection policy. The study collected both secondary and primary data as described in sections 4.8.1, 4.8.2 and 4.8.3.

4.8.1 Secondary Data Results of Non-Performing Loans [NPL] to Total Loans of MFIs

The data was collected from the balance sheets and income statements of the MFIs dating from 2018 to 2022. The CBK (2018-2022) provided accurate source of information for the computation of the NPL to Total Loans as described in Table 4.15.

Table 4.15: *Secondary Data Results of Non-Performing Loans [NPL] to Total Loans of MFIs*

MFIs	2018	2019	2020	2021	2022	Min	Max	Mean
Kenya Women	0.19	0.18	0.25	0.28	0.28	0.18	0.28	0.24
Faulu	0.14	0.12	0.20	0.21	0.26	0.12	0.26	0.18
Rafiki	0.47	0.43	0.38	0.61	0.50	0.38	0.61	0.46
SMEP	0.14	0.16	0.18	0.25	0.25	0.14	0.25	0.20
Caritas	0.07	0.17	0.08	0.06	0.08	0.06	0.17	0.09
Sumac	0.39	0.17	0.32	0.35	0.32	0.17	0.39	0.31
LOLC	0.42	0.66	0.88	1.39	0.44	0.42	1.39	0.76
U & I	0.10	0.04	0.04	0.03	0.02	0.02	0.10	0.05
Salaam	0.70	0.81	1.59	0	0	0	1.59	0.62
Daraja	0.26	0.30	(1)	(7)	0	(7)	0.3	(1.49)
Maisha	0.47	0.46	0.52	1.88	1.11	0.46	1.88	0.89
Branch	0.14	0.18	0.42	0.51	0.10	0.10	0.51	0.27
Choice	0.27	0.64	0.83	0.57	(0.25)	(0.25)	0.83	0.41

Source: CBK (2023)

The outcome presented in Table 4.15 indicates that among the MFIs with low NPL to Total Loans ratio were U & I which had 0.05 (5%), and Caritas which had 0.09 (9%). However, the MFIs with high NPL to Total Loans ratio were Maisha which had a mean of 0.89 (89%), LOLC had a mean of 0.76 (76%), Salaam which had a mean of 0.62 (62%), Rafiki which had a mean of 0.46 (46%) and Choice which had a mean of 0.41(41%). The results implied that the MFIs were struggling to the extent of ensuring that the cost of non-performing loans was outweighing the loans disbursed hence slowing down the borrowing operations.

The same concerns were also raised by Chemesunde and Gichure (2020) who posited that the reasons as to why financial institutions were establishing debt management systems, is to avoid the debt cost from exceeding the available funds to issue as loans. Further Muthama and Warui (2021) weighed in the discussion by indicating that there should be constant review of lending terms to incorporate changes on amounts issued to avoid bad debt going out of hand.

4.8.2 Secondary Data of Core Capital to Total Deposit Liabilities of MFIs

This study also collected the data from the reports to compute the Core Capital to Total Deposit Liabilities of the MFIs as shown in Table 4.16.

Table 4.16: *Secondary Data Results of Core Capital to Total Deposit Liabilities of MFIs*

MFIs	2018	2019	2020	2021	2022	Min	Max	Mean
Kenya women	0.14	0.12	0.07	0	0.08	0	0.14	0.08
Faulu	0.14	0.11	0.07	0	0.11	0	0.14	0.09
Rafiki	0.14	0.13	0.1	0	0.07	0	0.14	0.09
SMEP	0.14	0.12	0.05	0	0.04	0	0.14	0.07
Caritas	0.27	0.16	0.11	0	0.12	0	0.27	0.13
Sumac	0.25	0.19	0.17	0	0.10	0	0.25	0.14
LOLC	0.35	0.27	0.16	0	0.03	0	0.35	0.16
U & I	0.46	0.34	0.32	0	1.24	0	1.24	0.47
Salaam	1.61	1.33	1.29	0	1.08	0	1.61	1.06
Daraja	(0.24)	(0.57)	(0.70)	0	(0.13)	(0.703)	0	(0.33)
Maisha	(0.05)	1.67	0.544	0	0.93	(0.054)	1.67	0.62
Branch	0.17	0.07	(0.12)	0	0.25	(0.122)	0.25	0.07
Choice	(0.40)	(0.56)	(0.78)	0	0.31	(0.782)	0.31	(0.28)

Source: CBK (2023)

The results in Table 4.16 indicate that most MFIs had sustained the minimum requirement of 8%. The most outstanding results of MFIs' Core Capital to Total Deposit Liabilities ratios included: Salaam which had 1.06(106%), Maisha which had 0.62(62%), and U&I which had 0.47(47%). However, there were MFIs that registered low core

capital to total deposit liabilities ratios such as Daraja which had -0.33% (-33%), Choice which had -0.28(-28%), SMEP which had 0.07(7%) and Branch which had 0.07(7%).

Therefore, the results implied that the MFIs were keen in ensuring that they have adequate funding system vis a vis the deposit of the clients. However, some institutions such as Daraja, Choice, SMEP and Branch MFIs posed the risk of default in eventualities of closure. In agreement, Nyawira (2019) considerably revealed that when the core capital of an MFI becomes less in comparison to the client's deposit, it becomes hard to sustain the banking business. This is because, it is a sign that the financial institutions were unable to maximize the wealth of the shareholders that brings about profitability. Further, Orichom and Omeke (2021) argued that an ever-increasing capital structure enabled an MFI have robust deposit management systems which came in handy when managing the clients' funds.

4.8.3 Primary Results of Debtors Management

The study also asked questions various respondents in form of questionnaires to compliment the secondary data as provided in Table 4.17.

Table 4.17: *Primary Results of Debtors Management*

Statements N=88	5	4	3	2	1	Mean
Provisions to cater for any bad debts	31 (35.2%)	25 (28.4)	0 (0%)	32 (36.4%)	0 (0%)	2.42
Credit offered based on repayment ability	1 (1.1%)	7 (8.0%)	1 (1.1%)	19 (21.6%)	60 (68.2%)	4.48
Policies established on appraisal of debtors	0 (0.0%)	0 (0.0%)	0 (0.0%)	8 (9.1%)	80 (90.9%)	4.91
Staff monitors on credit payments of debtors	8 (9.1%)	7 (8.0%)	1 (1.1%)	22 (25.0%)	50 (56.8)	4.14
Credit limit to mitigate bad debt of the borrowers	6 (6.8%)	12 (13.7%)	0 (0.0%)	14 (15.9%)	56 (63.6%)	4.16
Debt collection policy on repayment terms	8 (9.2%)	15 (17.0%)	0 (0.0%)	4 (4.5%)	61 (69.3%)	3.33

Source: Field Data (2023)

The results in Table 4.17 indicate that 80(90.9%) strongly concurred and 8 (9.1%) concurred that there were policies established on how a potential debtor was supposed to be appraised before depositing or borrowing funds from the microfinance (mean-4.91). Further on, 60(68.2%) strongly concurred and 19(21.6%) concurred that the institution offered various credit while putting focus on repayment ability to enhance core capital to total deposit liabilities. However, 31(35.2%) strongly disagreed and 25(28.4%) disagreed that the management had provided funds to cater for any bad debts arising from defaulted credit as part of ensuring that NPL to Total loans was low (mean-2.42).

