**FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN UGANDA. A CASE STUDY OF CENTENARY BANK, MAPEERA BRANCH**

**BY**

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# DECLARATION

I **Nabikindu Oliver** declare that this dissertation under the topic “financial management practices and financial performance of commercial banks in Uganda basing on a case study of Centenary Bank, Mapeera Branch” is my original work and is presented for approval for field study.

Signature: …………………………..

Nabikindu Oliver

# APPROVAL

This dissertation is presented with my approval

Signature: ………………………

Madam Asiimwe Violet

(Supervisor)

Date:…………………………….

# DEDICATION

This research work is dedicated to my husband Osako Nicolas and my Levi Anthony Osako who taught me the largest task can be accomplished if it is done one step at a time.

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# TABLE OF CONTENTS

[DECLARATION i](#_Toc92994132)

[APPROVAL ii](#_Toc92994133)

[DEDICATION iii](#_Toc92994134)

[ACKNOWLEDGEMENTS iv](#_Toc92994135)

[TABLE OF CONTENTS v](#_Toc92994136)

[LIST OF TABLES xi](#_Toc92994137)

[LIST OF FIGURES xiv](#_Toc92994138)

[ABSTRACT xv](#_Toc92994139)

[CHAPTER ONE 1](#_Toc92994140)

[INTRODUCTION 1](#_Toc92994141)

[Overview 1](#_Toc92994142)

[Background to the study 1](#_Toc92994143)

[Problem statement 6](#_Toc92994144)

[Purpose of the study 7](#_Toc92994145)

[Research objectives 7](#_Toc92994146)

[Research questions 7](#_Toc92994147)

[Research hypothesis 8](#_Toc92994148)

[Scope of the study 8](#_Toc92994149)

[Content scope 8](#_Toc92994150)

[Geographical scope 8](#_Toc92994151)

[Time scope 8](#_Toc92994152)

[Significance of the study 9](#_Toc92994153)

[Structure of the dissertation 9](#_Toc92994154)

[CHAPTER TWO 10](#_Toc92994155)

[STUDY LITERATURE 10](#_Toc92994156)

[Introduction 10](#_Toc92994157)

[Literature survey 10](#_Toc92994158)

[Theoretical review 12](#_Toc92994159)

[The Contingency Theory 12](#_Toc92994160)

[Residual Equity Theory 13](#_Toc92994161)

[Literature review 14](#_Toc92994162)

[Financial reporting and financial performance 14](#_Toc92994163)

[Working capital management and financial performance 16](#_Toc92994164)

[Assets management and financial performance 19](#_Toc92994165)

[Financial performance 21](#_Toc92994166)

[Conceptual framework and review 23](#_Toc92994167)

[CHAPTER THREE 25](#_Toc92994169)

[METHODOLOGY 25](#_Toc92994170)

[Introduction 25](#_Toc92994171)

[Research design 25](#_Toc92994172)

[Research approach 25](#_Toc92994173)

[Research strategy 26](#_Toc92994174)

[Research duration 26](#_Toc92994175)

[Research classification 26](#_Toc92994176)

[Study population 26](#_Toc92994177)

[Sample size and selection method 27](#_Toc92994178)

[Background information of the respondents 28](#_Toc92994180)

[Gender of respondents 28](#_Toc92994181)

[Age of respondents 29](#_Toc92994183)

[Duration of employment in Centenary Bank 29](#_Toc92994185)

[Level of education 30](#_Toc92994187)

[Sampling methods 31](#_Toc92994189)

[Data collection sources 31](#_Toc92994190)

[Primary data 31](#_Toc92994191)

[Secondary data 31](#_Toc92994192)

[Data collection methods 32](#_Toc92994193)

[Interviewing 32](#_Toc92994194)

[Questionnaire survey method 32](#_Toc92994195)

[Data collection instruments 33](#_Toc92994196)

[Self-administered questionnaire 33](#_Toc92994197)

[Interview guide 33](#_Toc92994198)

[Validity and reliability of the instruments 33](#_Toc92994199)

[Validity of the instrument 33](#_Toc92994200)

[Reliability of the instrument 34](#_Toc92994201)

[Data collection procedure 34](#_Toc92994202)

[Data processing 35](#_Toc92994203)

[Data analysis and interpretation 35](#_Toc92994204)

[Ethical considerations 35](#_Toc92994205)

[Limitations of the study 35](#_Toc92994206)

[CHAPTER FOUR 36](#_Toc92994207)

[FINANCIAL REPORTING AND FINANCIAL PERFORMANCE 36](#_Toc92994208)

[Introduction 36](#_Toc92994209)

[Descriptive statistics on financial reporting and financial performance 36](#_Toc92994210)

[Hypothesis 1 testing 42](#_Toc92994219)

[Regression analysis results for financial reporting and financial performance 42](#_Toc92994220)

[ANOVA (Analysis of variance) 43](#_Toc92994222)

[CHAPTER FIVE 44](#_Toc92994224)

[WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE 44](#_Toc92994225)

[Introduction 44](#_Toc92994226)

[Descriptive statistics on working capital and financial performance 44](#_Toc92994227)

[Hypothesis 2 testing 50](#_Toc92994236)

[Regression analysis 50](#_Toc92994237)

[ANOVA (Analysis of variance) 51](#_Toc92994239)

[CHAPTER SIX 52](#_Toc92994241)

[ASSET MANAGEMENT AND FINANCIAL PERFORMANCE 52](#_Toc92994242)

[Introduction 52](#_Toc92994243)

[Descriptive statistics on asset management and financial performance 52](#_Toc92994244)

[Hypothesis 3 testing 57](#_Toc92994252)

[Regression analysis 57](#_Toc92994253)

[ANOVA (Analysis of variance) 57](#_Toc92994255)

[CHAPTER EIGHT 59](#_Toc92994257)

[TOWARDS HARMONIZING FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE 59](#_Toc92994258)

[Introduction 59](#_Toc92994259)

[Financial reporting and financial performance at Centenary bank 59](#_Toc92994260)

[Working capital management and financial performance 61](#_Toc92994261)

[Asset management and financial performance 63](#_Toc92994262)

[CHAPTER EIGHT 65](#_Toc92994263)

[SUMMARY, CONCLUSIONS AND RECOMMENDATIONS 65](#_Toc92994264)

[Introduction 65](#_Toc92994265)

[Summary of findings 65](#_Toc92994266)

[Financial reporting and financial performance 65](#_Toc92994267)

[Working capital management and financial performance 65](#_Toc92994268)

[Assets management and financial performance 66](#_Toc92994269)

[Conclusions 66](#_Toc92994270)

[Recommendations 67](#_Toc92994271)

[Areas of further research 68](#_Toc92994272)

[REFERENCES 69](#_Toc92994273)

[APPENDIX 1: SELF ADMINISTERED QUESTIONNAIRE 74](#_Toc92994274)

[APPENDIX 2: INTERVIEW GUIDE 77](#_Toc92994275)

# LIST OF TABLES

[Table 3.1: Population and sample size distribution 28](#_Toc92994179)

[Table 3.2: Gender 28](#_Toc92994182)

[Table 3.3: Age of respondents 29](#_Toc92994184)

[Table 3.4: Duration of employment in Centenary Bank 30](#_Toc92994186)

[Table 3.5: Level of education 30](#_Toc92994188)

[Table 4.1: Internal controls put in place in our institution to ensure proper financial reporting 36](#_Toc92994211)

[Table 4.2: The major financial statements required by the regulator are adequately and timely prepared and disclosed accordingly 37](#_Toc92994212)

[Table 4.3: The bank involves employees in financial statements preparation process 38](#_Toc92994213)

[Table 4.4: The bank employs various budget techniques 38](#_Toc92994214)

[Table 4.5: Stakeholders are provided with accountability reports to indicate how the banks money is being spent 39](#_Toc92994215)

[Table 4.6: Financial reports are submitted in a timely manner to ensure business advancement 40](#_Toc92994216)

[Table 4.7: The reporting of financial statements in our institution is counterchecked for accuracy and error minimization 41](#_Toc92994217)

[Table 4.8: The reports are always generated at the right time when needed by the stakeholders 41](#_Toc92994218)

[Table 4.9: Model Summary 42](#_Toc92994221)

[Table 4.10: ANOVAa 43](#_Toc92994223)

[Table 5.1: Centenary bank has a working capital management system 44](#_Toc92994228)

[Table 5.2: The bank prepares cashflow forecasts to identify future surpluses and deficits 45](#_Toc92994229)

[Table 5.3: The bank ensures to maintain sufficient cash flow to meet funds needs of the customers 46](#_Toc92994230)

[Table 5.4: Employees are frequently evaluated on working capital KPIs 46](#_Toc92994231)

[Table 5.5: Working capital is extensively used as a performance measurement in Centenary bank’s internal reports 47](#_Toc92994232)

[Table 5.6: There is regular preparation of cash budgets 48](#_Toc92994233)

[Table 5.7: There is effective supervision of cash collection and disbursements 49](#_Toc92994234)

[Table 5.8: There is effective funds management and utilisation 49](#_Toc92994235)

[Table 5.9: Model Summary 50](#_Toc92994238)

[Table 5.10 ANOVAa 51](#_Toc92994240)

[Table 6.1: The bank has a well-defined fixed assets portfolio to increase profitability 52](#_Toc92994245)

[Table 6.2: The acquisition process for fixed assets has led to increased profitability 53](#_Toc92994246)

[Table 6.3: Efficient utilization and management of cash increased in profitability 53](#_Toc92994247)

[Table 6.4: The maintenance approach taken regarding the assets has led to increase in profitability 64](#_Toc92994248)

[Table 6.5: The method of disposal for fixed assets has led to difference in profitability 55](#_Toc92994249)

[Table 6.6: The diversification strategy adopted for financial assets investments has minimized risks 55](#_Toc92994250)

[Table 6.7: There is improved effectiveness of collection efforts over time on collection of cash receivables 56](#_Toc92994251)

[Table 6.8: Model Summary 57](#_Toc92994254)

[Table 6.9: ANOVAa……………………………………………………………………………...58](#_Toc92994256)

# LIST OF FIGURES

[Figure2.1:Conceptual framework showing the relationship between financial management practices and financial performance 23](#_Toc92994168)

# ABSTRACT

The study examined the contribution of financial management practices on financial performance of commercial banks in Uganda basing on a case study of Centenary Bank, Mapeera Branch. It was guided by three objectives i) to examine how financial reporting influences financial performance of Centenary Bank, Mapeera Branch, ii) to examine how working capital management influences financial performance of Centenary Bank, Mapeera Branch and iii) to assess how assets management influences financial performance of Centenary Bank, Mapeera Branch.

The study adopted a phenomenological approach using both qualitative and quantitative research approaches. The study population was 70 and a sample size of 59 respondents. The study revealed that financial reporting had Adjusted R Square of 66.4%, while working capital management had Adjusted R Square of 51.9% and assets management had Adjusted R Square of 82.5%.

It is concluded that financial reporting was essential and significant in enhancing the financial performance. Preparation of financial statements timely and effectively and ensuring accuracy and accountability makes the bank to be on the right side with the law by meeting the requirements of the regulator as far as financial reporting is concerned. It was also indicated that assets management was a critical driver in enhancing the financial performance of the commercial bank.

The study suggested that management should embrace proper cash inventory and creditors management so as to ensure the institutions are able to finance their operations without financial limitations. It was also suggested that the commercial bank deals with liquid cash, enhancing their liquidity through keeping proper relationship with the shareholders is appropriate.

# CHAPTER ONE

# INTRODUCTION

# Overview

This chapter presents the background to the study, statement of the problem, purpose of the study, research objectives, research questions, and hypotheses of the study, scope of the study, the significance of the study and the arrangement of the study.

# Background to the study

This study was about financial management practices and financial performance of commercial banks in Uganda and based on a case study of Centenary Bank, Mapeera Branch.

