THE WORKING CAPITAL MANAGEMENT AND THE FINANCIAL PERFORMANCE AMONG SELECTED DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN KENYA

BY

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DECLARATION

The document indeed is my bona fide work and state that never has it been bestowed for an award of degree in any University.

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DEDICATION

The success of this research is exalted to God, my family members including friends who are always my pillars of strength and inspiration.

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ABBREVIATIONS

1. CB – Cash and bank balances
2. CCC - Cash Conversion Cycle
3. CDSC - Central Depository and Settlement Corporation
4. CMA - Capital Markets Authority
5. CAR – Capital Adequacy Ratio
6. CR - Current Ratio
7. CM – Cash management
8. DTMs – Deposit taking microfinance
9. ECM – Efficient cash management
10. EIM – Efficient inventory management
11. ERM – Efficient receivable management
12. I - Inventory
13. IM – Inventory management
14. MFIs – Micro finance institutions
15. NI – Net income
16. NGO – Non-governmental organizations
17. NSE - Nairobi Securities Exchange
18. ROA - Return on Assets
19. ROE – Return on equity
20. SSE – Small scale enterprises
21. TA – Total assets
22. TL – Total liabilities
23. TC – Total capital
24. TRWA – Total risk weighted average
25. TE – Total equity
26. TR – Trade receivables
27. TP – Trade payables
28. WC – working capital
29. WCM - Working Capital Management

ABSTRACT

The significant section in the overall forecast of a firm's performance financially is its management of working capital since it is one of many measures that enable a firm balance profitability and liquidity through creating its short-term finance. The study was done to investigate the relation that is there between the management of working capital and its financial performance of selected micro finance institutions in Kenya that are deposit taking. Adoption of descriptive research design with quantitative techniques using the cross tabulation and correlation analysis utilizing the variables of current ratio and cash ratio as variables that are independent and the return on asset (ROA) as the variable that is dependent. Data population comprising of thirteen (13) deposit taking microfinance institutions reducing it to five (5). The findings of the study showed a positive relationship between the working capital management and the financial performance of the deposit taking microfinance institutions in Kenya.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

The management of working capital is defined as a business and accounting procedure designed to guarantee the efficient operations of a company by monitoring, maintaining an optimum balance employing its current assets and liability to its best ability in turn helping the business in achieving its financial obligations and boosts their earnings. The firm's general measure of its overall financial health is by conducting a financial performance over a given period of time. A significant section of financial performance is the WCM since it is one of the measures, that enables a business to create short term finance in relation to the balance that is there between profitability and liquidity.Padachi (2006) working capital management is the best way of maintaining profitability, solvency, liquidity and survival of the organization thus effective financial performance. Working capital is very necessary in any firm and its performance is fundamental in positively impacting the all-round performance of a firm (Shashi and Sharma, 2005).Shin and Soenen (1998) argued that in maximizing the shareholders wealth, practicing efficient WCM is key while. (Smith,1997) based the survey on the factors of liquidity and profitability being the two most import goals of WCM. Several researchers conducted their research on the profitability of the firm and how it affects the WCM and financial stability in terms of the performance of DTMIs. The empirical literature includes Horne and Waahowicz (2004), explained that the top management examine the condition and performance of a firm by the assistance of the preparation and availability of the financial statements on time, and also that by understanding the drivers and role of WCM companies need to maximize risk so as to improve the overall performance. The balance of profitability and liquidity is significant due to the fact that if WCM is not given any consideration the firm is likely to fall and face bankruptcy (Kargar,1994), management of WC properly is critical in safeguarding viability which will lead to improved sustainability and competitiveness of the firm (Banos,2010).

The study is anchored on five theories which include the stakeholder theory that benefits the organization by increasing productivity, employee satisfaction and lower turnover rates, it requires constant and determined engagement from business leaders and leads the business to a more engaged workforce and improved returns. Resource based theory which is the possession of

strategic resources provides an organization with a golden opportunity of developing competitive advantages over its rivals, thus enjoying strong profits which a firm's capabilities can be developed to lead to a superior performance overtime. Operational cycle theory that explains how quickly the company is able to sell inventory thus determining the company's efficiency revealing time lapse linking the outlay of cash and inflow of cash. Cash conversion cycle theory which shows how efficient a business is, how quickly it is in converting cash in sales and back into cash, having a clear picture of their cash flow position by converting cash outflows into cash inflows and finally the risk trade off theory that conditions increase of risk with a potential increase in return, associating low returns with low uncertainty and vice versa.

Micro finance institutions in general need to practice efficient working capital management as it is fundamentally important, and due to the argument, that without it, operations of a firm may come to a standstill, therefore the MFI managers should consider the WC decisions, based on the short-term current asset investments which are always transformed into other types (Rao,1989). Effective management of working capital is a key element used in analyzing organizational performance and it has been established that managers spend immense amount of time on daily routine operations and maintaining balance between liquidity and profitability. The WCM is handled as the most critical factor in MFIs and the identity of what drives it and the levels that come with WCM (Dash and Ravipati,2009).

Previous scholars have tried to explain the relation that is there among the profitability of the firm and its WCM but not much study on the overall financial performance looking at the variable of the return on asset (ROA) of the firm, and the management of its working capital by using the indicators of current ratio and cash ratio as key factors and especially on the MFIs reason being that the institutions cut across all the classes in the economy but specifically concentrate mostly in the low income earners who are mostly involved in the SMEs by enabling them to be independent and free in the community by being close also to its environment, enabling borrowing without collateral thus helping in growing up serving the micro enterprises.

1.1.1 Working capital Management

Stutely (2003) described the WCM as the tool in business that enables organizations use current assets effectively but still maintaining sufficient cash flow so as to meet its goals and obligations .WCM affects the liquidity of the organization directly because of the assets and liabilities

management which are current ensuring the smooth running of the business essentially (Zahra and Jari,2012),It is an approach that focuses on efficiently balancing the components of WC which are the assets and liabilities which are current(Owele,2012)The management of WC describes resource in form of monetary value that pays all the expenses of a firm which are short term within a year (Higson,1995), and also distinguishing the organizations assets and liabilities that are current. (Ejelly,2004). Enables the purchase of the inventory, payment of debts that are short term and the expenses operations that are done daily expense and it is very vital because the outcome of a firm's performance, risk and its worth. Waithaka (2012), established that the proper management of cash flow on a daily, weekly and monthly basis such that all debts are paid leaving enough capital to continue the firm's operation to generate profit, adopting effective WCM systems to enable companies improve their earnings is what entails working capital.