The results implied that as part of carrying out due diligence MFIs had ensured that there were borrower appraisal and their ability to repay policies. Regrettably, since the cost of

NPL was superseding the total loan issued, it became rather expensive to consistently provide for these bad debts. The art of balancing between provision for bad debt and cost of lending was becoming a hard task to some of the MFIs. Comparatively, Agasha et al. (2020) found out that the quality of a loan portfolio goes beyond getting consistently paying borrowers to ensuring that the defaulters are convinced to pay their debt. This is because, if the number of bad debts is more than 25% of the total disbursed loans, the cost of recovering the debt will be twice the initially defaulted amount. Additionally, Danstun and Harun (2019) indicated that the implementation of credit collection policy was the sure way of balancing between provision for bad debt and cost of lending.

4.9 Descriptive Results of Firm Size

Firm size management was the moderating variable which was measured using total assets. The study collected both secondary and primary data as described in sections 4.9.1 and 4.9.2.

4.9.1 Secondary Data Results of Firm Size

The data was collected from the balance sheets of the MFIs dating from 2018 to 2022. The CBK (2018-2022) provided accurate source of information for the total assets as described in Table 4.18.

Table 4.18: *Secondary Data Results of Total Assets*

MFIs	2018 (Millions)	2019 (Millions)	2020 (Millions)	2021 (Millions)	2022 (Millions)	Min (Millions)	Max (Millions)	Mean (Millions)
Kenya women	29,582	30,613	28,038	26,961	27,329	26,961	30,613	28,505
Faulu	27,225	29,682	29,279	27,780	22,704	22,704	29,682	27,334
Rafiki	6,050	5,935	6,005	5,889	5,346	5,346	6,050	5,845
SMEP	2,942	3,314	3,446	3,382	3,219	2,942	3,446	3,261
Caritas	1,244	1,712	2,284	2,951	3,353	1,244	3,353	2,309
Sumac	1,530	2,013	2,310	3,037	3,678	1,530	3,678	2,514
LOLC	433	406	307	289	451	289	451	377
U & 1	534	686.4	805	1,006	1,480	534	1,480	902
Salaam	225	168	134	433	405	134	433	273
Daraja	172	133	124	120	235	120	235	157
Maisha	289	1,264	1,665	1,480	853	289	1,665	1,110
Branch	431	348	296	402	872	296	872	470
Choice	98	79	54	45	142	45	142	84

Source: CBK (2023)

The results presented in Table 4.18 indicate that Kenya Women and Faulu MFIs had the highest total assets mean of Kshs 28,505 millions and Kshs 27,334 millions respectively. Other MFIs with medium assets included SMEP with Kshs 3,261 millions, Caritas with Kshs 2,309 millions, Sumac with Kshs 2,514 millions and Maisha with Kshs 1,110 millions. However, MFIs like Choice had low assets of Kshs 84 millions, and Daraja with Kshs 157 millions, among others. It is also worthy to note that among all MFIs only three of them have been able to consistently improve their assets between 2018 to 2022. These

were Caritas, Sumac, U & I. Caritas was able to maintain consistency such that in 2018, the assets were Kshs 1.244 billion, Kshs 1.712 billion in 2019, Kshs 2.284 in 2020, Kshs 2.951 in 2021 and Kshs 3.353 in 2022.

Sumac had Kshs 1.530 billion assets in 2018, Kshs 2.013 billion assets in 2019, Kshs 2.310 billion assets in 2020, Kshs 3.037 billion assets in 2021 and Kshs 3.678 billion assets in 2022. U & I had 534 million assets in 2018, Kshs 686.4 million assets in 2019, Kshs 805 million assets in 2020, Kshs 1,006 million assets in 2021 and Kshs 1,480 million assets in 2022. In support of the findings, (Dalci and Tanova, 2019; Ishmail et al., 2023, Mulwa, 2020) all pointed out that for firm size to impact performance, it has to do with increasing the assets of the MFI in a consistent manner.

4.9.2 Primary Results of Firm Size

The study also asked questions various respondents in form of questionnaires to compliment the secondary data as provided in Table 4.19.

Table 4.19: *Primary Results of Firm Size*

Statements N=88	5	4	3	2	1	Mean
Improved sales due to management of total assets	10 (11.4%)	35 (39.8%)	0 (0.0%)	38 (43.2%)	5 (5.6%)	2.92
Clear strategic decisions made on current asset management	5 (5.7%)	24 (27.3%)	1 (1.1%)	25 (28.4%)	33 (37.5%)	3.65
Cash at hand, good will, and disbursed loans have increased	16 (18.2%)	14 (15.9%)	6 (6.8%)	15 (17.1%)	37 (42.0%)	3.49

Less cash conversation cycle due to increased size of the microfinance	20 (22.7%)	20 (22.7%)	7 (8.0%)	23 (26.1%)	18 (20.5%)	2.99
The staff have received an increment in salaries due to improved sales	13 (14.8%)	21 (23.9%)	4 (4.5%)	26 (29.5%)	24 (27.3%)	3.31

Source: Field Data (2023)

The results in Table 4.19 indicate that 33(37.5%) strongly concurred and 25(28.4%) concurred that there were clear strategic decisions made by the management particularly on current asset management (mean-3.65). Additionally, 37(42%) strongly concurred and 15(17.1%) concurred that the various assets such as the cash at hand, good will, disbursed loans had increased leading to good performance (mean-3.49). However, 10(11.4%) strongly disagreed and 35(39.8%) disagreed that the sales had improved due to appropriate management of total assets (mean-2.92). Further on, 20(22.7%) strongly disagreed while other 20(22.7%) disagreed that there had been less cash conversation cycle due to increased size of the microfinance (mean-2.99).

The results implied that the management had made strides in ensuring that their firm size experienced growth. This was through making financial strategies that would escalate the institution to profitability through increased goodwill, disbursed loans and cash availability. However, it was paramount to note that MFIs were struggling in improving their sales and assets in general. Therefore, due to this hardship, their prior assets attracted less value leading to more time needed for cash conversion cycle. Comparatively, Mulwa (2020) revealed that when there was loss of institutional value on shares, its assets value also declined, which had a negative effect when they needed to convert the asset to cash.

4.10 Descriptive Results of Financial Performance

Financial performance was the dependent variable which was measured using ROA. The study collected both secondary and primary data as described in sections 4.10.1 to 4.10.3.

4.10.1 Secondary Data Results of ROA

The data was collected from the balance sheets and income statements of the MFIs dating from 2018 to 2022. The CBK (2018-2022) provided accurate source of information for the ROA as described in Table 4.20.