The study about financial management practices and financial performance in commercial banks is important because in a banking setting, improper financial management practices have proven to be the main cause of failures especially in terms of financial difficulty, mismanagement of funds and shortage of long-term assets which could meet the operating costs and capital expenditure (Brigham, 2018). Commercial banks have therefore realised that inclusion of financial management practices can improve on the financial performance goals and objectives and thus ensure efficient and effective performance. Deresse and Prabhakara (2012) also explain that financial management is one of the management functional areas which is core to success of business enterprises, therefore, inefficient financial management combined with uncertainty of the business environment often led to serious problems.

Chung and Chang (2017) explain that the historical trend in the area of financial management practices has always been the main path to development of nations. Firms, regardless of their size, require good financial management practice to achieve success (Norton, 2012). Effective financial management is a tool to show direction for future activities, adjust when needed, and help businesses to find best way during challenging times. Ideally, financial management practices have been found to be key in financial performance of most of the firms across the globe. The argument goes thus the practices such as working capital management, financial reporting and assets management provide the company with a mainstream of streamlining its operations and funding them towards success.

Financial management practice is termed as a discipline that deals with how organizations make decisions relating to various financial aspects and the instruments used (Lasher, 2010). According to Brinckmann et al. (2011), financial management practice is the process of acquiring financial resources and measures to enhance the financial performance in firms. Byoun (2010) defined financial management practices as all aspects dealing with money circulations and money control in all business transactions. It relates to the arrangements and optimal use of financial resources for current and future opportunities in order to improve financial operations.

According to Stoner (2013) financial performance refers to the ability to operate efficiently, profitably, survive, grow and react to the environmental opportunities and threats. In agreement with this Solenberg and Anderson (2015) assert that performance is measured by how efficient the enterprise is in use of resources in achieving its objectives. Financial measures of performance include return on assets, profitability, and value for money, return on sales, return on equity, and return on capital employed, liquidity and efficiency (Beeler et at, 2014).

The current study was guided by the Contingency Theory advanced by Pike in 1986. The theory is fit to guide the study because it aims at explaining various management concepts. Otley (1980) stated that in the context of management accounting, contingency theory is based on the premise that there is no universally appropriate accounting system that applies equally to all organisations in all circumstances (Otley, 1980). Factors, such as technology and the environment, are among the contextual factors that could explain why accounting systems have been found to differ from one organisation to another. These contextual factors will affect the organisation’s structure, which will then influence the design of the accounting information system. The Contingency Theory’s proposition to the study is that there are certain financial management practices that may work well with certain institutional structures but not with others and this is due to the differences in the corporate settings and external factors; which means that there are no standard financial management practices to be applied by the companies.

The study was also adapted the Residual Equity Theory which was developed by George Staubus; the theory assumes that common shareholders to be the real owners of a business. It follows that accountants and corporate managers must also adopt the perspective of shareholders. Under this theory, preferred stock is a liability for common shareholders rather than part of the firm's equity. Its purpose is to increase access to information for common shareholders so they can make informed investment decisions, as they do not receive payment preference if a company fails. To calculate residual equity, the claims of bondholders and preferred shareholders are subtracted from a corporation’s assets.

The importance that the financial management practices have on organization is imperative as most challenges facing companies may be prevented by proper financial management practices (Uluyol, 2013). Particularly, working capital ensures that the business is able to meet its daily financial obligations. Budgeting and accounting ensure transparency and accountability in the organizations' transactions. Capital structure management ensures proper coordination of all the financial practices in the company while risk management ensures preparedness in the company in an event that an unfavorable occurrence happens. All these when properly integrated in the companies’ operations is aimed at improving their financial performance. This enables the commercial banks to be conducted in an effective way using appropriate financial decisions so as to maximize the company’s resources (McMahon, 2017).

Additional expenses may however be incurred in implementation of these financial management practices leading to a burden to the business thus translating to diminished returns (Abanis*et al*. 2013). This may see many organisation owners shun away from adopting these financial management practices. Other variables also such as firm size, degree of risk, capital intensity, leverage and industry factors exert a leveling effect on how financial management practices impact organizations. They thus ought to be taken into consideration when formulating the organization’s financial management practices (Moore and Reichert, 2018). Despite the contribution the financial management practices are hypothesized to have on the financial performance, the organisation still remains underperforming.

The decision function of financial management can be broken down into three major areas: the investment, financing, and asset management decisions. Financial management practices revolve around these three key decisions. Efficient financial management requires the existence of some objective or goal, because judgment as to whether or not a financial decision is efficient must be made in light of some standard. Different authors and researchers approach the particular areas of financial management in various ways given their area of focus. For instance, a study carried out in Malaysia by Mohd et al., (2010) identified the components of financial management as financial planning and control, financial accounting, financial analysis, management accounting, capital budgeting and working capital management.

Centenary Bank is a commercial bank in Uganda licensed by the Bank of Uganda, the central bank and national banking regulator. The bank was founded in 1983 as a credit trust, Centenary Rural Development Trust (CRDT), by Simeon Lutaakome, Hugh Francis Pulle, Paul Kateregga, Vincent Kirabo kya Maria, Emmanuel Mpande, and John Ogutu. In 1985, CRDT began to provide financial services to the public. The bank is a large financial services provider in Uganda primarily involved in the promotion of development through loans to rural farmers, processors of agricultural produce, small traders, small manufacturers, importers, and exporters. While engaged in all areas of commercial banking, the bank has a significant portion of its portfolio in the microfinance arena in an attempt to meet the needs of the many individuals and business entities with limited means. As of December 2019, the bank's assets were UGX: 3.6 trillion (US$950 million). In December 2018, shareholders' equity was UGX: 643.69 billion (US$175 million).

According to Financial report of Centenary Bank (2016), the bank has the following the policy implementation objectives of financial management practices;

1. To enhance on the bank’s profitability
2. To enhance on the bank’s return on equity
3. To improve on accountability within all bank departments
4. To achieve and maintain value for money

It is also observed that despite Centenary bank having established financial management practices objectives, the bank is still facing challenges in achieving financial performance in line with the set objectives. The study therefore focused on assessing the level at which Centenary bank, Mapeera Branch is achieving its set objectives with an aim of enhancing on financial performance.

# Problem statement

Through financial management practices, the managers are able to understand the current financial position of a particular firm and capability in meeting future financial obligations (World Bank, 2014). This not only enables proper management of funds, but also creates an enabling environment to plan ahead. However, despite the clear set objectives of financial management practices, managing finance has become a critical challenge in Centenary Bank, Mapeera Branch, thus leading to poor financial performance.

Centenary bank’s monthly review report (June, 2020) exposed employee’s inadequate financial reporting skills and knowledge; this was evidenced with weekly and monthly financial reports comprised several reporting errors, for instance a customer deposited shs. 1,823,000 but this was recorded as shs. 1,283,000; this exposes the bank to financial losses hence affecting its performance.

According to BoU (2019) monthly economic review report, it was reported that the bank is facing challenges in managing its working capital; this was evidenced by the continuous limited access to needed information; this is because the bank lacks real-time data and metrics which makes it hard to evaluate the effectiveness of the working capital strategy. Management also complained about the often struggles in focusing to improve on working capital due to time constraints; this was indicated to be attributed to management setting other priorities competing for attention.

According to BoU (2018) monthly economic review report, Centenary Bank recorded declined profits due to incidents of fraud and ineffective use of the bank’s funds. It was further revealed that management has failed to effectively plan, monitor and control finances of the bank due to poor financial management practices which are continuously damaging the business operations. As a result, the bank has been operating on reduced earnings; this has caused situations of difficulty in form of achieving return on assets, return on equity and reduced profitability. This current study aims at finding out the extent to which financial management practices are affecting financial performance of financial institutions.

# Purpose of the study

To examine the contribution of financial management practices on financial performance of commercial banks in Uganda basing on a case study of Centenary Bank, Mapeera Branch.

# Research objectives

The study followed three research objectives;

1. To examine how financial reporting influences financial performance of Centenary Bank, Mapeera Branch.
2. To examine how working capital management influences financial performance of Centenary Bank, Mapeera Branch.
3. To assess how assets management influences financial performance of Centenary Bank, Mapeera Branch.

# Research questions

1. How has financial reporting influenced financial performance of Centenary Bank, Mapeera Branch?
2. How has working capital management influenced financial performance of Centenary Bank, Mapeera Branch?
3. How has assets management influenced financial performance of Centenary Bank, Mapeera Branch?

# Research hypothesis

H0: There is no statistically significant relationship between financial management practices and financial performance of Centenary Bank, Mapeera Branch.

H1: There is statistically significant relationship between financial management practices and financial performance of Centenary Bank, Mapeera Branch.

# Scope of the study

## Content scope

The study discussed how financial management practices as an independent variable affects financial performance as the dependent variable. The study was limited to discussion on how dimensions of financial management practices comprising of financial reporting, working capital management and assets management influence financial performance in terms of profitability, return on equity, accountability and value for money.

## Geographical scope

The study was carried out at Centenary bank, Mapeera Branch located in Kampala, Plot 44-46 Kampala Road

## Time scope

The study explored literature of three operational years of the Centenary Bank that is from 2018-2020 because it’s the time when the bank faced increased challenges in financial performance.

# Significance of the study

The study findings are likely to benefit a number of stakeholders in the following ways:

The study findings and conclusions may form a basis upon which the management of Centenary Bank, Mapeera Branch may assess their performance ratio in terms of financial management practices, identify gaps and adopt best practices to improve on their performance.

This study may provide relevant information to the other commercial banks about the relationship and contribution of financial management practices in the attainment of better performance, this may enable the stakeholder to not only understand the aspect but also appreciate the importance of the concept in attainment of organisational objectives and success.

This study may also contribute to the body of knowledge in form of additional literature and may be used as reference material by other researchers intending to research in areas of financial management practices.

# Structure of the dissertation

The dissertation is presented in eight chapters. Chapter one is an introduction while chapter two provides the study literature. Chapter three addresses the research methodology that was used in collecting, processing and analyzing data. Chapter four is about findings on financial reporting and financial performance. Chapter five is about findings on working capital management and financial performance. Chapter six is about assets management and financial performance. Chapter seven presents the harmonisation of financial management practices and financial reporting. Chapter eight is about the summary of findings, conclusions, recommendations and areas of further research.

# CHAPTER TWO

# STUDY LITERATURE

# Introduction

This chapter presents the study literature. It is made up of four sections comprising the literature survey, theoretical review, literature review and conceptual framework. In literature survey, coverage extends to local researchers who have attempted to explore the area surveyed. In literature review, the coverage extends to outside researchers who have studied a similar problem.

# Literature survey

The purpose of literature survey is to gain an understanding of the existing research and debates relevant to a particular topic or area of study, to be specific in Uganda. The study will then identify major gaps in those studies and intend to cover or fill them. Below is a review of the major studies;

Akampa (2017) conducted a study about the role of financial management practices on financial performance of microfinance institutions in Uganda, he focused on a case study of Pride Microfinance. The study was informed by residual effect theory, the transaction cost theory, contingency theory and Capital Asset Pricing Model (CAPM). His study revealed that working capital management, financial reporting, dividend payout and assets management had a significant and positive influence on the financial performance of the Micro-Finance Institutions in Uganda. It was also indicated that most of the dividends paying companies are profit making companies. The study also showed that absolute value of dividends and dividend paid-up capital shows the significant and positive relationship between dividend policy and lagged earnings belonging to common shareholders, profit after tax, earnings belonging to shareholders cash flows, size, cash dividends and lagged dividends. It also showed that current Ratio and assets management have insignificant influence on dividend policy. However, the study did not provide empirical evidence on how financial reporting influences financial performance in a commercial banks operating environment. The current study filled the identified gap.