In accordance with Richards and Laughlin (1980) who subsequently operationalized cash conversion cycle as an implementation in accessing how well a company can manage its working capital. CCC is a measure of how long cash is tied, the time a firm takes to transform cash outflows to inflows with the days of funding in paying obligations that are current and staying afloat. The theory of CCC puts forward that, ceteris paribus, efficient WCM that is short CCC will increase a firms liquidity, profitability and value but inefficient CCC will cause profits to be lower and lower value.(Shin and Soenen, 1998).The role being played by CCC is important in an organization is the assets that are considered short term, liabilities and attaining the objectives and (Das,2016) measured the CCC by considering the interval that is here between the expense for the purchase of the initial materials and collection from sales of finished goods prepared with such initial materials. And according to (Tan and Tuluca,2019), the time taken to sell the inventory quickly, collect the revenue quickly and consider payment of payables slowly so as to optimize cash flow is how CCC is measured, making the ultimate goal of this measure to be for decision making, analysis and valuation purposes.

The study will look under four variables that will enable in the proper measure of WCM through CCC. The variables include the cash management which is the managing of day to day administration of cash inflow and outflow ensuring maximization of liquidity and minimization of the cost of funds, inventory management being the systematic approach of sourcing, storing and selling inventory ensuring that the inventory is not dragging that is it should return back money in

the shortest time possible, accounts receivable management ensuring that the product issued on credit should be paid on time and the accounts payable management is the handling of the firm's unpaid debts that are made on credit and this should be maintained by ensuring that the time limit is reasonable and with all this indicators proper working capital management cycle should be achieved.

1.1.2 Financial Performance

Distinctive extent to which a company uses its assets which are current to generate revenue for the firm. Financial performance is the ultimate measure used for measuring the financial status in a period of time. Effective and efficient management of company resources enable high financial performance (Naser and Moktar,2004) useful to the Analysts and investors who compare similar firms across the same industry or to compare industries or sectors in aggregate. Financial performance is the company's financial soundness that can be correlated with similar Companies in the same industry (Agola,2014). The Financial performance has a significant characteristic which explains the competitiveness, capability of a firm and the management's economic benefit in realization of its present and future (Dufera,2010) the performance of a company tells the shareholders and investors about the general well-being of the organization (Krueger, 2005).

Financial statements as a major tool in measuring a firm's performance provides a formal record of the position and performance of the firm financially. The statements are the statements of cash flow, income and balance sheet, and according to Atril and Mclaney, (2008), when the statements are taken together they provide a picture of the overall financial health of the business. The common measure of the financial performance is the financial ratios that include ROA and ROE, profit after tax, earnings per share and any other value in the market that is generally acceptable (Yenesew,2014). The financial performance ratio that is majorly important in measuring the company's efficiency manages to generate profit by investing in its assets is ROA (Jogensen,2011).

The study will adopt the use of the specific indicators to be able get the correct measure of the FP in the DTMIs. The indicator include the ROA which is measures how well a firm is profitable in relation to its total resources, showing how structured a firm is in managing its resources to make profit.

1.1.3 Working Capital Management and Financial Performance

Management of WC is key hence its profitability effect and risk of the firm therefore creating value (Smith,1982), therefore adopting effective WCM structure allows a firm to improve its earnings (waithaka,2012). Managers should try and avoid unnecessary investments in WC because more investment in WC can lower liquidity risk since the success of a firm depends largely on how the WC is handled. When the WC that is to be used for daily operations is insufficient shortages and problems may occur, but if there is additional investment meaning more funds tied up for the business and opportunity cost of investment is increased and companies can rely solely on external financing to finance WC. Investing more means more resources tied and this would increase cost of investment opportunity especially when external financing is relied on to finance WC. Strategic planning done by managers in understanding the profound role of WC and its impact on the profitability of the firm is key, striking a balance between liquidity and profitability (Wang, 2006).

Van,(1977), determined the citation of distinguishing the financial strengths and financial weaknesses of a firm can be achieved through financial analysis. Ratio analysis being the major indicator in financial analysis that enable managers to reduce the investments that are short term whose rate of return is relatively low in comparison with the investments which are long term through high cash turnovers consequently increasing profit. Ratios help in summarizing vast amount of financial data and create qualitative result of the firm's financial performance and its overall benefit to creditors, investors, suppliers, employees and other stakeholders. Based on research done previously on WCM and performance of the firm (Haralayya, B. (2021) determined the linear relation that is there amongst WC investment and the profitability. The WC investment findings indicated that if lowered the outcome of the firm's profitability will be more overlooking for example the higher risk of loss of sales, low levels of working capital and production process interruptions.

Kombo (2017) emphasized that maximizing shareholders value, and the inclusion of effectual WCM in the overall corporate strategy is very vital. DTMs that practise proper working capital management have no difficulty in answering to the abrupt economic downswings and having better footing in the industry competitiveness (Ochangwa,2019).DTMs which consider aggressive WCM with little risk prefer having cash balances that are minimum ,accounts receivable and market securities investing a larger share while DTMs being conservative with WC perceiving credit risks

that are considered to be high would maintain high cash balances, accounts receivables and marketable securities which will eventually boost the liquidity of the firm at the cost of forgone profitability (Nyabwanga and Ojera,2012). Having positive risk-return trade-offs , DTMs realize that it is achieved through moderate WCM abiding by optimal WC balances. (Sorin and Nucu,2021)

Firm's performance improves with lower levels of short-term debt and vice versa, maintaining smooth operations to improve the company's earnings and profitability. The purpose is to maintain sufficient cash flows to meet its short term operating costs and short term debt obligations which overall improves the financial performance of the firm therefore based on its level of WCM the aspect of liquidity does propel financial performance by ensuring you have the liquid assets necessary to run daily operations making the firm have stability.

1.1.4 Microfinance Institutions in Kenya

Microfinance institution offers financial services to low income populations,(Robinson,2001) they can be classified under credit unions, downscaled commercial banks and financial cooperatives that offer services to the lower income people(Novotel,2009). It has played an active role having the poor households in mind against their vulnerability by creating credit line for increasing number of opportunities by also offering savings that build on resources that can used for emergency. One of the most comprehensive studies have evaluated the loans especially the micro loans are favorable to low income earners compared to high ones.

Micro finance institutions in Kenya were discovered in the early 1960s with NGO's providing donor funded credit services (Wanjiru,2016),with other organizations evolving to become commercialized, self-sustaining and institutions making huge profit with over 100,000 citizens (Njoroge,2008). The MFIs are categorized as deposit taking micro finance meaning a micro finance organization that enables an individual to operate the business by holding and accepting client deposits on a daily basis and non-deposit taking microfinance also known as a credit only entity is an institution that does not take any form of deposit or cash collateral from any person. Micro finance Act (2006) further categorized the deposit taking micro finance institutions as community which conducts business within the confines of a specified town, city or country and Nationwide that conducts business across Kenya but cannot reacquire community status.