Table 4.20: *Secondary Data on ROA*

MFIs	2018	2019	2020	2021	2022	Min	Max	Mean
Kenya women	(4%)	(2%)	(5%)	1%	(0.3%)	(5%)	1%	(2%)
Faulu	1%	2%	(2%)	(2%)	(0.1%)	(2%)	2%	(0.02%)
Rafiki	(5%)	(0.1%)	(1%)	(3%)	(6%)	(6%)	(0.01%)	(3%)
SMEP	(1%)	1%	(3%)	(2%)	0.01%	(3%)	1%	(1%)
Caritas	(7%)	(3%)	0.2%	1%	1%	(7%)	1%	(2%)
Sumac	1%	1%	1%	1%	0.02%	2%	1%	1%
LOLC	(10%)	(8%)	(11%)	(18%)	(11%)	(18%)	(8%)	(11%)
U & I	2%	1%	2%	4%	2%	1%	4%	2%
Salaam	(14%)	(42%)	(17%)	(9%)	(16%)	(42%)	(9%)	(20%)
Daraja	(26%)	(35%)	(32%)	(25%)	(9%)	(35%)	(9%)	(25%)
Maisha	(41%)	(3%)	4%	(12%)	(56%)	(56%)	4%	(22%)
Branch	(6%)	(12%)	(20%)	(2%)	(2%)	(20%)	(2%)	(9%)
Choice	(60%)	(37%)	(48%)	(53%)	(9%)	(60%)	(9%)	(41%)

Source: CBK (2023)

The results in Table 4.20 indicate that the MFIs that had positive ROA ratios were U&I which had 2% and Sumac which had 1%. However, the rest of the MFIs registered negative ROA ratios. Notably, the worst performing MFIs were Choice which had -41%, Daraja which had -25%, Maisha which had -22% and Salaam which had -20%. The

results implied an extremely worrying trend since it was a sign that they were not profitable. It is a national wide concern since 12 out of 14 of the MFI banking sub-sector consistently registered a negative ROA. This could have been caused by market conditions or operational inefficiencies at the MFIs. In support with the findings UNECA (2020) revealed the same concerns for African financial institutions in private sector. According to the report, most of these institutions were operating under losses and were not able to plough back some portion of profits to the operations.

4.10.2 Primary Results of Financial Performance

The study also asked questions various respondents in form of questionnaires to compliment the secondary data as provided in Table 4.21.

Table 4.21: *Primary Results of Financial Performance*

Statements N=88	5	4	3	2	1	Mean
The management of current assets have improved return on assets	1 (1.1%)	63 (71.6%)	0 (0%)	15 (17%)	9 (10.3%)	2.92
Cash management methods have improved profitability	0 (0%)	11 (12.5%)	0 (0%)	17 (19.3%)	60 (68.2%)	4.43
Debtors' management have improved performance	11 (12.5%)	61 (69.4%)	4 (4.5%)	12 (13.6%)	0 (0%)	2.26
The MFI has employed professional staff to manage current assets	11 (12.5%)	11 (12.5%)	4 (4.5%)	23 (26.2%)	39 (44.3%)	3.77
There are policies established to reduce	0 (0%)	11 (12.5%)	0 (0%)	27 (30.7%)	50 (56.8%)	4.32

expenditures hence increased cash reserves						
The shareholders have received improved dividends	6 (6.8%)	25 (28.5%)	0 (0%)	37 (42%)	20 (22.7%)	3.45

Source: Field Data (2023)

The results of Table 4.21 point out that 60(68.2%) strongly concurred and 17(19.3%) concurred that cash management methods had improved profitability. However, 63(71.6%) who were majority disagreed that the presence of current assets had improved performance aspect like return on assets (mean-2.92). Further, 11(12.5%) who were minority strongly disagreed and 61(69.4%) disagreed that debtors' management had improved financial performance (mean-2.26).

The result implies that the only current asset management aspect that was improving performance was only cash management. Notably the major operations that involved debtors' management were the main resultant factor towards deteriorating performance. In support, Abebe (2022) revealed that when there were ineffective strategies put in place to manage debtors in MFIs such as through loans issued, it diminished the survival rate of the institution. In addition, Agasha et al. (2020) also pointed that irresponsible lending of loans was the main pitfall that affected MFIs in Uganda.

4.11 Overall Correlation Results for Primary Data

The study had three null hypotheses whereby the first hypothesis indicated that cash management had no statistically significant effect on financial performance of licensed MFIs in Kenya; Debtors' management had no statistically significant effect on financial performance of licensed MFIs in Kenya; Firm size had no statistically significant

moderating effect on current assets management and financial performance of licensed microfinance institutions in Kenya. Pearson correlation method was used as depicted in Table 4.22.

Table 4.22: Overall Correlation Results for Primary Data

		Financial Performance	Cash Manageme nt	Debtors Manageme nt	Firm Size
Financial Performance	Pearson	1			
	Correlation				
	Sig. (2-tailed)				
Cash Management	N	88			
	Pearson	.431	1		
	Correlation				
Debtors Management	Sig. (2-tailed)	.042			
	N	88	88		
	Pearson	.269	.262*	1	
Firm Size	Correlation	.025	.014		
	Sig. (2-tailed)	.025	.014		
	N	88	88	88	
	Pearson	.355	.244*	.143	1
	Correlation				
	Sig. (2-tailed)	.011	.022	.007	
	N	88	88	88	88

*, Correlation is significant at the 0.05 level (2-tailed).

Source: Field Data (2023)

The moderate correlation values suggest that while cash management, debtors' management, and firm size impact financial performance, their effects are not overwhelmingly strong individually. The results in Table 4.22 indicate that the Pearson correlation coefficient for cash management was $r = 0.431^{**}$ at with a p value of $0.042 < 0.05$ and 95% confidence level. Therefore, since the R-value was less than 1 and p-value

less than 0.05, the study was significant and we reject the null hypothesis and hence conclude that cash management has an influence on financial performance of MFIs. Notable Shahale and Ibrahim (2022) discovered that cash management correlated by 0.490 with performance in non-deposit taking MFIs while Mwambui and Koori (2019) in their study found out that the correlation was moderate at 0.325.

The Pearson correlation coefficient for debtor's management was $r=0.269^{**}$ at $\alpha < 0.025$ and 95% confidence level. Therefore, since the R-value was less than 1 and p-value less than 0.05, the study was therefore significant and we reject the null hypothesis and hence conclude that debtors' management has an influence on financial performance of MFIs. Agong and Otinga (2020) established that debtors management correlated with performance by 0.777 while Nyawira (2019) found out that debt control correlated by 0.727 with performance.

The Pearson correlation coefficient for firm size was $r=0.355^{**}$ at $\alpha < 0.011$ and 95% confidence level. Therefore, since the R-value was less than 1 and p-value less than 0.05, the study was therefore significant and we reject the null hypothesis and hence conclude that firm size has a moderating influence on current asset management and financial performance of MFIs. Notably, Mulwa (2020) discovered that total assets as part of metric of firm size correlated with performance by 0.654, while Ishamail et al. (2023) found out that firm size correlated by 0.544 with ROE.

The results implied that all the three variables (cash management, debtors management and firm size) had a positive influence hence had the ability to improve performance. Therefore, the MFIs' management teams ought to ensure that they incorporate strategies

to improve the current asset management. However, they should take cautions steps when implementing debtors' management since it had more risks in comparison to other current assets management aspects.

4.12 Model Summary of Cash Management

This analysis was done to assess the level of influence of cash management on performance as shown in Table 4.23.

Table 4.23: *Model Summary of Cash Management*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.431 ^a	.186	-.001	2.92470

a. Predictors: (Constant), Cash Management

The results indicated on Table 4.23 are that R was 0.431 and R-Square was 0.186 which meant that cash management had a 18.6% variance in financial performance. Even though cash management shows significance, the relatively low R Square values (18.6%) indicate other variables may also play a role in financial performance.

4.13 ANOVA of Cash Management

The study conducted ANOVA to ascertain whether cash management can reliably predict financial performance. Table 4.24 provides the results.