Namanda (2018) conducted a study about financial management practices and firm performance among micro and small enterprises in Uganda. The study revealed that working capital has significant positive strong effect on the performance of MSEs with specific practices like keeping track of the stocks and specifying credit limit. Furthermore, the study was able to determine that cash flow management practices have significant strong positive effect on the performance of MSEs with specific practices like analysis of business cash flows, analysis of cash outflows and analysis of the cash flow position of a business. Moreover, the study assessed that asset management practices had significant moderate effect on the performance of MSEs with practices such as up to date asset register and system for maintenance of assets ensures that assets are kept in the best condition until disposal. Finally, the study concluded that financial reporting practices like Reconciliation of books of accounts, preparing statement of business liabilities, preparing cash flow statements and Preparation of tax statements had significant moderate effect on the performance of MSEs. However, it is observed that there is an environment gap, Namanda’s study was conducted amongst micro and small enterprises while the current study focused on commercial banks which operate in different business environments.

Another study was conducted by Dickson (2018) about financial management practices and financial performance of non-financial firms listed at the Uganda Securities Exchange. It was indicated that one-unit change in capital budgeting would lead to a unit change in return on assets. Liquidity management also had a positive significant effect on financial performance of non-financial firms listed at the Uganda securities exchange. Therefore, business organizations can improve financial performance by efficient management of Liquidity and capital budgeting. Sound financial management is essential to the success of businesses organizations. Successfully managing financial resources is important in new as well as expanding business. So, time should be taken to develop and implement strategies geared towards proper Liquidity and capital budgeting management to improve the bottom line. Leverage was seen to have a positive insignificant effect on performance of non-financial firms listed at the Uganda securities exchange. Therefore, leverage should not be heavily relied on by management in trying to improve the bottom line of organization. However, Dickson’s study did not focus on how assets management influences financial performance; the current study intends to fill the identified gap.

# Theoretical review

This section presents the different studies that support or embraced or those against the Contingency Theory.

## The Contingency Theory

According to Pike (1986) resource-allocation efficiency is not merely a matter of adopting sophisticated, theoretically superior investment techniques and procedures but consideration must also be given to the fit between the corporate context and the design and operation of the financial reporting system. Pike (1986) focuses on three aspects of the corporate context which are assumed to be associated with the design and operation of a firm’s financial reporting system.

The first aspect is a firm’s organizational characteristics. Decentralization and a more administratively oriented control strategy involving a higher degree of standardization are characteristics of large companies. Smaller, less complex organizations tend to adopt interpersonal, less sophisticated control systems. Hakas, Gordon & Pinches (1985) have an opposite opinion and argue that firms will experience more benefits from using sophisticated financial reporting techniques. They base their argument on Schall and Sundem (1980) study which shows that the use of sophisticated financial reporting techniques declines with an increase in environmental uncertainty. The second aspect is environmental uncertainty. The more variable and unpredictable the context of operation is, the less appropriate will be the highly bureaucratic, mechanistic financial reporting structures.

## Residual Equity Theory

In the residual equity theory, changes in asset valuation, income and in retained earnings and changes in interest of other equity holders are all reflected in the residual equity of the common stockholders. The specific equities include the claims of creditors and the equities of preferred stockholders. The balance sheet equation becomes as follows: ‘Assets minus specific equities are equal to Residual equity’. The equity of common stockholders in the balance sheet should be presented separately from the equities of preferred stockholders and other specific equity holders. According to Hendrickson (1982) the residual equity point of view is a concept somewhere between the proprietary theory and the entity theory.

The objective of the residual equity approach is to provide better financial reporting as a consequence of good financial management practices. In a going concern situation, the current value of common stock is dependent primarily upon the expectation of future dividends. Future financial status is dependent upon expectations of total receipts less specific contractual obligations, payments to specific equity holders and requirements for reinvestment. Financial statements are not generally prepared based on possible liquidation. Therefore, information provided regarding the residual equity should be useful in predicting possible future financial status to common stockholders.

# Literature review

## Financial reporting and financial performance

According to Moyes et al., (2015), financial reports must exhibit certain qualities that make them useful to the stakeholders and these include relevance, reliability, understandability and timeliness. Australian Accounting Research Foundation (1990) stated that it is important for financial reports to be relevant. They must have value in terms in making and evaluating decisions about the allocation of scarce resources and in assessing the rendering of accountability by the providers. The reports must also be reliable because users use them for decision making. Reliability means that information is reasonably free from error and bias and faithfully represents what it purports to represent. Understandability is the ability of users to understand the financial reports. This will depend in part on their own capabilities and in part on the way in which the information is displayed.

Financial reporting uses data obtained from financial accounting records kept by the company. It presents valuable information with any required supplementary descriptions. Financial data included in particular components of the financial statement, due to proper organisation and grouping, should enable a comprehensive assessment of the property and financial situation of the enterprise and the achieved results. According to the conceptual assumptions for preparing and presentation of financial statements, fundamental quality features of practical financial data are usefulness and reliable presentation, determined by comparability, verifiability, timeliness and comprehensibility (supplementary features). These quality features of the financial statement, confirmed by a revision in larger entities, determine the usefulness of the presented information from the point of view of the recipients.

Timeliness of financial reports is very crucial because reports which are relevant and reliable may be rendered irrelevant if there is undue delay in presenting them. According to Borman (1991), poor quality of financial reports greatly diminishes the quality of financial institutions. Quality information is one that is readable, reliable, comparable, consistent, complete, timely, decision- useful, accessible and cost effective. The integrity of the non-profit sector is served best if organisations are accountable. Although both agency and stewardship theories offer a lens for understanding financial accountability, they are based on fundamentally different assumptions about human behavior. Green and Calderon (2018) has pointed out ultimately, if one wishes to complete the performance information loop completely, one must not only demonstrate good results, but also that they are the result of what non-governmental organizations are doing.

Financial management practices entail how an organization manages its financial resources so as to ensure proper coordination and maximum returns (Nazir and Afza, 2017). The measures of financial management practices in organisations include; working capital management, cash budget management practices and risk management practices. Working capital refers to the capital required in the every-day operations of the business and thus acts as the driver to the organization’s growth (Harris, 2015). This includes; inventory management, cash management, account payables management and account receivables management. This is to ensure that there is sufficient cash flow to cater for both the current and the future operational expenses.

The financial statement reflects global economic events related with the business activity of the enterprise, that are transformed into numbers and included (processed) in the accounting books constituting the financial statement database. Mastering and understanding the data included in the financial statement provides a comprehensive image of the enterprise (property, finances and results). Fekete, et al., (2010) asserts that the financial statement may concern a single enterprise or many enterprises. For that reason, unit and consolidated financial statements can be distinguished. Unit financial statement of a company encompasses the balance sheet, profit and loss account and additional information. In addition to that, larger entities, subject to financial statement analysis, prepare cash flows statements and a statement of changes in equity.

Yearly financial statements of joint-stock companies, limited liability companies, partnerships limited by shares, mutual organisations, cooperatives, state-owned enterprises and other entities are provided along with a yearly business activity report (however, it does not constitute a financial statement component but only its supplement). Financial statement components are mutually related and constitute an internally consistent entirety, thus they should not be treated as separate and not related parts. An investigation on effect of quality of financial reporting on financial performance in emerging economies was carried out in China and Hongkong by Nnadi (2013). In the study financial reporting standards was evaluated over a ten-year period using earnings management metric approach.

## Working capital management and financial performance

Working capital management receives much debate and continues to attract scholar attention due to its pivotal role in serving and steering operational efficiency, however, there is no consensus about the impact of working capital management on financial performance (Kasozi, 2017). Each business is in need for working capital to carry out day-to-day operations which is essential for going concern. Decisions regarding current assets and current liabilities affects liquidity and investments return (Vashnani and Shah, 2018), in the worst case, business may face bankruptcy as a result of poor planning of working capital components. Deloof (2020) argued that managers may enhance the firm’s profitability by obtaining optimal level of working capital components, keeping high level of inventory reduces stock-out risk, and even enables firms to adopt generous credit policies which leads to higher sales.

Working capital is a financial metric which represents the operating liquidity available to a business. A long with fixed assets such as plants and equipment, working capital is considered as a part of a company’s operating capital, referring to current assets such as cash at hand, cash on bank account, raw materials, work-in-progress, finished goods and accounts receivable. To measure the efficiency of a company’s working capital, people often use net working capital which is defined as difference between current assets and current liabilities. If current assets are higher than current liabilities, this company has working capital efficiency, explaining the company’s ability to continue its operations and to have sufficient funds to satisfy both maturing short-term debt and upcoming operational expense

Working capital involves planning and controlling current assets and current liabilities in a manner that eliminates the risk of inability to meet due short-term obligations on one hand and avoid excessive investment in these assets on the other hand (Eljelly, 2018). There is a combination of policies and techniques for the management of a company’s working capital. These policies involve inventory management, debtors’ management (credit policy) and short-term financing management. A popular measure of working capital management is the cash conversion cycle, which tells us how cash is moving through a company in terms of duration. Given the definitions, this research shall examine working capital management issues, specifically how a company manages its working capital by shortening or lengthening its cash conversion cycle in order to contribute for a superior operating profitability.

Short-term finance is concerned with short-term operating activities such as buying material, paying cash for purchases, manufacturing the product, selling the product or collecting cash. These activities create patterns of cash inflows and cash outflows that are both unsynchronized and uncertain. They are unsynchronized because the payment of cash for raw materials does not happen at the same time as the receipt of cash from selling the product. Additionally, those activities are uncertain since future sales and costs are both known with uncertainty. Cash conversion cycle tells us how cash is moving through a company in terms of duration. The cycle starts with a cash outflow by which the company pays back to suppliers for obtaining raw materials then ends with a cash inflow when receiving money back from its customers for selling its goods or services. In other words, the cycle indicates the number of days it takes the company to convert its operating activities requiring cash into cash returns.

A downward trend in this cycle is a positive signal whereas a negative signal is blamed for the upward one. When the cash conversion cycle shortens, cash becomes free for other usages such as investing on equipment and infrastructure or innovating manufacturing and selling processes. In contrast, when the cash conversion cycle lengthens, cash tied up in the firm's operation activities, leaving little chance for other investments of this cash flow. In an ideal case, a company should attempt to keep its cash conversion cycle as close to zero as well. In other words, the company is trying to maintain its production to be internally financed. However, the cash tied up in inventory and receivables will be almost practically exceed the cash supplied by creditors and accrued liabilities (Melicher and Leach, 2019).

Management of working capital has profitability and liquidity implications and proposes a   
familiar front for profitability and liquidity of the company, Hampton and Wagner (2018) stated   
that working capital policy is a function of two decisions: the appropriate level of investment in currents assets and the chosen methods of financing the investment. He explained further that the   
level of company's current assets and working capital, in respect of the company's total corporate   
structure and flow of funds is a tradeoff between profitability and risk. Thus, if there were little   
risk, an aggressive working capital would be used whereby the company should maintain a   
minimum level of cash, securities, debtors and stocks. However, if there is little stability, a more   
conservative policy will be called for, requiring high cash balances and high stock reserves.

## Assets management and financial performance

Credit risk is one of the factors that affect the health of an individual bank. The extent of the credit risk depends on the quality of assets held by an individual bank. The quality of assets held by a bank depends on exposure to specific risks, trends in non-performing loans, and the health and profitability of bank borrowers (Baral, 2015). Aburime (2008) asserts that the financial performance of a bank depends on its ability to foresee, avoid and monitor risks, possibly to cover losses brought about by risks arisen. Hence, in making decisions on the allocation of resources to asset deals, a bank must take into account the level of risk to the assets.

Poor asset quality and low levels of liquidity are the two major causes of bank failures. Poor asset quality led to many bank failures in Kenya in the early 1980s. During that period 37 banks collapsed following the banking crises of 1986-1989, 1993-1994 and 1998 (Mwega, 2019). According to Waweru and Kalani (2009) many of the commercial banks that collapse in 1986 failed due to non-performing loans (NPLs) and that most of the larger bank-failures, involved extensive insider lending, often to politicians. The CBK measures asset quality by the ratio of net non-performing loans to gross loans. However, Koch (1995) argues that a good measure of credit risk or asset quality is the ratio of loan loss reserve to gross loans because it captures the expectation of management with regard to the performance of loans.