MFIs especially the deposit taking try to bridge the gap between the commercial banks and the MFIs, covering a wider spectrum of potential clients and at the same time provide services usually available at banks but this time affordable to the low income population. The poor cannot access a loan easily because of the requirement and do not have what is required to be granted a loan therefore cannot borrow from the banks. Over the years investors who had high worth began investing in microfinance and this has also proved the bank concept wrong by targeting the low income earners that are categorized as risky but the outcome of the payment rate is positive in comparison with the borrowers at the banks(zeller and sharma,1998),   creating various opportunities for the low income earners by offering the financial services and improving their standard of living and increasing the awareness and spreads a saving culture among the community.

Micro finance institutions especially the deposit taking measure their working capital using a parameter called capital adequacy.it is the amount of WC sufficient to meet the MFIs day to day operational activities of the business under normal situations and able to carry on its affairs without any financial stringency and economically. Capital adequacy ratio (CAR) is the measure of how much a bank in this case the MFIs has available, the core capital is the net position the MFIs hold when you separate the total assets from the total liabilities. CAR measures the amount of capital a bank retains compared to its risk and this is important to the shareholders since it measures the financial soundness of the MFIs purpose being to ensure that MFIs create sufficient capital reserve to handle cases of losses, risk and being insolvent.

Bridging the gap between the commercial banks and the MFI's enables the low income earners to have affordable financial services and requirements that are manageable to them, the outcome of the payment being positive in comparison with the borrowers therefore maintaining adequate flow of cash so as to meet its short -term operating costs that is financing the frequent operations of the firm and short term debt obligations and maximizing profit by using the resources from original business generating revenue in the overall standing category of assets, liabilities and equity.

1.2 Research Problem

Working capital management is the hallmark of a good business, it maintains a solid balance between growth, profitability and liquidity (Deloof and Soenen, 2003), and in the making of

financial decisions WCM becomes a vital issue and the dominant factor in the effect of success considering optimal value. The outcome of proper management of WCM in relation to its financial performance of any firm should indicate that a firm does have enough liquidity to clear its short-term liabilities almost immediately (Owere,2016) but not all outcomes will be beneficial or positive to the firm thus having a negative working capital indicating poor management of the WCM .Therefore most firms in particular the MFIs are devising strategies to handle their routine operations so as to maintain a healthy liquidity performance so as to meet their end goal.

MFIs in Kenya keep up with the different WCM guidelines and in recent years the institutions especially the deposit taking ones have experienced harsh economic conditions due to poor management caused by incompetent misuse of WC. According to Okwee (2011), the MFIs also have difficulties in handling liquidity hence reduce profitability which leads to a firm collapsing, they struggle to pay their debts to reduce the cost of holding the debts but on the other hand collect money lent out by customers, which increases the number of days that business cash stays out affecting the profitability negatively.

Recent study done by Ogola (2021) dealt with the DTMIs in Mombasa county here in Kenya studying its WCM and FP and it addressed the recurrent liquidity problems that the DTMIs have experienced in their normal day to day operations which exposed them to financial risk and performance through analyzing the CM,AP and AR with the financial performance and other studies done by Kombo (2017), Koori and Wamugo (2019) and Asiamah (2020) gave contradicting outcomes on the relation that was there between the WCM and the institution's financial performance.

With the empirical studies highlighted above both had a positive relation and a negative relation, and also the dispute that was there on the results of previous studies that have motivated further study to shed more light on the same but with a different approach which is by testing the level of liquidity through current ratio and cash ratio verve the measure of the overall performance which is the ROA to show the effectiveness of the WCM towards the financial performance that can improve the overall business health of the firm

Further leading us to specifically answer the question of the correlation linking WCM and FP in deposit taking MFIs and whether it has a negative correlation or a positive correlation?

1.3 Research Objective

To investigate the relationship between the working capital management indicators and financial performance in selected Microfinance deposit taking financial institutions in Kenya.

1.4 Value of the study

This research purpose is to aid in strengthening the wide sector of the MFIs granting awareness of the management of working capital in regards to the overall financial performance of MFIs in Kenya.

The information provided will be useful to the DTMI by enhance their way of delivery so as to be competitive against other micro finance institutions that is the non-deposit taking MFIs

The study will provide a step to step guide in firms achieving their goals by having effective and efficient WC, since the financial officer's role is managing the WC leading the firm's performance for organization's survival.

The study will enable scholars to boost the material on WCM in relation to financial performance in financial institution to provide sustenance for further guidelines in addressing gaps on forthcoming studies.

CHAPTER TWO: LITERATURE REVIEW

2.1. Introduction

The objective is to review literature in relation of the management of working capital in correlation to the financial performance. We shall examine the studies that had been conducted by other researchers along this topic The chapter reviews the theoretical and empirical literature review, and conceptual framework of the study.

2.2 Theoretical Review

This chapter will discuss relevant literature of the management of working capital and its relation to FP of micro finance institutions which will build an understanding on the theme of the study. The contingent structure of this research will be conducted by two thesis that hold base the relation among the management of WC and FP. The thesis supporting this are operation cycle theory, cash conversion cycle theory and risk tradeoff theory.

2.2.1 Stakeholder Theory

The theory views on capitalizing the relations among the firm and its customers, suppliers, employees, investors communities and others stakeholders in the organization. For any business to be successful it has to create value for customers, suppliers, employees, communities and financiers, shareholders, banks and other people with money. First described by Dr. F. Edward Freeman (1984) the theory suggests that shareholders are merely one of many stakeholders in a company, it also argues that a firm should create value for all stakeholders, not just shareholders understand and account for all their stakeholders.

The theory helps in maintaining stability in a turbulent environment, conducive to the company's long term sustainable development and reduce conflicts between various groups in the decision-making process promoting fairness for everyone involved in the company and gives directors an objective. Weakness being the claims that the interest of the group is just too broad to realistically manage (you can't please everyone) therefore the needs of some stakeholders will naturally be placed higher than the interest of others.

2.2.2 Resource Based Theory

Propounded by Wernerfelt (1984), the theory suggests that resources that are valuable, rare, difficult to imitate and non-substitutable best position's a firm for long term success. Vital resources for a firm to achieve a sustained competitive advantage by providing resources to develop a firm's capabilities that can lead to superior performance overtime. A valuable resource that enables a firm strategize on capitalizing on opportunities ward off threats, widely cited as a pivotal work in the emergence of the resource base view.

Building their strategy around resources that do provide a golden way to nurture opportunity the competitive advantage over competition showing strong profits (Barney,1991), the RBV presumes that competitive advantage of a firm is achieved by using distinct bunch of resources, identifying the real drivers of performance in your business, protecting important resources and capabilities.