Table 4.24: *ANOVA of Cash Management*

Model		Sum of Squares	df	Mean Square	F	Sig.
	Regression	7.810	1	7.810	.913	.004 ^b
1	Residual	735.633	86	8.554		
	Total	743.443	87			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Cash Management

The results in Table 4.24 indicate that the p-value was 0.004 less than 0.05. This shows that the model was significant at 95% confidence level hence model was feasible. This

means that cash management can reliably predict financial performance. Although the ANOVA model is significant (with p-values below 0.05), the variance explained is relatively small, which could imply that these factors alone are insufficient in predicting financial performance and may benefit from a combined approach with other variables.

There is the need to maintain robust cash management practices as a critical factor in enhancing financial performance, especially given the high agreement rate among respondents. Additionally, the study recommends on implementing strategies to improve cash flow forecasting and monitoring to ensure that cash management's positive impact is maximized.

4.14 Model Summary of Debtors Management

This analysis was done to assess the level of influence of debtors' management on performance as shown in Table 4.25.

Table 4.25: *Model Summary of Debtors Management*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.269 ^a	.072	.074	2.82741

a. Predictors: (Constant), Debtors Management

The results indicated on Table 4.25 are that R was 0.269 and R-Square was 0.072 which meant that debtors management had a 7.2% influence on financial performance. Even though debtors' management shows significance, the relatively low R Square values (7.2%) indicate other variables may also play a role in financial performance.

4.15 ANOVA of Debtors Management

The study conducted ANOVA to ascertain whether debtors' management can reliably predict financial performance. Table 4.26 provides the results.

Table 4.26: *ANOVA of Debtors Management*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	3.546	1	3.546	.408	.003 ^b
	Residual	739.557	86	8.701		
	Total	743.103	87			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Debtors Management

The results in Table 4.26 indicate that the p-value was 0.003 less than 0.05. This shows that the model was significant at 95% confidence level hence model was feasible. This means that debtors' management can reliably predict financial performance. Although the ANOVA model is significant (with p-values below 0.05), the variance explained is relatively small, which could imply that these factors alone are insufficient in predicting financial performance and may benefit from a combined approach with other variables.

Further, there is the need for more effective debtor management strategies, as indicated by its lower correlation with performance. The study thus suggests targeted measures such as stricter credit policies or improved loan monitoring to minimize the risk of non-performing loans. The study also recommends the implementation of training for staff involved in debtors' management to improve efficiency in handling accounts and mitigating risks.

4.16 Multiple Regression of the Current Asset Management

The study conducted an overall analysis to determine various multiple regression elements like model summary, ANOVA and regression weights.

4.16.1 Model Summary of Current Asset Management

This analysis was done to assess the level of influence of current asset management on performance as shown in Table 4.27.

Table 4.27: *Model Summary of Current Asset Management*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.701 ^a	.491	.487	2.96293

a. Predictors: (Constant), Debtors Management, Cash Management

b. Dependent Variable: Financial Performance

Source: Field Data (2023)

The results indicated on Table 4.27 are that R was 0.701 and R-Square was 0.491 which meant that current asset management had a 49.1% influence on financial performance. The 50.9% was caused by other aspects that were not investigated in this particular study. Abebe (2022) found out that asset-liabilities management dictated thirty-two percentage on performance.

4.16.2 ANOVA of Current Asset Management

The study conducted ANOVA to ascertain whether current asset management can reliably predict financial performance. Table 4.28 provides the results.

Table 4.28: ANOVA of Current Asset Management

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.983	2	4.492	.514	.000b
	Residual	734.120	85	8.740		
	Total	743.103	87			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Debtors Management, Cash Management

Source: Field Data (2023)

The results in Table 4.28 indicate that the p-value was 0.000 less than 0.05. This shows that the model was significant at 95% confidence level hence model was feasible. This means that current asset management can reliably predict financial performance. An F statistic of .514 was evidence of the model's significance and feasibility in the context of MFIs financial performance.

4.16.3 Regression Weights of Current Asset Management

The study had the first model which was as follows: $Y_{perf} = \beta_0 + \beta_1 CM + \beta_2 DM + \epsilon$

Where: Y = Financial performance, β_i = Coefficients to be estimated, β_0 = Constant, CM = Cash Management, DM = Debtors Management. Therefore, the study used regression weights to analyze and equate the coefficients with values are described in Table 4.29.

Table 4.29: *Regression Weights of Current Asset Management*

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	22.123	2.798		7.907	.000
Cash Management	.057	.079	.081	.726	.032
Debtors Management	.049	.107	.051	.461	.004

Source: Field Data (2023)

The results in Table 4.29 indicate that p-values < 0.05, therefore, the model is significant at 95% confidence level. Therefore, we reject null hypothesis and conclude that current asset management has positive influence on financial performance. The regression analysis revealed that without cash management and debtors' management, financial performance would be 22.123. However, when cash management is increased by 1% financial performance significantly increases by 0.057 percent holding all other factors constant at $p = 0.032 < 0.05$. Additionally, when debtors' management is increased by 1% financial performance significantly increases by 0.049 percent holding all other factors constant at $p = 0.004 < 0.05$. Therefore, the resultant equation is $Y_{\text{perf}} = 22.123 + 0.057\text{CM} + 0.049\text{DM}$.

Therefore, the cash management techniques were relevant towards improving performance. The MFIs should ensure that they make the most out of cash management methods to seal the loophole of loss of finances. That is, ensuring that online funds transfers are well secured to avoid embezzlement, and implement strict policies on sticking to the usage of funds on the item on cash budgets. As compared to Mwambui and Koori (2019), minimizing the number of people handling institutional finances, and

providing clear systems came in handy when tracking the expenses hence enhancing cash management.

Further, debt management strategies should be re-evaluated to increase the revenue generated from loan interest while at the same time reducing default rates. Therefore, MFIs ought to re-look into their debtor's appraisal, credit limit and debtors monitoring and collection policies since they were clearly not working as supposed to. In support with the findings, Shakir (2022) pointed out the reason why the impact of MFIs was not so much rampant as that of commercial banks and Saccos was linked to how they managed institutional fund, lending and recovery processes.

4.17 Moderating Influence of Firm Size

The study also examined the moderating influence of firm size on the relationship between cash management and financial performance. To analyze this influence, the study used Hierarchical Regression which had three models. That is, the first model had the influence of cash and debtors' management on performance. The second model included the moderation of firm size on the influence of cash and debtors' management on performance. The third model contained the interaction term (combination of cash management, debtors' management and firm size). The three models that followed hierarchical regression were as follows:

$$Y_{\text{perf}} = \beta_0 + \beta_1 \text{CM} + \beta_2 \text{DM} + \varepsilon$$

$$Y_{\text{perf}} = \beta_0 + \beta_1 \text{CM} + \beta_2 \text{DM} + \beta_3 \text{FS} + \varepsilon$$

$$Y_{\text{perf}} = \beta_0 + \beta_1 \text{CM} + \beta_2 \text{DM} + \beta_3 \text{FS} + \beta_4 \text{CMFS} + \beta_5 \text{DMFS} + \varepsilon$$

Where:

Y = Financial performance

β_i = Coefficients to be estimated

β_0 = Constant

CM = Cash management

DM = Debtors management

FS= Firm Size

ϵ = Error term

CMFS= Interaction terms

DMFS= Interaction terms

Table 4.30 elaborates the model summary of the Firm Size that was examined.