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBK, 2009). It is argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Kamau, 2017).

The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank’s return but also increases its liquidity risks and the inverse is true. Thus, a high liquidity ratio indicates a less risky and less profitable bank (Hempel et al, 1994). Thus, management is faced with the dilemma of liquidity and profitability. Levine (2018) emphasized the adverse effect of increased liquidity for commercial banks stating that, “although more liquid assets increase the ability to raise cash on short-notice, they also reduce management’s ability to commit credibly to an investment strategy that protects investors” which, finally, can result in reduction of the “firm’s capacity to raise external finance” in some cases (Uzhegova, 2010).

Poor management of expenditure is the main contributors to poor profitability (Sufian and Chong 2019). In the literature on bank performance, operational expense efficiency is usually used to assess managerial efficiency in banks. Mathuva (2020) observed that the Cost Income Ratio (CIR) of local banks is high when compared to other countries and thus there is need for local banks to reduce their operational costs to be competitive globally. Beck and Fuchs (2014) examined the various factors that contribute to high interests spread in Kenyan banks. Overheads were found to be one of the most important components of the high interests’ rate spreads. An analysis of the overheads showed that they were driven by staff wage costs which were comparatively higher than other banks in the SSA countries.

Although the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues. In relatively uncompetitive markets where banks enjoy market power, costs are passed on to customers; hence there would be a positive correlation between overheads costs and profitability (Flamini et al, 2019). Neceur (2013) found a positive and significant impact of overheads costs to profitability indicating that such cost is passed on to depositors and borrowers in terms of lower deposits rates/ or higher lending rates.

Commercial banks in recent years have increasingly been generating income from “off-balance sheet” business and from fees and commissions income. Albertazzi and Gambacorta (2016) as cited by Uzhegova (2017) noted that the decline in interest margins, has forced banks to explore alternative sources of revenues, leading to diversification into trading activities, other services and non-traditional financial operations. The concept of revenue diversifications follows the concept of portfolio theory which states that individuals can reduce firm specific risk by diversifying their portfolios. However, there is a long history of debates about the benefits and costs of diversification in banking literature. The proponents of activity diversification or product mix argue that diversification provides a stable and less volatile income, economies of scope and scale, and the ability to leverage managerial efficiency across products (Choi and Kotrozo, 2016).

## Financial performance

Financial performance among other alternatives, can be measured through evaluating a firm’s profitability, solvency and liquidity. The return on equity (ROE) and the return on assets (ROA) are the most common measures of profitability. By monitoring a firm’s profitability levels, one can be able to measure its financial performance. Solvency measures give an indication of a firm’s ability to repay all its indebtedness by selling all of its assets. It also provides information about a firm’s ability to continue operating after going through a major financial crisis. Quach (2005) also states that solvency measures the amount of borrowed funds used by the business relative to the amount of owners’ equity capital that is invested in the business as an indication of the safety of the creditors’ interests in the company.

Lasisi (2018) states that Performance measures serve as a basis for evaluating the financial performance of a corporate entity. He further states that Performance of an organization can be measured through return on assets (ROA), return on equity (ROE), earnings per share (EPS) among others. Additionally, many researchers; Pathirawasam and Adriana, (2013); Ali, Mohammed & Amer, (2015); Yahaya & Lamidi, 2015; have also used ROA to measure the financial performance of companies. ROA has been stated as the most sustainable because it is a measure of efficiency, as evidenced by how it reveals how effective and efficient a firm utilizes the resources (assets) at its disposal, in revenue generation. The liquidity risk factors that affect the firm performance of insurance companies include, liquidity ratio, premium growth rate, leverage, underwriting risk, claim ratio loss among others.

Dwivedi (2012) argues that other financial measures should include value of long-term investment, financial soundness, and use of corporate assets. John (2011) discussed accounting-based performance using three indicators: return on assets (ROA), return on equity (ROE), and return on sales (ROS). Each measure is calculated by dividing net income by total assets, total common equity, and total net sales, respectively.

Performance measures provide a mechanism for the organization to manage its financial and non-financial performance. Accountability is increased and enhanced, ensuring that projects support the organizational strategy and that better services and greater satisfaction are provided to a customer. Wilks and Imblelman (2014) found out that objective financial performance measures include indicators such as profit growth, revenue growth, return on capital employed. Financial consultants Stern Stewart and Co. developed the Market Value Added (MVA), a measure of the excess value a company has provided to its shareholders over the total amount of their investments (John, 2011). This ranking is based on some traditional aspects of financial performance including: total returns, sales growth, profit growth, net margin, and return on equity.

# Conceptual framework and review

# Figure2.1:Conceptual framework showing the relationship between financial management practices and financial performance

**Independent variable** **Dependent variable**

**Financial management practices**

* Financial reporting
* Working capital management
* Assets management

**Financial performance**

* Profitability
* Value for money
* Proper allocation and utilisation of funds

Intervening variable

**Intervening variable**

* Bank policy
* Staff qualification/ experience

**Source: Adopted from (Green and Calderon (2018)** **and modified by the researcher**

The conceptual framework reflects two variables namely financial management practices as the independent variable and financial performance as the dependent variable. In other words, it’s conceptualized that financial performance depends on financial management practices.

In the current study, the dimensions of financial management practices include financial reporting, working capital management and assets management can lead to a direct impact on financial performance by affecting dimensions such as profitability, value for money and proper allocation and use of funds.

# CHAPTER THREE

# METHODOLOGY

# Introduction

This chapter presents the overall methodology which is adopted in carrying out the research process. It is made up of the research design, data collection, study population, sample size and selection methods, sampling methods, data collection procedure, data collection methods and document review. The chapter also described in details what is done and how it is done.

# Research design

The study used a cross section study because data is gathered over a period of time inorder to establish the relationship between financial management practices and financial performance in Centenary Bank, Mapera Branch in particular. Qualitative and quantitative data was presented using narrative text. Under this section the following were identified, and explained research approach, research strategy, research duration and classification.

## Research approach

The study’s research approach was phenomenological approach which is important because it can be used to test the validity of the research hypothesis. The approach adapted both quantitative technique where data was represented in numbers (numeric) and qualitative technique where data will be represented in narrative form. This research approach allowed the interviewer to probe the richness of respondent’s emotions and motivations of related to the topic. The study also used qualitative data to help clarify hypothesis, beliefs, attitudes about financial management practicesand organisation performance. It also used positivism because the researcher derived a hypothesis. It is a combination of both positivism and phenomenological approaches.

## Research strategy

The study used a case study as the research strategy. This involved a detailed examination of Centenary Bank, Mapeera Branch on how financial management practices is implemented to facilitate improved financial performance.

## Research duration

The study adopted a cross sectional survey basing on three years (2018-2020) to gather the relevant information about the variables. The researcher carried out the study in a period of six months.

## Research classification

The study used both qualitative and quantitative research which is generally associated with the positivist paradigm. It involved collecting and converting data into numerical form hence use of statistical calculations where conclusions are to be drawn. In order to predict possible relationship between the variables the study used various instruments such as self-administered questionnaire and materials such as observation check lists both qualitative and quantitative. It involved the use of statistics combined with a lot of description exploring and explaining how this occurred.

# Study population

According to Koffi (2002), this is the total number of respondents from which the sample size is derived. The study population targeted 70 people. These included branch managers, department heads, committee members, audit, compliance officers and supervisors. The choice of Centenary Bank, a typical private entity for this study was because financial management practices is common in its work environment.

# Sample size and selection method

The study used the Yamane formula of sample determination (1967:886) to determine the sample size as shown below.

The sample size was determined using the following formula by Yamane (1967:886).

n = N

1 + N (e2)

n= 70

1 + 70 (0.052)

n= 70

1 + 70 (0.0025)

n= 59

**Where;**

n = Sample size

N= Population size

e = margin of error at 95% confidence level

e = Margin of error/0.05

# Table 3.1: Population and sample size distribution

|  |  |  |  |
| --- | --- | --- | --- |
| **Respondents** | **Population** | **Sample size** | **Sampling method** |
| Branch manager | 2 | 2 | Census |
| Department heads | 10 | 9 | Purposive sampling |
| Committee members | 23 | 19 | Purposive sampling |
| Audit | 5 | 5 | Census |
| Compliance officers | 10 | 9 | Purposive sampling |
| Support staff | 20 | 15 | Simple random sampling |
| **Total** | **70** | **59** |  |

**Source: Primary data**

# Background information of the respondents

This section presents the background information that was collected from respondents.

# Gender of respondents

Respondents were asked to identify the gender they belonged to. The results to this question are summarised in table 3.2

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.2: Gender | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Male | 43 | 75.4 | 75.4 | 75.4 |
| Female | 14 | 24.6 | 24.6 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

Results in Table 3.2 indicate that 75.4% of the respondents were of the male gender while 24.6% of the respondents were female. This can be implied to mean that most of the activities and roles in the bank are majorly performed by the males and thus most of the information was gathered from males.

# Age of respondents

Respondents were asked to identify the age group in which they belonged. The results to this question are summarised in table 3.3

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.3: Age of respondents | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 18-25 years | 16 | 28.1 | 28.1 | 28.1 |
| 26-35 years | 25 | 43.9 | 43.9 | 71.9 |
| 36-45 years | 9 | 15.8 | 15.8 | 87.7 |
| Above 45 years | 7 | 12.3 | 12.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

Results in Table 3.3 indicate that 43.9% of the respondents were between 26-35 years of age, 28.1% were between 18-25 years of age, and 15.8% were between 41-50 years of age while 12.3% were above 45 years of age. This can be implied to mean that most of the respondents were mature adults, the researcher presumed this to mean that these were knowledgeable about the study variables, and as such provided relevant and reliable information.

# Duration of employment in Centenary Bank

Respondents were asked to state the number of years that they had served in the Federation. The results to this question are summarised in table 3.4

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.4: Duration of employment in Centenary Bank | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | 1-2 years | 5 | 8.8 | 8.8 | 8.8 |
| 3-4 years | 17 | 29.8 | 29.8 | 38.6 |
| 5-6 years | 6 | 10.5 | 10.5 | 49.1 |
| Above 6 years | 29 | 50.9 | 50.9 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

Results in Table 3.4 indicate that 50.9% of the respondents had served in the bank for more than 6 years, 29.8% had served for 3-4 years, and 10.5% had served for of 5-6 years. The results can be implied to mean that generally most respondents had served in Centenary Bank for a period long enough to acquire experience about the dynamics of the duties and operations in line with financial management practices, hence provided valid and reliable data for the study.

# Level of education

Respondents were also asked to identify the highest level of education qualification that they had. The results to this question are summarised in table 3.5

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 3.5: Level of education | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Certificate | 2 | 3.5 | 3.5 | 3.5 |
| Diploma | 4 | 7.0 | 7.0 | 10.5 |
| Bachelor | 32 | 56.1 | 56.1 | 66.7 |
| Master | 17 | 29.8 | 29.8 | 96.5 |
| Other, specify | 2 | 3.5 | 3.5 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

Results in Table 3.5 indicate that 56.1% had Bachelor’s degree, 29.8% had Master’s degree, 7% had Diploma, 3.5% had certificate and 3.5% specified that they had academic qualifications in Postgraduate Diplomas. The results can be implied to mean that majority of the respondents had prior knowledge and a clear understanding about how the bank has endeavored to enhance its financial performance through financial management practices.

# Sampling methods

The researcher used purposive method of sampling to select respondents from department heads, committee members and supervisors; these were expected to have firsthand information about the study variables. This method was important because it is dictated by the nature of the study which aims at getting information from specific respondents.