2.2.3 Operating Cycle Theory

Theory implementing the access of how well a company can manage its working capital. Richards and Laughlin (1980) based their findings on the management of the working capital and its elements, the research did focus on the WCM and the elements individually. According to Richards (1980) ensuring that progressive conditions are layed out to the customers of the firm enables current investments in receivables, potentially large but less liquid, unless the sales do grow proportionally to the receivables. Options that make a firm to maintain its average investments from receivables in large over a long period of time will imminently bring about in a higher ratio of current and acid test.

Weslen and Eugene (1979) established that either the unsynchronized and non-instantaneous collection, distribution and production of the dependable working capital components do have extra measures of liquidity. A firm's operating length is calculated by using the turnover of the firm's cumulative days for receivable accounts and investment inventory. The turnovers of the assets are incorporated into the notion of converting the current assets of the firm being the liquidity indicator making it more realistic.

2.2.4 Cash Conversion Cycle Theory

One of the traditional models that indicate how well a company is arranging WC (Nobanee, 2011), it is vital WCM. Richards and Laughlin (1980) established that the thesis incorporates any of the

WC, and their findings identified working capital cycle as a broad framework analysis for working capital. The approach is preferred to alternative WC analysis which depend on the search of ratio or decomposition of WC. Padachi (2006) findings were that the theory was utilized as a comprehensive assessment of WC because of its proficiency to display the period of the amount used in buying the raw materials and the sale for the finished product that was collected has been detailed. When a firm's capital is continually managed, the support of a firm will eventually be attained. Jose and Lancaster (1996), established that even though having a better management of liquidity firms who have long term views cannot always pay their debts.

It is determined that the CCC is mostly used in measuring the WC.The days that are there among the outlay of the firm's cash purchase and the cash from the product sales hints at what CCC is, Sathy amoorthi and Wally-Dima. (2008:12). The findings of Deloof (2003) studied the correlation that is there is in WCM and the profitability with CCC as a measure. The CCC was further calculated as the (number of day inventory + days of accounts receivable-days of accounts payable) and established a major anti relationship among the gross operating income in relation days of accounts receivables, inventory and accounts that is payable working with the sample of 1009 large Belgian nonfinancial companies for the year 1992-1996 period, determining the creation of shareholders value by the managers in minimizing the days for accounts receivable and inventories to a bare nominal.

The study based on Lazaridis and Tryfonidis (2006) an anti-relation between the CCC with profitability for the listed in the Athens stock exchange which were 131 was found period 2001 – 2004. Identical to Lazaridis and Tryfonidis (2006) study Leruel and Soluno (2007) findings on large firms also indicated negative relations between CCC and profitability. And finally the investigation done by Zariyawati et al. (2009) on the Malaysian firms (1996-2006) on the CCC and profitability the relation is consistent with other studies.

The theory does maintain that a short cycle allows the firm to fast gain money to be used in additional pay and debt, thereby firms aim to reduce the CCC with fast moving up the remittance from customers and slowing down for the suppliers.

2.2.5 Risk Trade-off Theory

Formalized by Harry Markowitz in 1952, the theory shows the relationship that is there between the return and risk. When capital markets are at equilibrium, they do determine a tradeoff that is being expected from return and risk. Higher risk is associated with greater profitability of higher returns and lower risk with lower profitability of smaller return. The tradeoff that an investor faces is between the risk and the return while considering investment decisions thus creating a risk return tradeoff (Bala.2020).

The only way for an investor to achieve a higher expected return is by taking on extra risk, but not all firms have the same optimal leverage but the tradeoff model can still provide qualitative guidance to practice. Firms with high cash flow volatility, low tangibility, small size, lower profits and high market book should have less debt (J.J 2006) but this is not the case. Higher risk does not always give guarantee for higher return. In general where there is risk there is a chance of return and equal chance of loss. Therefore potential return rises with an increase in risk, and only if the investor will accept a higher profitability of losses and using the principal that individuals associate low levels of risk with low potential return and high level of risk with high potential return, positive relationship between risk and return.

2.3 Empirical Review

Many researchers have studied working capital in relation to financial performance from different views and in different environments. A research done by (J Omagon,2019), on Ugandan hotels revealed that positive relation among WCM and financial performance, WC emerging as a good indicator of the FP. The study further explained that to achieve financial performance, aspects of WCM which in reference to the study was procurement, inventory management, debt management and accounts payable do require adequate attention.

Megeid and Sobhy (2015) investigated the study of impingement of the monitoring practices on WCM and the performance on corporate governance. The findings indicated that maintaining a stability allying liquidity and profitability is critically efficient to WCM. It further shows that ROA and CR in relation to CCC is negative, meaning if you reduce the CCC, there is the positive improvement. And therefore the implication was that shareholders value would still be created by

firms if they keep their cash conversion cycle on low level and by managers practicing efficient WCM does promote increase in firm's profitability and liquidity.

According to Afis (2015) who studied and analyzed the relation of WCM and the growth of public listed companies in Malaysia, examined the relationship between the components of WCM which were the CCC, period in which the receivables are converted, period in which the inventory is converted and the period in which the payables are converted which did show the variables that are independent had a relationship with the firm's growth. It further summarized that focusing and establishing the WCM policy in an efficient manner so as to maximize their shareholders wealth.

In Kenya, Nyamao (2012) study did a research on the small scale enterprise's financial performance that showed a positive relation to efficient management of cash and their financial performance routines that was below average. It was reported that small scale enterprise's financial performance had a positive relation to the variables of ECM,ERM and EIM at a significant level of 0.01.In conclusion the research did find that the WCM system has strength on its performance, hence there is need accept efficient WCM system as a strategy by the financial managers for better performance and survival in the industry. Similar to Nyamao (2012) studies, Waithaka (2012) determined that the FP related positively to ECM, ERM, EIM at a significant level of 0.01, which contributed to the overall growth rate of the firm and consequently played a significant role in the financial performance of a company.

According to Maina (2013), also a local study did a research and revealed the turnover of inventory with days does not have a relation with ROE meaning by reducing the days in inventory the performance will increase. The period for cash conversion and the period of net payment shows no relation at all with ROE illustrating performance can be raised with a minimum size for the two. The research does recommend the companies engaging in a relationship with creditors giving credit periods that are long and accepting also short term payment. Study done by Odhiambo (2011), incorporated data to find out the WCM impact on the interest rate on member deposits as the variable that is dependent in measuring FP of the firm, and thereby concluded that the efficient WCM shows good FP expect the outcome of the relations of measures of WCM and the variable of financial performance to be negative. And finally a recent research done by Ogola (2021) main interest was to find the relation that is there among WCM and FP of the DTMIs specific objectives being the relationship between CM and FP, ARM and FP and APM and FP emphasizing on the

liquidity of the DTMIs since previous studies reviewed liquidity issue more as a static aspect than a dynamic aspect of FM. The theories he used were liquidity preference, capital market imperfections, CCC and transaction cost economic theories, used both primary and secondary data determining the three variables that are independent and the one variable that is. The underlying support of the DTMIs is being able to get to the status of financial stability for improved financial performance, problem of the study being the liquidity shortfalls and this resulted in a negative relation among the variables of independent and dependent.