Table 4.30: *Model Summary of the Moderating Influence of Firm Size*

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.701a	.491	.487	2.95627	.491	528	3	84	.592
2	.709b	.503	.498	2.96293	.012	632	1	83	.429
3	.707c	.500	.492	2.94612	-.003	1.220	1	82	.042

a. Predictors: (Constant), Debtors Management, Cash Management

b. Predictors: (Constant), Debtors Management, Cash Management, Firm Size

c. Predictors: (Constant), Interaction Terms, Firm Size Debtors Management, Cash Management

d. Dependent Variable: Financial Performance

Source: Field Data (2023)

The results in Table 4.30 indicate that the relationship between the independent variables which constituted cash management and debtors' management and performance, the R-

value was 0.701 and R-square was 0.491, signifying a 49.1% influence. However, when firm size was included in the relationship, R-value was 0.709 and R-square was 0.503, signifying a 50.3 influence on performance. Therefore, this meant that without the moderating influence of firm size, current asset management dictated a 49.1% but when included it dictated 50.3%. This implied that firm size inclusion in the relationship between current asset management increased the influence by 1.2%. In the third model, the P-value value was 0.042 was significant since it was less than 0.05 hence forming the basis for the study to concur that firm size had a moderating influence on current assets management and financial performance.

Additionally, the model validity test of firm size was examined as elaborated in Table 4.31.

Table 4.31: *Model Validity Test of the Moderating Influence of Firm Size*

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	8.983	2	4.492	.514	.000 ^b
	Residual	734.120	85	8.740		
	Total	743.103	87			
2	Regression	14.451	3	4.817	.549	.001 ^c
	Residual	728.653	84	8.779		
	Total	743.103	87			
3	Regression	14.608	3	4.869	.561	.042 ^d
	Residual	720.290	84	8.678		
	Total	734.898	87			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Debtors Management, Cash Management

c. Predictors: (Constant), Firm Size, Debtors Management, Cash Management

d. Predictors: (Constant), Interaction Terms, Firm Size, Debtors Management, Cash Management

Source: Field Data (2023)

The results in Table 4.31 indicate that the p-value for model one is 0.000, for model two is 0.001 and for model 3 is 0.042. Therefore, this implies that the model was valid to examine the moderating influence of firm size via the model summary, because all the significance values were less than 0.05.

Thereafter, the study examined the regression weight of the moderating variable as depicted in Table 4.32.

Table 4.32: *Regression Weights of Firms Size*

Model	Unstandardized Coefficients		Standardize d Coefficients	T	Sig.
	B	Std. Error	Beta		
(Constant)	22.123	2.798		7.907	.000
1 Cash Management	.057	.079	.081	.726	.032
Debtors Management	.049	.107	.051	.461	.004
(Constant)	22.926	2.901		7.903	.000
2 Cash Management	.064	.067	.110	.948	.346
Debtors Management	.051	.109	.053	.470	.640
Firm Size	.070	.089	.064	.421	.432
(Constant)	21.412	2.810		7.619	.000
3 Cash Management	.059	.052	.104	1.135	.346
Debtors Management	.062	.114	.046	.543	.640
Firm Size	.089	.101	.097	.881	.432
Interaction Terms-CM*FS	.168	.170	.314	.988	.486
Interaction Terms-DM*FS	.123	.217	.122	.567	.261

Source: Field Data (2023)

The results in Table 4.32 indicate that the first model indicates that all the variables are significant and as well as the second model. In the third model, when the interaction term was introduced, the variables were statistically significant. Therefore, the resultant model is as follows: Constant is 21.412, cash management is 0.059, debtors' management is

0.062, and firm size is 0.089. On the interaction term between cash management and firm size, the beta was 0.168 while the interaction term between debtors' management and firm size, the beta was 0.123 at 95% confidence level.

Therefore, the results indicate that firm size aspect like total assets were key towards ensuring that the MFIs experienced growth. This is because, MFIs required to utilize their assets so as to realize increased performance. The results are supported by Ishmail et al. (2023) who concluded that firm size had a significant moderating effect on risk associated with lending and performance. Further, Gichobi and Omwaga (2021) revealed that firm size had a positive influence on the relationship between MFIs' performance and financial management. Notably, Mulwa (2020) indicated that total asset had a positive influence on performance.

Notably, as firm size showed a positive influence, MFIs should consider expansion strategies that enhance resource capacity, thereby potentially improving financial performance. These could include mergers or strategic partnerships to leverage larger asset bases. It is important to scale operations cautiously, keeping a focus on effective asset management to prevent diminishing returns as firms grow. Further incorporating firm size as a moderating variable increases the explanatory power slightly, suggesting a modest moderating effect on the relationship between asset management and financial performance.

4.18 Test for Null Hypothesis

Table 4.33 provides the test of null hypothesis results as generated in the study.

Table 4.33: *Test for Null Hypothesis*

Hypothesis	P<0.05	Verdict	Table
H ₀₁ : Cash management has no statistically significant effect on financial performance of licensed MFIs in Kenya.	$\alpha < 0.042$ and 95% confidence level	Reject the null hypothesis	Table 4.22 Table 4.29
H ₀₂ : Debtors' management has no statistically significant effect on financial performance of licensed MFIs in Kenya.	$\alpha < 0.025$ and 95% confidence level	Reject the null hypothesis	Table 4.22 Table 4.29
H ₀₃ : Firm size has no statistically significant moderating effect on current assets management and financial performance of licensed microfinance institutions in Kenya.	$\alpha < 0.011$ and 95% confidence level.	Reject the null hypothesis	Table 4.22 Table 4.29

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The main objective of the study was to assess current asset management and financial performance of Licensed microfinance institutions in Kenya. The specific objectives were to determine the influence of cash management, debtors' management and to examine the moderating influence of firm size on current assets management and financial performance of Licensed microfinance institutions in Kenya.

5.2 Summary of Findings

5.2.1 Influence of Cash Management on Financial Performance

Twenty-four 24 (27.3%) respondents strongly concurred while 25(28.4%) concurred with the statement that there were cash policies present that provided guidelines on how much money was spent at any particular time with a mean of 4.32. These policies partially supported improved banking channels like mobile, agency, and ATM banking. However, 24 (27.3%) strongly disagreed while 15(17%) disagreed that there was a suitable banking system used to track expenses in the branch. The study's findings further were that 60 (68.2%) strongly concurred and 17(19.3%) concurred that cash management methods had improved profitability. However, 63(71.6%) disagreed that the presence of current assets had improved performance aspect like return on assets with a mean of 2.92). Notably, the MFIs that had positive ROA ratios were U&I which had 2% and Sumac which had 1%. However, the rest of the MFIs registered negative ROA ratios. Notably, the worst performing MFIs were Choice which had -41%, Daraja which had -25%, Maisha which

had -22% and Salaam which had -20%. Other such as MFIs that recorded a low cash to deposit ratio were Faulu, SMEP, Maisha and Branch, which all had a mean of 0.02. The Pearson correlation coefficient for cash management was $r = 0.431^{**}$ at $p = 0.042 < 0.05$ and 95% confidence level. The regression results revealed that the increase in cash management by 1 unit would increase financial performance by 5.7 percent holding all other factors constant.