Simple random sampling was used to select respondents from the support staff respondents. In this study these respondents were randomly selected to eliminate elements of bias in the research process by giving almost all respondents an equal chance to participate in the study.

# Data collection sources

According to Weiner, (1995), data collection is a standout amongst the most essential stages in carrying on research. It helps in figuring out what sort of data is needed.

## Primary data

Primary data is data that is collected by a researcher from first-hand sources. In this study, primary data was collected directly from primary sources with the aim of gathering richness of information from most reliable and informed respondents about the current situation of the study problem.

## Secondary data

Secondary data is data gathered from studies, surveys, or experiments that have been run by other people or for another research. The current study gathered information from secondary sources because it had a pre-established degree of validity and reliability which needed not to be re-examined by the researcher.

# Data collection methods

Primary data was collected by interviewing and focus group discussion methods in order to save time. Secondary data is collected through document reviews.

## Interviewing

In this study, the researcher used unstructured interviews on the entire distribution of the sample size. The unstructured interviews contained both closed-ended and open-ended questions that were asked in any order because this interview method is more flexible as questions can be adapted and changed depending on the respondent’s answer. The study also used group interviews with the support staff respondents of the study. This method of interviewing was used to make sure the group interact with each other and not drift off topic.

## Questionnaire survey method

A survey questionnaire is a set of questions used in a survey (Andrea, 2014). The survey questionnaire is a type of data gathering method that is utilized to collect, analyze and interpret the different views of a group of people from a particular population. The method was used because data can be collected relatively quickly since the researcher did not need to be present when the questionnaires were being completed.

# Data collection instruments

These can be referred to as devices that are used to collect data.

## Self-administered questionnaire

This is the main research instrument that is used to gather primary data from the individual respondents. The questionnaire contained both closed and open-ended questions and sought information from the respondents to get information on how financial management practices have influenced financial performance of financial institutions. Questionnaires enabled the researcher to not be present while being completed by respondents hence saves time. A total of 59 questionnaires were distributed comprising both closed and open-ended questions with instructions on how to be filled, as such respondents fill in appropriately to the best of their knowledge.

## Interview guide

For management of respondents face to face interviews were conducted alongside self administered questionnaires so as to enhance response to questions generally regarded as sensitive. The researcher used structured and face to face interviews because they provide first-hand information; data is collected because it is less costly and has the ability to clarify questions. In this method, interview guide was drafted and questions are asked and then note responses corresponding the asked questions.

# Validity and reliability of the instruments

## Validity of the instrument

Cresswell (1997) states that validity is used to determine whether research instruments measure what it intended to measure and to approximate the truthfulness of the results. A pre-test of the research instrument to establish its validity was done. With the aim of completing the research in time, the instrument was given to only 10 experts who gave their opinions on the relevance of the questions using a 5- point scale of relevant to not relevant. Items that were found not to be relevant were eliminated and those found not to be understood were adjusted for clarity. The validity of the research instruments was determined using the content validity ratio because the method can evaluate whether test items assess defined content of the study.

## Reliability of the instrument

Reliability of the questionnaire items was tested using the Cronbach’s alpha coefficient. Reliability of this study’s instruments was ascertained by pre-testing the questionnaires and interview guide in the field. The researcher established the reliability of the questionnaire by using pre-testing. The researcher gave questionnaire guides to the same groups of respondents and re-testing is done. This indicated that the instrument used to collect data from the respondents was dependable and reliable.

# Data collection procedure

In order to collect required data from Centenary Bank, Mapeera Branch, the researcher obtained an introductory letter from the Dean of School of Business Administration of Nkumba University. The letter was delivered to Human Resource department Centenary Bank to seek permission to conduct the research in their organisation. After the researcher collected data on the role of financial management practices on financial performance of commercial banks from respective respondents

# Data processing

The data obtained was checked for validity and accuracy before processing. This involved cross checking the completed self- administered questionnaires to check for any errors that might have been committed. Both qualitative and quantitative techniques were used for the analysis which was done using Statistical Package for Social Sciences (SPSS).

# Data analysis and interpretation

After processing, the summarized data was analysed using both descriptive statistics mainly through the relationship of the study variables.

# Ethical considerations

The researcher ensured voluntary participation of the respondents and avoids the use of offensive, discriminatory, or other unacceptable language during the process of data collection. In addition, the researcher maintained the highest level of objectivity in discussions and analysis throughout the research.

# Limitations of the study

This section identifies the challenges the researcher is likely to face while carrying out the study.

Non response: The researcher faced a problem of non-response from same respondents. The researcher overcame this limitation by administering as many questionnaires as possible so as to eliminate any chance of bias and then talking to respondents to request and encourage them provide the necessary data.

# CHAPTER FOUR

# FINANCIAL REPORTING AND FINANCIAL PERFORMANCE

# Introduction

This chapter presents the analysis and interpretation of results on how financial reporting influences financial performance of Centenary Bank, Mapeera Branch. The findings are presented in Tables 4.1 -4.8.

# Descriptive statistics on financial reporting and financial performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.1: Internal controls put in place in our institution to ensure proper financial reporting | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 5 | 8.8 | 8.8 | 8.8 |
| Agree | 24 | 42.1 | 42.1 | 50.9 |
| Strongly agree | 28 | 49.1 | 49.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.1, results indicate that majority of the respondents generally agreed, this was presented by 49.1% who strongly agreed and 42.1% who agreed respectively. This can be implied to mean that the bank’s internal control ensures reliability and integrity of financial information. It was revealed that internal controls are used by management to ensure that management has accurate timely and complete information, including accounting records, in order to plan, monitor and report business operations. This means that regardless of the policies and procedures established by the bank, assurance about correctness of financial information is only through effective internal control.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.2: The major financial statements required by the regulator are adequately and timely prepared and disclosed accordingly | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 8.8 | 8.8 | 8.8 |
| Disagree | 7 | 12.3 | 12.3 | 21.1 |
| Not sure | 4 | 7.0 | 7.0 | 28.1 |
| Agree | 19 | 33.3 | 33.3 | 61.4 |
| Strongly agree | 22 | 38.6 | 38.6 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.2, results indicate that majority of the respondents generally agreed to the statement, this was presented by 38.6% who strongly agreed and 33.3% who agreed respectively; this can be implied to mean that internal control of the bank supports the identification, capture and exchange of financial information in a form and time frame that enables management to carry out their responsibilities. In an interview session, it was stated that;

“*the ability of Centenary bank’s management to fulfill its financial reporting responsibilities depends on in part on the design and operating effectiveness of internal controls in place. Our banks internal controls are used to prepare timely and reliable financial reports for management, investors, lenders and other users”.*

This means that stakeholders are fast in decision making due to timely provision of reports.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.3: The bank involves employees in financial statements preparation process | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 18 | 31.6 | 31.6 | 31.6 |
| Disagree | 21 | 36.8 | 36.8 | 68.4 |
| Not sure | 7 | 12.3 | 12.3 | 80.7 |
| Agree | 9 | 15.8 | 15.8 | 96.5 |
| Strongly agree | 2 | 3.5 | 3.5 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.3, results indicate that majority of respondents generally disagreed, this was presented by a combined response of 68.4% of respondents who disagreed. The results can be implied to mean that the amount of openness and accountability is strictly limited to those employees who have a direct role in preparing financial statements. It was revealed that the bank has various department with distinct job responsibilities and as such preparation of financial statements and accounting roles all together is only for the accounting department such as bank tellers, loan officers, debtors and creditors plus the bank’s accountant. This means that the bank has established process metrics that clearly define roles and responsibilities within the accounting department.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.4: The bank employs various budget techniques | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 23 | 40.4 | 40.4 | 40.4 |
| Disagree | 14 | 24.6 | 24.6 | 65.0 |
| Not sure | 7 | 12.3 | 12.3 | 77.3 |
| Agree | 8 | 14.0 | 14.0 | 91.2 |
| Strongly agree | 5 | 8.8 | 8.8 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.4, results indicate that majority of respondents generally disagreed to the statement, 40.4% strongly disagreed while 24.6% disagreed. Since majority of the respondents generally disagreed, it can be implied to mean that Centenary bank adopts one technique of budgeting to ensure accountability. It was revealed that the bank applies the capital budgeting technique is not only used for accountability but to also choose investments that generate the highest rates of return. It was revealed that the technique has to some extent been effective in assessing the potential profitability of proposed investments for the bank. This means that budgets are created around the monetary needs for each upcoming period to fetch more returns.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.5: Stakeholders are provided with accountability reports to indicate how the banks money is being spent | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 7 | 12.3 | 12.3 | 12.3 |
| Disagree | 9 | 15.8 | 15.8 | 28.1 |
| Not sure | 5 | 8.8 | 8.8 | 36.8 |
| Agree | 21 | 36.8 | 36.8 | 73.7 |
| Strongly agree | 15 | 26.3 | 26.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.5, results indicate that 26.3% of the respondents strongly agreed while 36.8% agreed to the statement respectively. Since this is the majority response it can be implied to mean that the bank can easily determine its financial situation. It was revealed that the systems in place ensures the reliability and integrity of financial information by enabling managers have access to accurate, timely and complete information. The internal control systems are used to produce accountability reports through combined efforts of the quality controls that helps evaluators to assess operational efficiency and effectiveness.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.6: Financial reports are submitted in a timely manner to ensure business advancement | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent | |
| Valid | Strongly disagree | 14 | 24.6 | 24.6 | 24.6 |
| Disagree | 22 | 38.6 | 38.6 | 63.2 |
| Not sure | 3 | 5.3 | 5.3 | 68.4 |
| Agree | 7 | 12.3 | 12.3 | 80.7 |
| Strongly agree | 11 | 19.3 | 19.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.6, results indicate that majority of the respondents that is 24.6% strongly disagreed and 38.6% disagreed to the statement respectively; this can be implied to mean that the internal control system personnel primarily responsible for maintenance and operations of the control function don’t understand the concept’s basics. In an interview session, it was expressed that;

*“Centenary bank has personnel who work on the internal control system software yet they do not have the system’s knowledge. This has been a common problem as most have been terminated several times. However, without that intrinsic knowledge, the financial information input decisions quickly go astray, and the output of the computerized internal control system becomes hopelessly trashed. Some employees also feel like management does not understand that accounting knowledge is essential in the successful implementation and use of most any internal control systems and the reports it produces”*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.7: The reporting of financial statements in our institution is counterchecked for accuracy and error minimization | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 7.0 | 7.0 | 7.0 |
| Disagree | 8 | 14.0 | 14.0 | 21.1 |
| Not sure | 9 | 15.8 | 15.8 | 36.8 |
| Agree | 20 | 35.1 | 35.1 | 71.9 |
| Strongly agree | 16 | 28.1 | 28.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.7, results indicate that majority of the respondents represented by 28.1% and 35.1% strongly agreed and agreed respectively. Since majority of respondents generally agreed, it can be implied to mean that those financial statements of Centenary bank are always complete, neutral or free from error. Respondents stated that uncompleted reports are due to multiple system failures and unskilled personnel in accounting practice. Management always makes effort to ensure that reports prepared show all transactions that are made in the business. This means that the financial information contained at the bank represent the business’s essence of transactions and events are merely legal hence present a true and fair view.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 4.8: The reports are always generated at the right time when needed by the stakeholders | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 8.8 | 8.8 | 8.8 |
| Disagree | 11 | 19.3 | 19.3 | 28.1 |
| Not sure | 2 | 3.5 | 3.5 | 31.6 |
| Agree | 18 | 31.6 | 31.6 | 63.2 |
| Strongly agree | 21 | 36.8 | 36.8 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 4.8, results indicate that 8.8% strongly disagreed, 19.3% disagreed, 3.5% were not sure, 31.6% agreed while 36.8% strongly agreed. Results indicate that 68.4% of the respondents generally agreed, this can be implied to mean that there is a level of dissatisfaction by bank’s stakeholders especially the customers. In an interview session, it was stated that;

“*It is common for the bank’s system to get overloaded which usually causes delay in generating financial reports at the request of the stakeholders. The major problem is that our bank does not have many branches in the same location, this has led to branches having a big number of people needing the same services at the same time, the system obviously will get overloaded which at times leads to malfunction hence delay in generating reports”.*

This means that the delay is caused by system failures and time requirements of stakeholders.