2.4 Summary of the literature and Research Gaps

Various past findings have revealed the nature, behavior and even the control of the relation that exists amid the working capital management and financial performance. Other studies showed the negative relation or no existence at all of such relationships while others undecided about the subject. Studies both international and local revealed the following gaps as shown in the table below.

Table 2.1: Summary of literature and gaps

Authors (s)	Study Objective	Methodology	Findings	Research Gap (s)
Mergerd and sobhy,2015	Impact of corporate governance monitoring practices	Descriptive Research design	Firms can create value for their shareholders. Practicing efficient WCM does promote increase in firm profitability and liquidity.	The study focused more on the corporate governance, monitoring its practices and efficiency but not keenly focusing on the WCM and financial performance components.
Fairul Afis,2015	Relationship between WCM and growth of public listed companies	Qualitative and quantitative collection of data	Companies should put their concentration more on the approach of WCM in an efficient manner to maximize shareholders wealth.	The study focused more on the WCM components and not the relationship with the financial performance.
Nyamao,2012	SSE's financial performance in relation to efficiency of cash management routines and their financial performance	Qualitative and quantitative techniques used	Efficient WCM practices as a strategy. Showed positive relation of WCM and performance.	The study concentrated more on the SSE.

Odhiambo, 2011	Effects of WCM on the company's financial performance.	Descriptive research design	Efficient WCM leads to better financial performance, expecting a negative correlation between measures of WCM and financial performance variables.	The study incorporated the WCM as the independent variable making the financial performance, interest rate as the dependent variable.
Ogola,2021	Investigate the relation that is there between WCM and FP of the DTMIs specific objectives being the relation of CM and FP, ARM and FP and APM and FP.	Descriptive research design, using qualitative and quantitative data.	No negative relation between the independent variables and the dependent variable.	Study concentrated on the variables of CM,APM and ARM, emphasizing on the liquidity of the DTMIs.

2.5 Conceptual Framework

The conceptual structure according to Miles and Huberman (1994) elucidates the main issues studied either graphically or in any other form. Robson (1993) further elaborated that it encompasses the key factors or variables of an investigation and their supposed associations. He similarly contends that establishing a conceptual framework helps one to be clear regarding what a researcher thinks they are undertaking. The analysis undertakes to pinpoint the key variables of the management working capital in connection to its financial performance. As per the given figure below, the objective of WCM is enabling optimal profit level to be achieved by minimizing capital held up in the firm's liquidity management and assets that is the current, managing the debt and accounts receivable and investment inventory. The option of one of the components of the

management of working capital does have an impact on the others therefore integration of decisions that are short term will enable the firm to maximize on its performance.
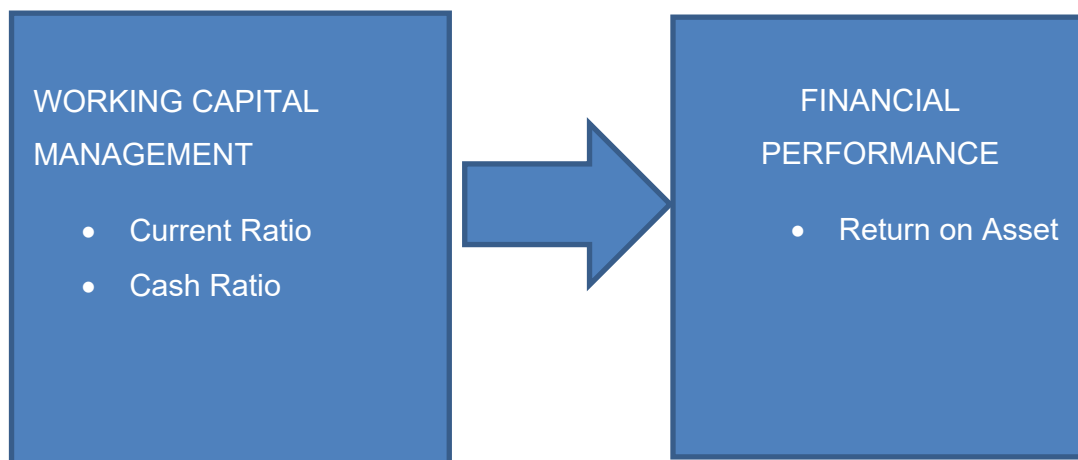
Figure 2.1Conceptual model

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

The element states the approach which is suitable in conducting the research, it comprises of design of study, population, methods of data collection, analysis and analytical method.

3.2 Research Design

The method of research adopted descriptive research plan. Descriptive study is the study whose main goal is explaining the circumstance or occurrence, evaluate population sample that has identical features and to find associations among different variables (Cooper and Schindler,2011).

The design is suitable as it seeks to recognize the determining attributes in relation to the WCM and profitability (Orodho,2009)

3.3 Population

The population compromised of all thirteen (13) deposit taking MFIs in Kenya as at December 2021 but was reduced to 5 selected DTMIs after screening of the population of licensed MFIs in Kenya to have a number that can be compared across a period of eight (8) years from 2014 – 2021. Thus the study used purposive sampling in selecting the five institutions thus the study had forty (40) observation points. (See appendix list of MFIs).

3.4 Data Collection

The research employed secondary data, which is data previously collected through a primary source. This data was collected over a period of 8years (2014-2021) from the financial statements of the 5 selected institutions using secondary data capture from as shown in (appendix 2) finding out how the MFIs efficiently they manage cash, its assets and liabilities, overall providing detail on how well or poorly a company manages itself.

3.5 Data Analysis

Descriptive analysis technique was used to show and summarize data points which creates pattern that fulfills the condition of every data and this was achieved by collecting the data using the data

capture form as attached in the appendix 2. The study also used the quantitative approach which produces objective data that can be clearly communicated through statistics and numbers. Cross tabulation representation was in tabular format of the data which displayed the observations within a given interval, whereby the size depended on the data being analyzed and the goals of the analyst. Organized tabulation represented the number of individual data in each category. And the correlation analysis irregularities on the data set in areas that are random and systematic which helps one find out whether the differences between groups of data are statistically significant.

The analysis was on the management of working capital versus the FP, the short-term liquidity of the institutions was captured by using the current ratio and the cash ratio which was used to achieve the objectives of determining the WC indicators and the FP relationship and also establish the level of liquidity. The analysis data and interpretation of results followed.

3.6 Measurement of Variables

The standard formula indicators that is current ratio, cash ratio and ROA will be used so as to acquire used in the analysis. The formulas are as seen below:-

1. Current Ratio: a liquidity ratio that measures whether a firm has enough resources to meet its short term obligations.