5.2.2 Influence of Debtors' Management on Financial Performance

Eighty 80(90.9%) strongly concurred and 8 (9.1%) concurred that there were policies established on how a potential debtor was supposed to be appraised before depositing or borrowing funds from the microfinance (mean-4.91). Further on, 60(68.2%) strongly concurred and 19(21.6%) concurred that the institution offered various credit while putting focus on repayment ability to enhance core capital to total deposit liabilities. However, 31(35.2%) strongly disagreed and 25(28.4%) disagreed that the management had provided funds to cater for any bad debts arising from defaulted credit as part of ensuring that NPL to Total loans was low (mean-2.42).

Further, Kenya Women and Faulu MFIs had the highest total assets mean of Kshs 28.505 billion and Kshs 27.334 billion respectively. Other MFIs with medium assets included SMEP with Kshs 3.261 billion, Caritas with Kshs 2.309 billion, Sumac with Kshs 2.514 billion and Maisha with Kshs 1.110 billion. However, MFIs like Choice had low assets of Kshs 84 million, and Daraja with Kshs 157 million, among others. The Pearson correlation coefficient for debtor's management was $r = 0.269^{**}$ at $\alpha < 0.025$ and 95% confidence level. and 95% confidence level. The regression results revealed that the

increase in debtors' management by 1 unit would increase financial performance by 4.9 percent holding all other factors constant.

5.2.3 Moderating Influence of Firm Size on Current Asset Management and Financial Performance

Thirty-three 33(37.5%) strongly concurred and 25(28.4%) concurred that there were clear strategic decisions made by the management particularly on current asset management (mean-3.65). Additionally, 37(42%) strongly concurred and 15(17.1%) concurred that the various assets such as the cash at hand, good will, disbursed loans had increased leading to good performance (mean-3.49). However, 10(11.4%) strongly disagreed and 35(39.8%) disagreed that the sales had improved due to appropriate management of total assets (mean-2.92). Further on, 20(22.7%) strongly disagreed while other 20(22.7%) disagreed that there had been less cash conversation cycle due to increased size of the microfinance (mean-2.99). The Pearson correlation coefficient for firm size was $r=0.355^{**}$ at $\alpha < 0.011$ and 95% confidence level.

5.2.4 Overall Findings

Generally, it can be concluded that current asset management had a positive influence on financial performance. Also, the firm size has a significant moderating influence on current asset management and financial performance. Therefore, it was the findings of the study that for any improved performance of the MFIs, there was need to re-examine the strategies and business models that are related to cash management, debtors' management and firm size.

5.3 Conclusions of the Study

5.3.1 Influence of Cash Management on Financial Performance

The study concluded that cash management had an influence on financial performance. Additionally, though the MFIs had adequate assets, they did not have adequate cash at hand to support banking operations. This was partially attributed by declined cash deposits and inefficient expense tracking systems such that the available funds were poorly accounted for. The leakage was through expenses incurred at branch levels whereby the staff exaggerated their spending and hardly followed the stipulated budgets.

5.3.2 Influence of Debtor's Management on Financial Performance

On debtors' management, the study concluded that it had an influence on financial performance. Further, it was gathered that over time, borrowing was significantly slowed down due to high bad debt costs. This meant that NPLs were superseding the total loan issued hence becoming rather expensive to consistently provide for these bad debts. These costs had escalated to a point that most management teams minimized allocating provisions for bad debt, so as to provide more funds to potential borrowers from the deposits of the clients. This practice exposed some of the MFIs such as Daraja, Choice, SMEP and Branch MFIs to the risk of closure since their core capital to total deposit liabilities ratios were regrettably lower than the set thresholds by the CBK.

5.3.3 Moderating Influence of Firm Size on Cash Management and Financial Performance

On firm size, the study concluded that it had a moderating influence on current asset management and financial performance. Notably, the study established that the value of assets was irregularly growing with the exception of three MFIs that registered

consistency in growth of assets. These were Caritas, Sumac, and U & I MFIs. The irregularity led to low cash conversion cycle signifying that the growth of the MFIs was somehow stagnant. It becomes a major concern when 8(57%) of the MFIs had not experienced growth of assets in a stabilized manner. This means that decline of assets was eventual unless solutions were provided early to save the situation.

5.4 Recommendations of the Study

On cash management, the study recommends that the management of MFIs should restructure their products and services to a more reliable customer oriented, in order to improve cash at hand to support its operations. Additionally, they should also overhaul the expense tracking banking system and also develop policy framework on the need to strictly adhere to the improved system. In the new system, any debit transactions of institutional fund should be accompanied with thorough explanation on the need and subsequent receipts submitted through an e-system, so as to minimize any careless spending at branch level. The management should develop disciplinary policy measures such as fining the staff who mismanage branch resources and debited from their salary accounts. Additionally, the authorizing staff who checks on expenditure at branch level should be limited to the branch manager who would be liable to the board of management of the MFI. Through this method, the staff would have no choice but stick to the proposed budget since any excess spending is prohibited, unless under emergencies scenarios. There should be expansion of more channels through which clients can make deposits. For instance, digital wallets, which are growing in popularity, could improve accessibility and support a stronger cash-to-deposit ratio.

On debtors' management, the study recommends that MFI management should consider improved measures such as securitization of the loans. This is so that the institutional fund issued out is quickly recovered through the submitted securitization premiums. Further, the management should also develop procedural policies such that appraisal of potential borrowers is not made a branch level affair. There should be keen evaluation of borrowers through setting appropriate timelines under which senior management staff could be involved in case of huge loans. Additionally, the MFI staff should develop marketing strategies to capitalize on group lending which spreads the risk of default to a number of people. This method would increase the chances of repayment since the push to pay monthly installments by a group member would not only be done by the banking staff but also respective group members.

On firm size, the study recommends that the management should seek to incorporate more stakeholders such as shareholders into the MFIs. The premiums paid through different shares, would be used in diversifying into long-term assets that generate consistent income to the MFIs. Additionally, the MFIs could also develop long-term financing strategies to incorporate more products and services in their MFIs that would attract more clients. The nature of the products and service should be inclined to more customization of the client's needs. Once these needs are met, it would increase clients who would provide consistent funds hence stability in assets growth of the institution. Additionally, the MFIs should hire more staff to market their banks so that the public gets to understand how their products and services are different from Saccos and mainstream banks.

5.5 Suggestion for Future Studies

Here's a structured section detailing the weaknesses of the study along with possible recommendations for improvement.

5.5.1 Weaknesses of the Study

Limited Scope of Current Asset Management:

The study primarily focused on cash management and debtors' management, neglecting other significant components of current asset management, such as inventory management and investments in securities. This narrow focus may overlook critical factors that influence financial performance in microfinance institutions (MFIs).

Use of a Single Financial Performance Metric:

Financial performance was assessed solely through Return on Assets (ROA). This limited perspective may not adequately capture the multifaceted nature of financial health. Other important metrics, such as Return on Equity (ROE), net profit margin, and gross profit margin¹, could provide a more comprehensive view of performance.

Respondent Bias and Sample Size:

The study relied on self-reported data from respondents, which may be subject to biases such as over-optimism or misunderstanding of the questions. Additionally, the sample size may not have been large enough to ensure the findings are representative of all registered MFIs in Kenya.

Cross-Sectional Design Limitations:

The study utilized a cross-sectional design, capturing data at a single point in time. This approach limits the ability to assess changes over time or establish causal relationships between asset management practices and financial performance.

Absence of Qualitative Insights:

The reliance on quantitative data might have missed out on qualitative insights that could provide a deeper understanding of the challenges faced by MFIs regarding asset management and financial performance.