# Hypothesis 1 testing

# Regression analysis results for financial reporting and financial performance

Multiple regression analysis was performed in order to establish the extent to which financial reporting explained the degree of variance in financial performance. The result obtained is presented in the model summary table 4.9

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 4.9: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .818a | .670 | .664 | .77588 |
| a. Predictors: (Constant), Financial reporting | | | | |

Results in Table 4.9 show that the adjusted R square, which is the variability in the dependent variable (financial performance), explained by the regression, is 0.664 or 66.4%; this means that 66.4% of the variability in financial performance of Centenary bank is explained by the independent financial reporting. The remaining 33.6% is explained by other factors outside the scope of the current study. The R value from the summary model is 0.818 which is the correlation coefficient.

# ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is significant relationship between financial reporting and financial performance. The results are summarized in table 4.10

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 4.10: ANOVAa | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 67.101 | 1 | 67.101 | 111.465 | .000b |
| Residual | 33.109 | 55 | .602 |  |  |
| Total | 100.211 | 56 |  |  |  |
| a. Dependent Variable: Financial performance | | | | | | |
| b. Predictors: (Constant), Financial reporting | | | | | | |

Table 4.10 results indicate that F=111.465, p=000, which means that the positive hypothesis that there is a significant relationship between financial reporting and financial performance is accepted, hence rejecting the implied null hypothesis. This means that any positive change in the financial reporting explains variability in the changes under the dependent variable of financial performance.

The regression coefficient is not zero and therefore improved effectiveness in financial performance will lead to improvement in financial performance in Centenary bank.

# CHAPTER FIVE

# WORKING CAPITAL MANAGEMENT AND FINANCIAL PERFORMANCE

# Introduction

This chapter presents the analysis and interpretation of results on how working capital management influences financial performance of Centenary Bank, Mapeera Branch. The findings are presented in Tables 5.1 -5.8.

# Descriptive statistics on working capital and financial performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.1: Centenary bank has a working capital management system | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 8.8 | 8.8 | 8.8 |
| Disagree | 6 | 10.5 | 10.5 | 19.3 |
| Not sure | 1 | 1.8 | 1.8 | 21.1 |
| Agree | 17 | 29.8 | 29.8 | 50.9 |
| Strongly agree | 28 | 49.1 | 49.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.1, results indicate that majority of the respondents generally agreed and strongly agreed, represented by 29.8% and 49.1% respectively. Since this is the majority response, it can be implied to mean that the bank is provided with a mainstream of streamlining its operations and funding them towards success. It was revealed that working capital management has kept the bank from exposure of fraud and also ensured effective use of its available funds which has necessarily contributed to financial performance. This means that Centenary bank understands the essence of effective working capital management for its fundamental financial health and operational success.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.2: The bank prepares cashflow forecasts to identify future surpluses and deficits | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 14.0 | 14.0 | 14.0 |
| Disagree | 5 | 8.8 | 8.8 | 22.8 |
| Not sure | 5 | 8.8 | 8.8 | 31.6 |
| Agree | 21 | 36.8 | 36.8 | 68.4 |
| Strongly agree | 18 | 31.6 | 31.6 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.2, results indicate that majority of respondents generally agreed, this was represented by 31.6% who strongly agreed and 36.8% who agreed respectively. This was the majority response and it can be implied to mean that centenary bank has effective and efficient personnel who predict flow of cash in and out of the bank for each month. It was revealed in one of the interview sessions that;

“*Our team prepares cash flow forecasts/ statements which enable management to plan so that it can anticipate periods of cash shortage and take corrective action. This is done by showing a month-by-month breakdown of the cash that is expected to be received over a time period”.*

This means that the information highlights any predicted periods of cash shortages and finance team can work together to find solutions.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.3: The bank ensures to maintain sufficient cash flow to meet funds needs of the customers | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 15 | 26.3 | 26.3 | 26.3 |
| Disagree | 23 | 40.4 | 40.4 | 66.7 |
| Not sure | 4 | 7.0 | 7.0 | 73.7 |
| Agree | 8 | 14.0 | 14.0 | 87.7 |
| Strongly agree | 7 | 12.3 | 12.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.3, results in table 6.3, results indicate that majority of respondents generally disagreed; this was represented by 26.3% and 40.4% who strongly disagreed and disagreed respectively. This can be implied to mean that there are instances when the bank fails to meet its financial obligations to creditors and depositors. It was revealed that the cash flow is often and always with the automated teller machines which do not have enough cash for customers withdraw needs. It was revealed that on many instances customers have used various ATM machines of the bank only to find no cash.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.4: Employees are frequently evaluated on working capital KPIs | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 20 | 35.1 | 35.1 | 14.0 |
| Disagree | 19 | 33.3 | 33.3 | 26.3 |
| Not sure | 3 | 5.3 | 5.3 | 31.6 |
| Agree | 8 | 14.0 | 14.0 | 66.7 |
| Strongly agree | 7 | 12.3 | 12.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.4, results indicate that majority of respondents generally agreed to the statement, this was represented by 35.1% and 33.3% who strongly disagreed and disagreed respectively. This can be implied to mean that employees do not always meet their short- and long-term financial obligations. It was revealed that employees in particular new recruits lack the ability to generate cash quickly, this can be through increased number of new customers and prospects. This means that the banks’ financial health is exposed to risk which makes it challenging for the bank to meet its short-term financial liabilities.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.5: Working capital is extensively used as a performance measurement in Centenary bank’s internal reports | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 10 | 17.5 | 17.5 | 17.5 |
| Disagree | 4 | 7.0 | 7.0 | 24.6 |
| Not sure | 4 | 7.0 | 7.0 | 31.6 |
| Agree | 18 | 31.6 | 31.6 | 63.2 |
| Strongly agree | 21 | 36.8 | 36.8 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.5, results indicate that majority of the respondents generally agreed with the statement, this was represented by 36.8% and 31.6% who strongly agreed and agreed respectively. This can be implied to mean that working capital used to measure the difference between current assets and current liabilities to determine the bank’s well-being. It was revealed in an interview session that;

“*The measurement of working capital is always included in the banks internal reports because it indicates the short-term financial obligations of the bank and also represents the operating liquidity available to run the bank on a daily basis; this must always be measured and reported”.*

This means that Centenary bank can gain benefits from measuring working capital which may include customers’ confidence and payment of short-term obligations.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.6: There is regular preparation of cash budgets | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 8 | 14.0 | 14.0 | 14.0 |
| Disagree | 7 | 12.3 | 12.3 | 26.3 |
| Agree | 22 | 38.6 | 38.6 | 64.9 |
| Strongly agree | 20 | 35.1 | 35.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.6, results indicate that majority of respondents generally agreed to the statement, this was represented by 35.1% who strongly agreed and 38.6% who agreed respectively. This can be implied to mean that Centenary bank always endeavors to ensure that there is enough cash to achieve the operational levels set by the functional budgets. It was revealed that in case liquidity is not enough, the bank finds ways of raising more capital. Respondents also indicated that the bank’s finance and accounting department in specific the bank accountant, prepares the cash budget to provide stakeholders with an insight into its cash needs and help to determine an efficient allocation of cash.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.7: There is effective supervision of cash collection and disbursements | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 36.8 | 36.8 | 36.8 |
| Disagree | 22 | 38.6 | 38.6 | 75.4 |
| Not sure | 2 | 3.5 | 3.5 | 78.9 |
| Agree | 4 | 7.1 | 7.1 | 86.0 |
| Strongly agree | 8 | 14.0 | 14.0 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.7, results indicate that majority of respondents, represented by 36.8% and 38.6%, strongly disagreed and disagreed respectively. This shows that majority of the respondents generally disagreed, which can be implied to mean that the bank employees are not aware of policies designed to speed up collections and slow down disbursements has become high. It was revealed that cash collection and disbursement policies are designed to reduce a firm’s liquid asset balances (cash and marketable securities) by exploiting imperfections in the collection and payment process. The objective is to speed up collections and slow down disbursements.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 5.8: There is effective funds management and utilisation | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 9 | 15.8 | 15.8 | 36.8 |
| Disagree | 2 | 3.5 | 3.5 | 71.9 |
| Not sure | 5 | 8.8 | 8.8 | 80.7 |
| Agree | 21 | 36.8 | 36.8 | 96.5 |
| Strongly agree | 20 | 35.1 | 35.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 5.8, results indicate that majority of respondents generally disagreed to the statement; this was represented by 36.8% and 35.1% who agreed and strongly agreed respectively. This can be implied to mean that Centenary bank the bank has efficiently raised funds and used it in a manner that has been able to generate sufficient revenues to meet the operational as well as financial costs and contribute a reasonable return on capital. It was revealed that the bank has an appropriate design of funds management on sound commercial principles. This means that the bank pays special attention to funds utilisation to enable achievement of profit and wealth maximisation.

# Hypothesis 2 testing

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which marketing policies explained the degree of variance in financial performance. The result obtained is presented in the model summary table 5.9

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 5.9: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .726a | .528 | .519 | .45131 |
| a. Predictors: (Constant), Working capital management | | | | |

Results in Table 5.9 show that the adjusted R square, which is the variability in the dependent variable (financial performance), explained by the regression, is 0.519 or 51.9%; this means that 51.9% of the variability in financial performance in Centenary bank is explained by the independent variable working capital management. The remaining 48.1% is explained by other factors outside the scope of the current study. The R value from the summary model is 0.726 which is the correlation coefficient.

# ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is significant relationship between working capital management and financial performance in Centenary bank. The results are summarized in table 5.10

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 5.10 ANOVAa | | | | | | |
| Model | | Sum of Squares | Df | Mean Square | F | Sig. |
| 1 | Regression | 12.517 | 1 | 12.517 | 61.453 | .000b |
| Residual | 11.202 | 55 | .204 |  |  |
| Total | 23.719 | 56 |  |  |  |
| a. Dependent Variable: Financial performance | | | | | | |
| b. Predictors: (Constant), Working capital management | | | | | | |

According to results in table 5.10, it is indicated that F= 61.453, p<000, means the positive hypothesis that there is a significant relationship between working capital management and financial performance is accepted, hence rejecting the implied null hypothesis. This means that positive change in working capital management explains variability in the changes under the dependent variable of financial performance.

Effective working capital management will lead to improvement in financial performance in the bank; this is justified by the regression coefficient which is not zero.

# CHAPTER SIX

# ASSET MANAGEMENT AND FINANCIAL PERFORMANCE

# Introduction

This chapter presents the analysis and interpretation of results on how asset management influences financial performance of Centenary Bank, Mapeera Branch. The findings are presented in Tables 6.1 -6.8.