   Current ratio = current assets /current liabilities

2. Cash Ratio: a liquidity ratio that measures a company's ability to pay off short term liabilities with highly liquid assets.

   Cash ratio = (cash+cash equivalents)/(Accounts payable+short term debt)

3. Return on Asset: is a profitability ratio that provides how much profit a company can generate from its asset.

   Return on asset = Net income / Total assets

CHAPTER FOUR: RESEARCH FINDINGS

4.1 Introduction

The section clearly explains the systematic collection and analysis of data. Descriptive research design was used which allows the study of the elements in its natural form with alterations (Orodho, 2003), a sample size of selected micro finance institutions in Kenya that are deposit taking undertaken for a period of eight years that is between 2014 – 2021 was used, objectives being to find if there exists a relationship between WCM and FP and its indicators and also standard of liquidity and FP of the institutions as well. The findings are divided into descriptive results presented in tables.

4.2 Data Analysis and Findings

This section elaborates further the analysis and the findings of the data that was collected. The summary of the values of the WCM indicators and the percentage of the ROA in favor of the financial performance of the micro finance institutions, the trend of the MFI's ROA in relation to the year 2014 – 2021

4.2.1 Summary of the descriptive statistics with the WCM indicators

The summary of the descriptive statistics deals with the comparison of minimum, maximum and average of the five institutions in relation to the study categorically in current ratio and cash ratio given in table 4.1.1 expressed in ratio form.

Table 4.1.1: Summary of Descriptive Statistics

Institutions	Variables	Average	Maximum	Minimum
1	Current Ratio	1.6	2.0	1.4
	Cash Ratio	0.4	0.7	0.3
2	Current Ratio	1.1	1.6	1.1
	Cash Ratio	0.2	0.3	0.1
3	Current Ratio	1.1	1.4	1.0
	Cash Ratio	0.3	0.3	0.2
4	Current Ratio	0.8	1.2	1.0
	Cash Ratio	0.2	0.3	0.1
5	Current Ratio	1.7	2.5	1.3
	Cash Ratio	0.2	0.8	0.02

Source: secondary data

Table 1 briefly describes the micro finance institutions giving their performance in Current ratio and Cash ratio using the concept of average in finding a representative number for a particular data set to show an approximation or value to the quantity. Understanding the total span of data defining its range. Minimum being the smallest value in the data observed and the maximum being the largest value in the data.

4.2.2 Summary of the descriptive statistics with the ROA indicators

Descriptive statistics summary on the return on assets for the institutions presented for the study expressed in minimum, maximum and average in percentage form which is illustrated in table 4.1.2 below.

Table 4.1.2: Statistics of the ROA indicators in percentage (%)

	ROA	Average	Maximum	Minimum
Institution 1		1.6	2.1	0.3
Institution 2		3.0	6.2	0.1
Institution 3		0.5	2.0	0.1
Institution 4		1.0	1.6	0.6
Institution 5		2.0	3.8	0.6

Source: Secondary data

4.2.3 Computation of Performance of the variable indicators based on the summary

Current ratio is used to evaluate a company's ability to pay its short term obligations (such as accounts payable and wages). The higher the result the stronger the financial position of the company. A current ratio of between 1.2 to 2 is considered healthy whereas a ratio of 1 or below suggests the company would struggle to pay its liabilities and might go bankrupt. Table 4.1.3 shows the results of the current ratio for the institution categorized in high, medium and low in ratio form

Table 4.1.3: Computation of the summary of Current Ratio

Institutions (MFI'S)	High (2.0 – Above)	Medium (1.0 – 1.9)	Low (0 – 0.9)
Institution 1		1.6	
Institution 2		1.1	
Institution 3		1.1	
Institution 4			0.8
Institution 5		1.7	

Source: Secondary data

In the table 4.1.3 above it clearly shows that the current ratio of most of the institutions (MFI's) that is for institution 1, institution 2, institution 3 and institution 5 all are in the medium section indicating that the current ratio for the institutions is averagely healthy since the considered ratio is 1.0 and only institution 1 and institution 5 has what is termed a good ratio meaning having twice of a company's current assets than liabilities to cover its obligations that the business has two times more current assets than liabilities to cover its debts and for a current ratio under 1 as depicted in institution 4 shows that the business the liquidity to cover its short term obligations. Cash ratio is a more conservative measure of a company's liquidity position. Creditors prefer a high cash ratio, as it indicated that a company can easily pay off its debt, with a ratio of not lower than 0.5 to 1 is usually preferred. And in table 4.1.4 the same is illustrated in the category of high, medium and low for the five institutions in reference to the study an is expressed in ratio form.

Table 4.1.4: Computation of the summary of Cash Ratio

Institutions (MFI'S)	High (2.0 – Above)	Medium (1.0 – 1.9)	Low (0 – 0.9)
Institution 1			0.4
Institution 2			0.2
Institution 3			0.3
Institution 4			0.2
Institution 5			0.2

Source: Secondary data

As seen in table 4.1.4 one can clearly see that all the institutions that is institution 1,2,3,4 and 5 tend to be on the lower side. Normally a cash ratio that is equal to or greater than 1 show that a company has sufficient cash and equivalents of cash to pay off its obligations. A ratio of 1 is considered to be favorable compared to one under 0.5 which is considered risky showing twice as much obligations compared to cash. Return on asset shows an idea to investors of how effective conversion of invested money turns into net income. When the ROA is higher the better it is for a company to earn more on a small investment. A high ROA means additional asset efficiency and this is expressed in the table 4.1.5 below in ratio form.

Table 4.1.5 : Computation of the summary of Return on Asset (%)

Institutions (MFI'S)	High (2.0 & Above)	Medium (1.0 – 1.9)	Low (0 – 0.9)
Institution 1		1.6	
Institution 2	2.0		
Institution 3			0.5
Institution 4		1.0	
Institution 5	2.0		

Source : Secondary data

In the table above, table 4.1.5 shows the ROA of the institutions 2 and 5 having a slightly high ROA compared to institution 1 and institution 4 having a medium ROA, and institution 3 having a low ROA.An ROA of 5% or better is typically considered good, while 20% or better is considered great. A lower ROA illustrate a sign the company may be in some trouble, a falling ROA indicates the company might have overinvested in assets that have failed to produce revenue growth.

4.2.5: Computation of Return on Asset against Current Ratio and Cash Ratio

Investors prefer firms with current ratios that are lower having an assumption that excess funds is given to productive resources for profits.