5.5.2 Recommendations for Future Studies

Expand the Scope of Current Asset Management:

Future research should incorporate a broader range of current asset management components, including inventory management and the management of securities. This would provide a more holistic view of how various aspects of asset management impact financial performance.

Utilize Multiple Financial Performance Metrics:

Researchers should assess financial performance using multiple metrics, including ROA, ROE, net profit margin, and gross profit margin. This will enable a comprehensive

Sample Size and Diversity:

Future studies should aim to include a larger and more diverse sample of MMFIs to enhance the representativeness of the findings. Including a wider variety of MFIs in different regions and with varying sizes can offer more generalized insights.

Consider Longitudinal Studies:

Conducting longitudinal studies could provide insights into trends and changes over time, allowing for a better understanding of how asset management practices evolve and their long-term impact on financial performance

Incorporate Qualitative Research Methods:

Future studies should integrate qualitative research methods, such as interviews or focus groups, to capture the nuances and complexities of asset management practices. This can provide richer insights into the experiences and challenges faced by MFIs.

Investigate External Factors:

Future research should also consider external factors affecting MFIs, such as regulatory changes, market competition, and economic conditions. Understanding these external influences can provide context for the internal asset management practices and their outcomes.

By addressing these weaknesses and implementing the recommended improvements, future studies can contribute significantly to the understanding of asset management and financial performance in microfinance institutions.

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APPENDICES

Appendix I: Letter of Introduction

Dear Sir/Madam,

RE: APPLIED QUESTIONNAIRE

Am a postgraduate student pursuing MBA (Finance) of Masinde Muliro University of Science and Technology. As part of the course requirement, I am currently researching on assessment of current asset management and financial performance of licensed MFIs in Kenya.

I have identified you as a potential respondent in this microfinance institution and would wish to request you for your consent to take part the study. I thank you in advance for your time and responses. It will be appreciated if you can fill the questionnaire within the shortest time possible to enable early finalization of the study. The information that will be obtained from you will be treated with confidentiality.

Yours Sincerely,

Nyangeri, Ombese Samson

Reg No. MBA/G/07/12

Appendix II: Questionnaire for Managers

The following questions relate to assessment of current assets management and financial performance of microfinance institutions in Kenya. Please read and provide the most suitable response by ticking in the empty boxes.

SECTION A: DEMOGRAPHIC INFORMATION

1. Job position

Compliance manager ()

Investment manager ()

Operations manager ()

Credit manager ()

Finance manager ()

Accountants ()

2. Academic Qualification

Post Graduate ()

Bachelor's Degree ()

Diploma ()

Professional Certificate ()

3. How long have you worked in the Microfinance

Over 10 years ()

6-10 years ()

2-5 years ()

Less than 1 year ()

SECTION B: CASH MANAGEMENT

This section has six questions regarding cash management. Please tick in the appropriate boxes which you feel is suitable where: 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree.

No	Statement	5	4	3	2	1
1.	The microfinance bank allows clients to make deposits using diverse channels such as mobile banking, agency banking, and ATM banking to improve cash to deposit ratio					
2.	There are maximum limits instituted on how much amount of institutional cash, a staff could manage alone any particular time to enhance liquidity ratio					
3.	The bank's management has trained its staff on various emerging aspects on online funds					

	transfers					
4.	The staff are mainly involved or consulted when developing cash budgets in the branch					
5.	There are cash policies present that provide guidelines on how much money could be spent at any particular time					
6.	There is a suitable banking system used to track expenses in the branch					
7.	There are management operations of cash equivalents such as treasury bills, commercial papers, and treasury notes					

SECTION C: DEBTORS' MANAGEMENT

This section has six questions regarding debtors' management. Please tick in the appropriate boxes which you feel is suitable where: 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree

No	Statement	5	4	3	2	1
1.	The management has provided provisions to cater for any bad debts arising from defaulted credit as part of ensuring that NPL to Total					

	loans is low					
2.	The institution offers various credit while putting focus on repayment ability to enhance core capital to total deposit liabilities					
3.	There are policies established on how a potential debtor is supposed to be appraised before depositing or borrowing funds from the microfinance					
4.	There are staff who are mandated with the task of monitoring credit payments of debtors to avoid default					
5.	There is a credit limit of how much can be issued inform of credit to the borrowers to mitigate bad debt					
6.	The microfinance has debt collection policy when and how a borrower is supposed to begin repaying back their loans					

SECTION D: FIRM SIZE

This section has five questions regarding firm size. Please tick as appropriate in the boxes where you feel is suitable where: 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree.

No	Statement	5	4	3	2	1
1.	The sales have improved due to appropriate management of total assets					
2.	There are clear strategic decisions made by the management particularly on current asset management					
3.	Various assets such as the cash at hand, good will, disbursed loans have increased leading to good performance					
4.	There has been less cash conversation cycle due to increased size of the microfinance					
5.	The staff have received an increment in salaries due to improved sales					

SECTION E: FINANCIAL PERFORMANCE

This section has six questions regarding the financial performance. Kindly respond with the response that matches your opinion. Please tick in the appropriate boxes which you feel is suitable where: 1-strongly disagree, 2-disagree, 3-neutral, 4, agree, 5- strongly agree.

No	Statement	5	4	3	2	1

1.	The management of current assets has improved performance aspect like return on assets					
2.	Appropriate cash management methods used have improved profitability					
3.	Debtors' management have improved financial performance					
4.	The MFI has employed professional staff to manage current assets which has enhanced financial performance					
5.	There are policies established to reduce expenditures as much as possible to increase on cash reserved					
6.	The shareholders have received improved dividends as a result of good performance registered.					

Appendix III: Secondary Data Collection Instrument

Secondary data collection sheet for the microfinance banks from 2018-2022

Name of the Microfinance.....

Description	Year				
	2018	2019	2020	2021	2022
Cash and bank balances					
Customer deposits					
Current Assets					
Current liabilities					
NPL					
Advances to customers					
Core capital					
Total deposit liabilities					
Total Assets					
Net Income					

Appendix IV: Licensed Microfinance Institutions in Kenya

No.	Microfinance
1.	Branch Microfinance Bank Limited (formerly Century)
2.	Caritas Microfinance Bank Limited
3.	Choice Microfinance Bank Limited
4.	Daraja Microfinance Bank Limited
5.	Faulu Microfinance Bank Limited
6.	Kenya Women Microfinance Bank Limited
7.	LOLC Microfinance Bank PLC (formerly ReMU)
8.	Maisha Microfinance Bank Limited
9.	Muungano Microfinance Bank Limited
10.	Salaam Microfinance Bank Limited (formerly Uwezo)
11.	SMEP Microfinance Bank Limited
12.	Sumac Microfinance Bank Limited
13.	U & I Microfinance Bank Limited
14.	Rafiki Microfinance Bank Limited

Source (CBK, 2022)

Appendix V: Secondary Data

CASH AND BANK BALANCES IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	2,371	2,875	703	1,977	1,059
Women					
Faulu	349	408	399	388	353
Rafiki	107	90	79	65	60
SMEP	32	35	41	46	30
Caritas	28	26	24	31	169
Sumac	280	14	15	14	92
LOLC	44	30	4	24	3
U & 1	59	7.18	8	5	5
SA-LAAM	26	2	1	0	4
Daraja	26	1	0	0	4
Maisha	15	5	3	1	1
Branch	19	1	2	2	3
Choice	15	0	0	0	1
Total	3,371	3,494.18	1,279	2,555	1,791