# Descriptive statistics on asset management and financial performance

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.1: The bank has a well-defined fixed assets portfolio to increase profitability | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 18 | 31.6 | 31.6 | 31.6 |
| Disagree | 20 | 35.1 | 35.1 | 66.7 |
| Not sure | 4 | 7.0 | 7.0 | 73.7 |
| Agree | 8 | 14.0 | 14.0 | 87.7 |
| Strongly agree | 7 | 12.3 | 12.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.1, results indicate that majority of the respondents generally disagreed to the statement; this was presented by 31.6% who strongly disagreed and 35.1% who disagreed respectively. This can be implied to mean that the bank has a high percentage of investment returns. It was revealed in an interview session that;

“*We ensure to always have effective asset allocation by putting time and effort in upfront when deciding what the bank’s asset allocation is going to be”.*

This means that the bank has a diversified asset allocation portfolio hence minimises investment risks.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.2: The acquisition process for fixed assets has led to increased profitability | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 5 | 8.8 | 8.8 | 8.8 |
| Disagree | 7 | 12.3 | 12.3 | 21.1 |
| Not sure | 4 | 7.0 | 7.0 | 28.1 |
| Agree | 19 | 33.3 | 33.3 | 61.4 |
| Strongly agree | 22 | 38.6 | 38.6 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.2, results indicate that majority of respondents, represented by 38.6% and 33.3% agreed and strongly agreed respectively. Since majority of the respondents generally agreed, it can be implied to mean that the bank is using its fixed assets more effectively. It is revealed that the bank has effectively used investments in fixed assets to generate sales. It was revealed that the bank ensures to compare its most recent ratio to both its own historical ratios and ratio values from purchased assets.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.3: Efficient utilization and management of cash increased in profitability | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 2 | 3.5 | 3.5 | 3.5 |
| Disagree | 8 | 14.0 | 14.0 | 17.5 |
| Not sure | 5 | 8.8 | 8.8 | 26.3 |
| Agree | 23 | 40.4 | 40.4 | 66.7 |
| Strongly agree | 19 | 33.3 | 33.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen table 6.3, results indicate that majority of respondents generally agreed to the statement, this was presented by 33.3% and 40.4% who strongly agreed and agreed respectively. This can be implied to mean that all the cash inflows and outflows have been prudently managed in order to meet bank’s obligations. It was revealed that the bank has maintained adequate business stability through treasury management, corporate treasurers and chief financial officers who have effectively handled their responsibility for overall cash management strategies, cash related responsibilities and stability analysis. This means that there are several key metrics that are monitored and analysed by cash and asset management executives on a daily, monthly, quarterly and annual basis.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.4: The maintenance approach taken regarding the assets has led to increase in profitability | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 17 | 29.8 | 29.8 | 29.8 |
| Disagree | 25 | 43.9 | 43.9 | 73.7 |
| Not sure | 8 | 14.0 | 14.0 | 87.7 |
| Agree | 4 | 7.0 | 7.0 | 94.7 |
| Strongly agree | 3 | 5.3 | 5.3 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.4, results indicate that majority of respondents generally disagreed, this was presented by 43.9% who disagreed and 29.8% who strongly disagreed to the statement respectively. Since this is the majority response it can be implied to mean that the bank lacks an effective asset lifecycle management. It was revealed that the bank’s management has on several occasions ignored the increase in costs that can be attributed to an asset moving towards the end of its lifecycle and yet losses of productivity are not taken into consideration hence having an impact on profitability of the bank.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.5: The method of disposal for fixed assets has led to difference in profitability | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Not sure | 5 | 8.8 | 8.8 | 8.8 |
| Agree | 24 | 42.1 | 42.1 | 50.9 |
| Strongly agree | 28 | 49.1 | 49.1 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.5, results indicate that majority of the respondents generally agreed to the statement, this was presented by 49.1% and 42.1% who strongly agreed and agreed respectively. This can be implied to mean that the transaction of disposing of a fixed asset gives rise to the accounting recording of a decrease in the assets of the value of this fixed asset and the collection of the sale price, showing a gain or a loss. It was revealed in an interview session that,

*“Good management of disposals, whether they are scrapping or sales can help minimise losses and even make some profits, hence making a difference in the bank’s profitability”.*

This means that when the bank chooses the right time to carry out a resale or even optimising the management of obsolescence, the disposal of fixed assets can be a profitability lever for the bank.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.6: The diversification strategy adopted for financial assets investments has minimized risks | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 21 | 36.8 | 36.8 | 36.8 |
| Disagree | 24 | 42.1 | 42.1 | 78.9 |
| Not sure | 3 | 5.3 | 5.3 | 84.2 |
| Agree | 4 | 7.0 | 7.0 | 91.2 |
| Strongly agree | 5 | 8.8 | 8.8 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.6, results indicate that majority of the respondents generally disagreed to the statement; this was presented by 42.1% and 36.8% who strongly disagreed and disagreed respectively. Since this was the majority response it can be implied to mean that despite the benefits of reducing risks through diversification, the bank has not always effectively allocated investments across financial instruments, industries or other categories. It was revealed that management has not been able to maximise returns from investments in different areas which would each react differently to the same event. This means that despite having a mixed bad of assets, the bank has on some occasions failed to absorb the impact of an adverse event hence failing to compensate for losses in the investments.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Table 6.7: There is improved effectiveness of collection efforts over time on collection of cash receivables | | | | | |
|  | | Frequency | Percent | Valid Percent | Cumulative Percent |
| Valid | Strongly disagree | 4 | 7.0 | 7.0 | 7.0 |
| Disagree | 3 | 5.3 | 5.3 | 12.3 |
| Not sure | 12 | 21.1 | 21.1 | 33.3 |
| Agree | 15 | 26.3 | 26.3 | 59.6 |
| Strongly agree | 23 | 40.4 | 40.4 | 100.0 |
| Total | 57 | 100.0 | 100.0 |  |

**Source: Primary data (2021)**

As seen in table 6.7, results indicate that majority of respondents generally agreed to the statement, this was presented with 40.4% who strongly agreed and 26.3% who agreed respectively. Since this was the majority, it can be implied to mean that there is effective accounts receivable management which has enhanced the banks cash flow by preventing nonpayment or late payment from clients. It was revealed that the bank’s employees adhere to the foundational accounts receivable collection methods and procedures and as such endeavor to focus on establishing clear contracts with customers and also implement workable system that can manage those contracts. This means that the banks contracts always specify its terms of payment, cash-up-front or retainer stipulations.

# Hypothesis 3 testing

# Regression analysis

Multiple regression analysis was performed in order to establish the extent to which asset management explained the degree of variance in financial performance. The result obtained is presented in the model summary table 6.8

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Table 6.8: Model Summary | | | | |
| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
| 1 | .910a | .828 | .825 | .59495 |
| a. Predictors: (Constant), Asset management | | | | |

Results in Table 6.8 show that the adjusted R square, which is the variability in the dependent variable (financial performance), explained by the regression, is 0.825 or 82.5%; this means that 82.5% of the variability in financial performance is explained by the independent asset management. The remaining 17.5 % is explained by other factors outside the scope of the current study. The R value from the summary model is 0.910 which is the correlation coefficient.

# ANOVA (Analysis of variance)

ANOVA analysis was performed to test the equivalent hypothesis that there is significant relationship between asset management and financial performance in Centenary bank. The results are summarized in table 6.9

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Table 6.9: ANOVAa | | | | | | |
| Model | | Sum of Squares | df | Mean Square | F | Sig. |
| 1 | Regression | 94.041 | 1 | 94.041 | 265.680 | .000b |
| Residual | 19.468 | 55 | .354 |  |  |
| Total | 113.509 | 56 |  |  |  |
| a. Dependent Variable: Financial performance | | | | | | |
| b. Predictors: (Constant), Asset management | | | | | | |

Table 6.9 results show that F= 265.680, p=000, which means that the positive hypothesis that there is a significant relationship between asset management and financial performance is accepted, hence rejecting the implied null hypothesis. This means that positive change in asset management explains variability in the changes under the dependent variable of financial performance.

Improved asset management will lead to improvement in financial performance; this is justified by the regression coefficient which is not zero.

# CHAPTER EIGHT

# TOWARDS HARMONIZING FINANCIAL MANAGEMENT PRACTICES AND FINANCIAL PERFORMANCE

# Introduction

This chapter provides the harmonization of the survey results on financial management practices and financial performance of commercial banks with specific reference to Centenary bank in line with established best practices elsewhere.

## Financial reporting and financial performance at Centenary bank

The study findings indicated that 49.1% strongly agreed and 42.1% agreed respectively that internal controls put in place in our institution to ensure proper financial reporting, 38.6% strongly agreed and 33.3% agreed respectively that the major financial statements required by the regulator are adequately and timely prepared and disclosed accordingly, a combined response of 68.4% of respondents who disagreed that the bank involves employees in financial statements preparation process, 40.4% strongly disagreed while 24.6% disagreed that the bank employs various budget techniques, 26.3% of the respondents strongly agreed while 36.8% agreed that stakeholders are provided with accountability reports to indicate how the banks money is being spent, 24.6% strongly disagreed and 38.6% disagreed that financial reports are submitted in a timely manner to ensure business advancement, 28.1% and 35.1% strongly agreed and agreed that the reporting of financial statements in our institution is counterchecked for accuracy and error minimization.

The findings are in line with Pandey (2015) who found out that organization would ensure the provision of adequate monitoring and reporting of the internal controls of the organization and the manner in which the controls support that organization’s overall objectives by monitoring areas of significant risk, Monitoring performance of internal controls and Utilizing operational and financial reports to identify potential breakdowns of internal control and also following up and identifying sources of breakdowns in internal control and reporting any such breakdowns. Monitoring and reporting on achievement of organization objectives through the use of performance indicators and measures.

Furthermore, Wayne (2016) observed that the objective of reporting is to ensure that relevant and appropriate information is reported to enable management and other decision makers to assess performance and make decisions that align with the organization’s strategy and objectives. The development of performance measures is a necessary base against which management can report. Both performance measurement and reporting are aimed at improving the effectiveness and efficiency of the organization operations. Financial reporting can be external and internal reporting. External Reporting its mandatory requirement that the registered organizations to provide an annual audited financial report, the purpose of audited financial reports is to provide useful information for decision making. While the Internal reporting is intended to provide both the Chief Executive and organization Leaders with the means to identify and measure whether the organization is meeting its objectives and achieving internal performance targets.

Dwyer and Tanner (2017) explained that the objective of transaction processing is to ensure the effective management of expenditure and revenue through the efficient and accurate recording of all transactions and to ensure expenditures are effectively and efficiently managed by maintaining arrangements for fair and competitive procurement through a structured approval process and in line with the organizations procurement policies, while minimizing the number of suppliers. Determining expenditure amounts and verifying that expenditure, for material amounts, is in accordance with goods and services received and paying all debts when due and payable and ensuring early payment discounts are fully utilized. Ensuring payments are authorized by an officer with appropriate authority.

## Working capital management and financial performance

The findings indicated that 29.8% and 49.1% generally agreed that Centenary bank has a working capital management system, 31.6% strongly agreed and 36.8% agreed that the bank prepares cashflow forecasts to identify future surpluses and deficits, 26.3% and 40.4% strongly disagreed and disagreed that the bank ensures to maintain sufficient cash flow to meet funds needs of the customers, 35.1% and 33.3% strongly disagreed and disagreed that employees are frequently evaluated on working capital KPIs, 36.8% and 31.6% strongly agreed and agreed that working capital is extensively used as a performance measurement in Centenary bank’s internal reports, 35.1% strongly agreed and 38.6% agreed that there is regular preparation of cash budgets, 36.8% and 38.6% strongly disagreed and disagreed that there is effective supervision of cash collection and disbursements and 36.8% and 35.1% agreed and strongly agreed that there is effective funds management and utilisation.

The study findings are supported by Afza & Nazir (2010) who expressed that working capital management is a critical component of corporate success due to its direct impact on both the objectives of liquidity and profitability, as such, management seeks to touch the optimal level of working capital, management's commitment to conservative policy in working capital management requires maintaining a high level of current assets Which will reduce liquidity risk and enhance the company's ability to meet operational requirements, but at the same time it will reduce profitability and cause lost investment opportunities and high opportunity costs. In contrast, management pursues an aggressive policy in managing working capital that requires maintaining a low level of current assets with the aim of achieving a high level of profitability encounters high liquidity risk.

In Jordan, the industrial sector is an important part of the Jordanian investment environment, and in light of the dynamic economy, the business environment is characterized by large levels of uncertainty, which may negatively affect the continuity of companies, and it is worth mentioning that a large part of the time of financial managers is consumed in following up on the daily operations that Related to working capital management In pursuit of optimal utilization of assets in a manner that does not negatively affect the liquidity of the company, The financial manager can achieve this balance by understanding the nature of the relationship between the components of working capital on the one hand and its impact on the performance of companies on the other hand, which will have the greatest impact in providing appropriate levels of profitability and thus maximizing the wealth of shareholders.