Table: 4.1.6: Return on Assets against Current Ratio

INSTITUTION	RETURN ON ASSET (%)	CURRENT RATIO
Institution 1	1.6	0.4
Institution 2	2.0	0.2
Institution 3	0.5	0.3
Institution 4	1.0	0.2
Institution 5	2.0	0.2

Source: Secondary data

Table: 4.1.7: Return on Assets against Cash Ratio

INSTITUTION	RETURN ON ASSET (%)	CASH RATIO
Institution 1	**1.6**	**0.4**
Institution 2	**2.0**	**0.2**
Institution 3	**0.5**	**0.3**
Institution 4	**1.0**	**0.2**
Institution 5	**2.0**	**0.2**

Source: Secondary data

Table 4.1.6 and 4.1.7 illustrates the rate of ROA against current ratio and cash ratio in table 4.1.6 it clearly shows that the greater the current ratio the higher the greater the rate of return on asset except for institution three (3) which did show the opposite where the current ratio was greater than the rate of return. When income increases and in this case the net income which includes the current assets and current liabilities which enables the cash ratio and the current ratio the return on asset also increases and also the total assets increases while the return on asset decreases.

4.2.6: Cross tabulation analysis of the variables current ratio and cash ratio against the dependent variable of return on asset.

Cross tabulation analysis does create a table summary for two variables, often used to show the relation among two factors. The search is flexible since it displays different types of information which can be categorical or quantitative, each cell being an intersection of the two categories at each point x axis as one variable and y axis as the other variable.

Since the table records specific characteristics described in the cells of the table, it shows the proportion of cases in sub groups allowing easy comparisons and ranking. Table 4.1.8 shows the total number the studied population which was current ratio and cash ratio against the return on asset, the total population being five (5) of one hundred percent (100%) and table 4.1.9 below shows the cross tabulation analysis between the variable of current ratio and the ROA whereby the current ratio of 1.10 with an ROA of 2.0 gives a percentage of 50% within the ROA ,50% within the cash ratio and a total of 20% making the probability of the analysis to be certain on the event presented on the table.

Table 4.1.8:Computation of the total number of data analyzed

	Cases					
	Valid		Missing		Total	
	N	Percent	N	Percent	N	Percent
ROA_ * CURRENT_RATIO	5	100.0%	0	0.0%	5	100.0%
ROA_ * CASH_RATIO	5	100.0%	0	0.0%	5	100.0%

Source: Secondary data

Table 4.1.9: cross tabulation count between current ratio and return on asset

		CURRENT_RATIO				Total
		.80	1.10	1.60	1.70	
ROA_	.50					
	Count	0	1	0	0	1
	% within ROA_	0.0%	100.0%	0.0%	0.0%	100.0%
	% within CURRENT_RATIO	0.0%	50.0%	0.0%	0.0%	20.0%
	% of Total	0.0%	20.0%	0.0%	0.0%	20.0%
	1.00					
	Count	1	0	0	0	1
	% within ROA_	100.0%	0.0%	0.0%	0.0%	100.0%
	% within CURRENT_RATIO	100.0%	0.0%	0.0%	0.0%	20.0%
	% of Total	20.0%	0.0%	0.0%	0.0%	20.0%
	1.60					
	Count	0	0	1	0	1
	% within ROA_	0.0%	0.0%	100.0%	0.0%	100.0%
	% within CURRENT_RATIO	0.0%	0.0%	100.0%	0.0%	20.0%
	% of Total	0.0%	0.0%	20.0%	0.0%	20.0%
	2.00					
	Count	0	1	0	1	2
	% within ROA_	0.0%	50.0%	0.0%	50.0%	100.0%
	% within CURRENT_RATIO	0.0%	50.0%	0.0%	100.0%	40.0%
	% of Total	0.0%	20.0%	0.0%	20.0%	40.0%
Total						
	Count	1	2	1	1	5
	% within ROA_	20.0%	40.0%	20.0%	20.0%	100.0%
	% within CURRENT_RATIO	100.0%	100.0%	100.0%	100.0%	100.0%
	% of Total	20.0%	40.0%	20.0%	20.0%	100.0%

Source: Secondary data

Table 4.1.10: Cross tabulation perecentage count between cash ratio and return on asset

			CASH_RATIO			Total
			.20	.30	.40	
ROA_	.50	Count	0	1	0	1
		% within ROA_	0.0%	100.0%	0.0%	100.0%
		% within CASH_RATIO	0.0%	100.0%	0.0%	20.0%
		% of Total	0.0%	20.0%	0.0%	20.0%
	1.00	Count	1	0	0	1
		% within ROA_	100.0%	0.0%	0.0%	100.0%
		% within CASH_RATIO	33.3%	0.0%	0.0%	20.0%
		% of Total	20.0%	0.0%	0.0%	20.0%
	1.60	Count	0	0	1	1
		% within ROA_	0.0%	0.0%	100.0%	100.0%
		% within CASH_RATIO	0.0%	0.0%	100.0%	20.0%
		% of Total	0.0%	0.0%	20.0%	20.0%
	2.00	Count	2	0	0	2
		% within ROA_	100.0%	0.0%	0.0%	100.0%
		% within CASH_RATIO	66.7%	0.0%	0.0%	40.0%
		% of Total	40.0%	0.0%	0.0%	40.0%
Total		Count	3	1	1	5
		% within ROA_	60.0%	20.0%	20.0%	100.0%
		% within CASH_RATIO	100.0%	100.0%	100.0%	100.0%
		% of Total	60.0%	20.0%	20.0%	100.0%

Source: Secondary data

Table 4.1.10 above shows the cross tabulation analysis of the variable cash ratio and the return on asset whereby the point of 0.2 of the cash ratio and 2.0 of the return on asset which had a percentage of 100% within the return on asset, 66.7 % within the cash ratio and a total percent of 40%.

Table 4.1.11: Cross tabulation analysis of current ratio and ROA

		CURRENT_RATIO				Total
		.80	1.10	1.60	1.70	
ROA_	.50	0	1	0	0	1
	1.00	1	0	0	0	1
	1.60	0	0	1	0	1
	2.00	0	1	0	1	2
Total		1	2	1	1	5

Source: Secondary data

4.2.6: Computation of the Chi-square of current ratio and cash ratio against ROA

Chi-square analysis also known as Pearson Chi-square tests if a relationship is significant, where significance does not necessarily mean it's true usually interpreted in words and numbers saying whether it is significant or not.