Source: CBK (2018,2019,2020,2021,2022)

CUSTOMER DEPOSIT IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	16,139	15,774	16,335	17,737	18,597
Women					
Faulu	17,941	20,092	22,931	21,524	16,250
Rafiki	2,295	2,576	3,027	3,336	3,324
SMEP	1,896	2,143	2,398	2,336	2,240
Caritas	934	1,353	1,943	2,504	2,854
Sumac	500	631	978	1,266	1,577
LOLC	123	99	74	80	140
U & 1	285	356	368	401	528
SA-LAAM	16	25	10	20	23
Daraja	121	107	97	103	108
Maisha	262	446	781	478	338
Branch	341	256	270	388	339
Choice	108	83	98	115	32
Total	40,961	43,941	49,357	50,381	46,492

Source: CBK (2018,2019,2020,2021,2022)

CURRENT ASSETS IN MILLIONS

	2018	2019	2020	2021	2022
Kenya Women	25,710	25,298	22,347	21,552	22,134
Faulu	24,252	26,531	25,736	23,942	19,427
Rafiki	5,032	4,985	5,211	5,430	4,961
SMEP	2,393	2,764	2,874	2,821	2,676
Caritas	1,155	1,555	2,148	2,813	3,282
Sumac	1,417	1,896	2,191	2,895	3,506
LOLC	363	321	221	198	347
U & 1	514	663.23	784	983	1,433
SA-LAAM	193	107	71	337	188
Daraja	93	44	38	36	146
Maisha	223	352	543	358	671
Branch	364	265	226	338	802
Choice	47	37	15	16	96
Total	61,756	64,818.20	62,500	61,864	57,975

Source: CBK (2018,2019,2020,2021,2022)

CURRENT LIABILITIES IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	24,227	24,021	23,443	23,122	23,200
Women					
Faulu	22,961	24,458	24,948	22,216	17,515
Rafiki	3,018	3,211	3,753	4,012	3,849
SMEP	2,383	2,624	2,799	2,789	2,701
Caritas	960	1,432	1,943	2,504	2,854
Sumac	1125	1,431	1,706	2,410	3,037
LOLC	268	232	184	206	172
U & 1	359	511	604	758	1,172
SA-LAAM	16	25	10	20	23
Daraja	126	107	97	103	108
Maisha	262	446	781	752	602
Branch	345	275	279	388	339
Choice	120	102	103	120	32
Total	56,170	58,875	60,698	59,493	55,820

Source: CBK (2018,2019,2020,2021,2022)

NPL IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	3,773	3,483	4,116	4,255	4,413
Women					
Faulu	2,303	2,310	3,480	3,243	3,321
Rafiki	1,278	1,299	1,540	2,107	1,722
SMEP	234	263	311	369	359
Caritas	51	126	108	114	180
Sumac	354	201	425	468	490
LOLC	96	104	86	86	73
U & 1	42	24	31	28	24
SA-LAAM	94	55	62	-	-
Daraja	11	3	-2	-7	15
Maisha	65	86	160	286	158
Branch	28	33	48	58	33
Choice	6	7	5	4	-1
Total	8,335	7,994	10,370	11,013	10,797

Source: CBK (2018,2019,2020,2021,2022)

ADVANCE TO CUSTOMERS IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	19,997	18,972	16,741	15,129	15,810
Women					
Faulu	16,935	19,777	17,561	15,378	12,975
Rafiki	2,723	3,040	4,095	3,484	3,473
SMEP	1,647	1,682	1,761	1,500	1,412
Caritas	751	758	1,411	1,952	2,154
Sumac	919	1,199	1,314	1,348	1,540
LOLC	231	158	98	62	168
U & 1	443	601.72	700	872	1,077
SA-LAAM	135	68	39	-	0
Daraja	42	10	2	1	-
Maisha	138	188	307	152	142
Branch	195	187	114	113	342
Choice	22	11	6	7	4
Total	44,178	46,651.72	44, 178	40,116	39,333

Source: CBK (2018,2019,2020,2021,2022)

CORE CAPITAL IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	3,670	3,218	1,911	-	2,045
Women					
Faulu	3,371	2,882	1,800	-	2,169
Rafiki	675	592	539	-	332
SMEP	334	338	147	-	115
Caritas	263	240	231	-	351
Sumac	303	313	332	-	338
LOLC	97	70	32	-	113
U & 1	169	173	197	-	271
SA-LAAM	132	68	44	-	236
Daraja	-36	-81	-121	-	-12
Maisha	-15	776	436	-	164
Branch	61	22	-41	-	164
Choice	-51	-63	-93	-	71
Total	8,973	8,548	5,494	-	6,478

Source: CBK (2018,2019,2020,2021,2022)

TOTAL DEPOSITS LIABILITIES IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	25,511	26,767	25,678	24,396	24,736
Women					
Faulu	23,761	25,906	26,371	24,229	19,470
Rafiki	4,769	4,668	5,386	5,224	4,996
SMEP	2,428	2,810	3,012	2,995	2,825
Caritas	981	1,471	2,028	2,605	2,961
Sumac	1,211	1,685	1,958	2,676	3,311
LOLC	280	259	199	232	3,311
U & 1	365	513	608	785	219
SA-LAAM	82	51	34	65	1,202
Daraja	149	142	172	156	92
Maisha	280	465	801	794	177
Branch	365	326	335	448	666
Choice	128	114	119	136	227
Total	60,310	65,177	66,764	64,860	64,943

Source: CBK (2018,2019,2020,2021,2022)

TOTAL ASSETS IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	29,582	30,613	28,038	26,961	27,329
Women					
Faulu	27,225	29,682	29,279	27,780	22,704
Rafiki	6,050	5,935	6,005	5,889	5,346
SMEP	2,942	3,314	3,446	3,382	3,219
Caritas	1,244	1,712	2,284	2,951	3,353
Sumac	1,530	2,013	2,310	3,037	3,678
LOLC	433	406	307	289	451
U & 1	534	686.4	805	1,006	1,480
SA-LAAM	225	168	134	433	405
Daraja	172	133	124	120	235
Maisha	289	1,264	1,665	1,480	853
Branch	431	348	296	402	872
Choice	98	79	54	45	142
Total	70,755	76,353.40	74,879	73,964	70,427

Source: CBK (2018,2019,2020,2021,2022)

PROFIT BEFORE TAX IN MILLIONS

	2018	2019	2020	2021	2022
Kenya	-1,044	-525	-1,507	131	-75
Women					
Faulu	274	456	-476	-522	-14
Rafiki	-274	-4	-60	-153	-314
SMEP	-16	19	-98	-58	3
Caritas	-85	-51	5	17	32
Sumac	16	18	11	17	7
LOLC	-42	-34	-34	-51	-48
U & 1	13	8	18	36	27
SA-LAAM	-31	-71	-23	-40	-66
Daraja	-44	-46	-40	-30	-21
Maisha	-119	-38	65	-178	-477
Branch	-25	-43	-60	-8	-20
Choice	-59	-29	-26	-24	-12
Total	-1,044	-525	-1,507	131	-75

Source: CBK (2018,2019,2020,2021,2022)

Appendix VI: NACOSTI PERMIT

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