In Jordan, Abuzayed (2011) investigated the relationship between working capital management and profitability, the researcher used the gross operating profit as a dependent variable to stands for profitability. Cash conversion cycle, average days in inventory, average collection period and average repayment period were used to measure working capital management the results revealed a negative relationship of average collection period, average days in inventory and positive relationship of average day’s accounts payable with profitability. The researcher concluded that keeping minimum inventory and reducing the collection period length along with extending the payment period enhance profitability.

## Asset management and financial performance

The findings in this objective indicated that 31.6% strongly disagreed and 35.1% disagreed t that the bank has a well-defined fixed assets portfolio to increase profitability, 38.6% and 33.3% agreed and strongly agreed that the acquisition process for fixed assets has led to increased profitability, 33.3% and 40.4% strongly agreed and agreed that efficient utilization and management of cash increased in profitability, 43.9% disagreed and 29.8% strongly disagreed that the maintenance approach taken regarding the assets has led to increase in profitability, 49.1% and 42.1% strongly agreed and agreed that the method of disposal for fixed assets has led to difference in profitability, 42.1% and 36.8% strongly disagreed and disagreed that the diversification strategy adopted for financial assets investments has minimized risks and 40.4% strongly agreed and 26.3% who agreed that there is improved effectiveness of collection efforts over time on collection of cash receivables.

Empirical evidence on the relation between assets management and performance is mixed; that is, the effect of assets management on performance has been found to be positive, negative, or insignificant. Raei, Tehrani and Farhangzadeh (2015) studied the relationship between investment strategy. Assets management, performance and risk of firms listed in Tehran Stock Exchange in Iran. Assets management was measured by Herfindahl index while return on equity was the only performance measure used. The study adopted the appropriate significant model with random effects after carrying out Hausman test. It was noted that a positive relationship exists between assets management and return on equity. However, it was established that the relationship between assets management and performance of firms is insignificant at 95% confidence level.

The findings are in line with those by Dang, Minjoo and Yongcheol (2014) who found out that effective assets management ensures that organizations are set to maintain reliable sources of funds especially equity and debts which are critical in steering the firms’ financial performance. According to Shaheen and Malik (2017), assets determine the extent to which the firm is aligned towards creating a reliable source of funds and ensuring that debts are well managed to promote continued trust among the debtors thus ensuring enhanced financial performance.

# CHAPTER EIGHT

# SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

# Introduction

This chapter presents the discussion, conclusions, recommendations and contribution of the study arising out of the research findings in chapter four and suggests areas for further study.

# Summary of findings

## Financial reporting and financial performance

The study under this objective revealed that the bank’s internal control ensures reliability and integrity of financial information, internal control of the bank supports the identification, capture and exchange of financial information in a form and time frame that enables management to carry out their responsibilities, the amount of openness and accountability is strictly limited to those employees who have a direct role in preparing financial statements, Centenary bank adopts one technique of budgeting to ensure accountability, the bank can easily determine its financial situation, the internal control system personnel primarily responsible for maintenance and operations of the control function don’t understand the concept’s basics, financial statements of Centenary bank are always complete, neutral or free from error and there is a level of dissatisfaction by bank’s stakeholders especially the customers.

## Working capital management and financial performance

The results revealed that the bank is provided with a mainstream of streamlining its operations and funding them towards success, centenary bank has effective and efficient personnel who predict flow of cash in and out of the bank for each month, there are instances when the bank fails to meet its financial obligations to creditors and depositors, employees do not always meet their short- and long-term financial obligations, working capital used to measure the difference between current assets and current liabilities to determine the bank’s well-being, Centenary bank always endeavors to ensure that there is enough cash to achieve the operational levels set by the functional budgets, the bank employees are not aware of policies designed to speed up collections and slow down disbursements has become high and Centenary bank the bank has efficiently raised funds and used it in a manner that has been able to generate sufficient revenues to meet the operational as well as financial costs.

## Assets management and financial performance

The study findings revealed that the bank has a high percentage of investment returns, the bank is using its fixed assets more effectively, all the cash inflows and outflows have been prudently managed in order to meet bank’s obligations, the bank lacks an effective asset lifecycle management, the transaction of disposing of a fixed asset gives rise to the accounting recording of a decrease in the assets of the value of this fixed asset and the collection of the sale price, showing a gain or a loss, despite the benefits of reducing risks through diversification, the bank has not always effectively allocated investments across financial instruments, industries or other categories and there is effective accounts receivable management which has enhanced the banks cash flow by preventing nonpayment or late payment from clients.

# Conclusions

The study concluded that financial reporting was essential and significant in enhancing the financial performance. Preparation of financial statements timely and effectively and ensuring accuracy and accountability makes the bank to be on the right side with the law by meeting the requirements of the regulator as far as financial reporting is concerned. This also enhances the ability of the institutions for plan for their future financial trends thus steering their performance.

The study concluded that working capital management was a significant aspect in enhancing the financial performance of the commercial bank. Assets management was a critical driver in enhancing the financial performance of the commercial bank. The commercial bank obtained finances through effective management of the fixed assets and cash management. Through continued effective management of the assets, the banks were able to maintain their liquidity levels thus steering their financial performance.

# Recommendations

The management should embrace proper cash inventory and creditors management so as to ensure the institutions are able to finance their operations without financial limitations.

The management of the institutions should therefore uphold effective financial reporting by upholding timelines, accuracy, appropriateness and accountability so as to ensure the banks are in line with the regulations. They should also embrace proper use of the financial reporting in order to effectively forecast their financial trends and plan ahead.

Since the commercial bank deals with liquid cash, enhancing their liquidity through keeping proper relationship with the shareholders is appropriate. This will ensure the name of the institutions is held high especially by the shareholders.

The management of the bank ought to ensure that there are frameworks on how assets should be managed and clearly outlined procedures of assets disposal. The cash management in the bank should also be upheld as a key financial management practice that ought to enhance the finance independence of the bank.

# Areas of further research

This study focused on commercial banks in Uganda. It is recommended that a similar study be carried out to focus on other financial institutions that face similar challenges

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# APPENDIX 1: SELF ADMINISTERED QUESTIONNAIRE

The purpose of this questionnaire is entirely academic, and the information you will provide is absolutely confidential. The data obtained will only be necessary in acquiring the information pertinent to the above research topic. Please, kindly spare me a few minutes of your precious time to answer the following questions. Thank you for your utmost cooperation.

Tick in the boxes/brackets provided as may be appropriate or write in the line spaces provided. SECTION A: Background information of the respondent

**SECTION A:** **Background information of the respondent**

1. Sex: Male Female

1. Age (Years) 18-25 26-35 36-45 Above 45
2. Duration of employment with Centenary Bank (years)

1-2 b 3-4 5-6 Above 6yrs

1. What is your highest education level?

Certificate Diploma Bachelors Masters

Others, please specify…………………………………………………………….

**For Sections B, C, and D, tick one box depending on the degree of your agreement with the statement using the key below;**

**SECTION B: Financial reporting and financial performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **Scale** | | | | |
| 1 | There are adequate internal controls put in place in our institution to ensure proper financial reporting | 1 | 2 | 3 | 4 | 5 |
| 2 | The major financial statements required by the regulator are adequately and timely prepared and disclosed accordingly | 1 | 2 | 3 | 4 | 5 |
| 3 | The institution management adequately involves employees in financial statements preparation processes to enhance openness and accountability | 1 | 2 | 3 | 4 | 5 |
| 4 | The bank employs various budget techniques that are directed towards enabling accountability | 1 | 2 | 3 | 4 | 5 |
| 5 | Stakeholders are provided with accountability reports to indicate how the banks money is being spent. | 1 | 2 | 3 | 4 | 5 |
| 6 | Financial reports are submitted in a timely manner to ensure business advancement | 1 | 2 | 3 | 4 | 5 |
| 7 | The reporting of financial statements in our institution is counterchecked for accuracy and error minimization | 1 | 2 | 3 | 4 | 5 |
| 8 | The reports are always generated at the right time when needed by the stakeholders | 1 | 2 | 3 | 4 | 5 |

**SECTION B: Working capital management influences financial performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **Scale** | | | | |
| 1 | Centenary bank has a working capital management system | 1 | 2 | 3 | 4 | 5 |
| 2 | The bank prepares cashflow forecasts to identify future surpluses and deficits | 1 | 2 | 3 | 4 | 5 |
| 3 | The bank ensures to maintain sufficient cash flow to meet funds needs of the customers | 1 | 2 | 3 | 4 | 5 |
| 4 | Employees are frequently evaluated on working capital KPIs | 1 | 2 | 3 | 4 | 5 |
| 5 | Working capital is extensively used as a performance measurement in Centenary bank’s internal reports | 1 | 2 | 3 | 4 | 5 |
| 6 | There is regular preparation of cash budgets | 1 | 2 | 3 | 4 | 5 |
| 7 | There is effective supervision of cash collection and disbursements | 1 | 2 | 3 | 4 | 5 |
| 8 | Thereis regular of funds management and utilisation | 1 | 2 | 3 | 4 | 5 |

**SECTION B: Assets management influences financial performance**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **No.** | **Statement** | **Scale** | | | | |
| 1 | The bank has a well-defined fixed assets portfolio in the organization that has led to increased profitability | 1 | 2 | 3 | 4 | 5 |
| 2 | The acquisition process for fixed assets has led to increased profitability | 1 | 2 | 3 | 4 | 5 |
| 3 | Efficient utilization and management of cash has led to  increase in profitability in the institution | 1 | 2 | 3 | 4 | 5 |
| 4 | The maintenance approach taken regarding the assets has led to increase in profitability | 1 | 2 | 3 | 4 | 5 |
| 5 | The method of disposal for fixed assets has led to difference in profitability | 1 | 2 | 3 | 4 | 5 |
| 6 | The diversification strategy adopted for financial assets investments has minimized risks thus increasing profitability for the bank | 1 | 2 | 3 | 4 | 5 |
| 7 | There is improved effectiveness of collection efforts over time on collection of cash receivables | 1 | 2 | 3 | 4 | 5 |

**SECTION E: Financial performance at Centenary bank**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| No. | Statement | Scale | | | | |
| 1 | The bank has generated more sources of capital | 1 | 2 | 3 | 4 | 5 |
| 2 | The bank has invested in profitable business ventures/ opportunities | 1 | 2 | 3 | 4 | 5 |
| 3 | There is improved management efficiency | 1 | 2 | 3 | 4 | 5 |
| 4 | The liquidity of the bank’s assets has increased | 1 | 2 | 3 | 4 | 5 |
| 5 | There is more availability of capital for investment | 1 | 2 | 3 | 4 | 5 |
| 6 | There is enhanced transparency in banks operations | 1 | 2 | 3 | 4 | 5 |

# APPENDIX 2: INTERVIEW GUIDE

**Section A: Financial reporting and financial performance**

1. Does the bank have adequate internal controls put in place to ensure proper financial reporting?
2. Are major financial statements required by the regulator adequately and timely prepared and disclosed?
3. Does the bank employ various budget techniques that are directed towards enabling accountability?

**Section B: Working capital management influences financial performance**

1. Does the bank have a working capital management system?
2. Does the bank prepare cashflow forecasts to identify future surpluses and deficits?
3. Are employees frequently evaluated on working capital KPIs?

**Section C: Assets management influences financial performance**

1. Does Centenary bank have a well-defined fixed assets portfolio in the organization that has led to increased profitability?
2. Has the acquisition process for fixed assets led to increased profitability?
3. Has there been improvement in collection efforts over time on collection of cash receivables?

**Section D: Financial performance at Centenary bank**

1. Has the bank generated more sources of capital?
2. Has there been improvement in management efficiency?
3. Has transparency of bank’s operation improved?