Table 4.1.12 : Chi-Square Tests between current ratio and ROA

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	11.250[a]	9	.259
Likelihood Ratio	10.549	9	.308
Linear-by-Linear Association	1.287	1	.257
N of Valid Cases	5		

Source: Secondary data

Table 4.1.11 shows the representation of the current ratio against the return on asset, table 4.1.12 shows the chi square testing the significant relationship that is there between the current ratio and the ROA

	CASH_RATIO			Total
	.20	.30	.40	
ROA_ .50	0	1	0	1
1.00	1	0	0	1
1.60	0	0	1	1
2.00	2	0	0	2
Total	3	1	1	5

Source: Secondary data

Table 4.1.14: Chi-Square Tests between cash ratio and ROA

	Value	df	Asymp. Sig. (2-sided)
Pearson Chi-Square	10.000[a]	6	.125
Likelihood Ratio	9.503	6	.147
Linear-by-Linear Association	.227	1	.634
N of Valid Cases	5		

Source: Secondary data

Table 4.1.13 shows the representation of the cash ratio against the return on asset, table 4.1.14 shows the chi square testing the significant relationship that is there between the cash ratio and the return on asset

Table 4.1.15 : Cross tabulation analysis of current ratio and ROA of the different MFIs

MICRO_FINANCE_INSTITUTION			CURRENT_RATIO				Total
			.80	1.10	1.60	1.70	
Institution 1	ROA_	1.60			1		1
	Total				1		1
Institution 2	ROA_	2.00		1			1
	Total			1			1
Institution 3	ROA_	.50		1			1
	Total			1			1
Institution 4	ROA_	1.00	1				1
	Total		1				1
Institution 5	ROA_	2.00				1	1
	Total					1	1
		.50	0	1	0	0	1
	ROA_	1.00	1	0	0	0	1
Total		1.60	0	0	1	0	1
		2.00	0	1	0	1	2
	Total		1	2	1	1	5

Table 4.1.16: Cross tabulation analysis of cash ratio and ROA of the different MFIs

MICRO_FINANCE_INSTITUTION			CASH_RATIO			Total
			.20	.30	.40	
Institution 1	ROA_	1.60			1	1
	Total				1	1
Institution 2	ROA_	2.00	1			1
	Total		1			1
Institution 3	ROA_	.50		1		1
	Total			1		1
Institution 4	ROA_	1.00	1			1
	Total		1			1
Institution 5	ROA_	2.00	1			1
	Total		1			1
Total	ROA_	.50	0	1	0	1
		1.00	1	0	0	1
		1.60	0	0	1	1
		2.00	2	0	0	2
	Total		3	1	1	5

As illustrated above, table 4.1.15 shows the current ratio of 1.10 of institution 2,3 and 5 with return on asset of 2.0, 0.5 and 2.0 respectively with an overall total of 2. And table 4.1.16 shows the cash

ratio of 0.20 of institution 2,4 and 5 with a return on asset of 2.0,1.0 and 2.0 respectively with an overall total of 3.

4.2.7: Computation of Correlation analysis of the variables

Statistical method of correlation analysis is used to analyze primarily quantitative data to measure the firmness of the linear relation between two factors and compute their association, mostly used for numerical variables to identify whether there are any significant patterns or trends or insights, it assigns a value between 1 and -1 where o is no correlation, 1 is total positive correlation and -1 is total negative correlation determining which variables need to be investigated further and it allows for rapid hypothesis testing

Table 4.1.17 : Correlation analysis of the current ratio and the cash ratio against ROA

		CURRENT RATIO	CASH RATIO	ROA
CURRENT_RATIO	Pearson Correlation	1	.384	.567
	Sig. (2-tailed)		.523	.319
	N	5	5	5
CASH_RATIO	Pearson Correlation	.384	1	.238
	Sig. (2-tailed)	.523		.700
	N	5	5	5
ROA_	Pearson Correlation	.567	.238	1
	Sig. (2-tailed)	.319	.700	
	N	5	5	5

Source: Secondary data

As shown in table 4.1.17 above the correlation analysis of the current ratio and the cash ratio against ROA has been illustrated by showing the strength of the linear relationship between the variables of .494 showing a small modern positive strength and a significance of 0.01 being statistically significant since a sample of the population is used and not the whole population.

4.3 Summary of the Interpretation

The objective of the study was to determine the relationship that is there between WCM and FP in regards also to its level of liquidity, concentrating more in finding if there is a relationship that exists between the WCM indicators and the FP indicator. The chapter involves the presentation of the findings illustrated through the tables above.

Table 4.1.1 and 4.1.2 illustrates the summary of the descriptive statistics variables of WCM and the return on asset. The tables show that the institution's average values of the current ratio and the cash ratio tend to be on the ideal rate therefore considered healthy. Arranging the institutions in the category of high, medium and low in tables 4.1.3, 4.1.4 and 4.1.5 shows clearly how the variables of the institutions relate, for current ratio in table 4.1.3 the majority of the institutions are on the medium level which shows that their current assets and liabilities are most likely the same and in table 4.1.4 the cash ratio are on the lower side and finally in table 4.1.5 the return on assets are scattered, some are on the high side, others on the medium and others on the low illustrating that current and cash ratio might be almost the same in the institutions but their management and strategy of collection can be different hence the scattered ROA.In table 4.1.6 which illustrates the computation of return on asset against current ratio does show the institutions return on assets behave with the current ratio which is the higher the return the lower the current ratio as seen in institution 2 and institution 5, also seen in table 4..7 which shows the computation of the return on asset against cash ratio which similarly shows the higher the ROA the lower the cash ratio which is again practically seen in institution 2 and 5.

In the cross tabulation analysis of the data as shown on the table 4.1.9 an analysis was done between the current ratio and the ROA which showed that the greater the current ratio of 1.10 the higher the return of 2.0 in (%) which also clearly indicated that the ratios are averagely healthy. And table 4.1.10 the tabulation count between cash ratio and ROA which shows the return on asset

of 2.0 being higher with a cash ratio of 0.2. Table 4.1.12 and4.1.14 showing the chi-square tests which determine whether there is a relationship between the current ratio and the cash ratio against ROA whereby the p values were .259 and .125 respectively which was greater than 0.05 indicating a significance. Cross tabulation analysis done in table 4.1.15 and 4.1.16 ratio of the MFIs of the study shows the current ratio and cash ratio against ROA were analyzed together so as to analyze it collectively. It showed that in the table 4.1.15 majority of the institutions has an averagely healthy current ratio of 1.10 and in 4.1.16 a cash ratio of 0.2. Table 4.1.17 shows the correlation analysis that was done on the data on the variables of current ratio and cash ratio against ROA, firmness and viewpoint of the relationship can be seen to be positive. Pearson product correlation of the variables current ratio and cash ratio against ROA was found to moderately positive and statistically significant that is (r = 0.384,0.567,0.523,0.238,0.319,0.700) hence it was supported.

4.4 Discussions of the findings

The level of liquidity of institution 1,2,3,4 & 5 averagely have a liquidity ratio above 1 (that is the current ratio) meaning a company can exactly pay off all its current liabilities with its assets, but seemingly the cash ratio is below 1, which in this case does not indicate that the institutions are doing bad or are not healthy, this is because the cash ratio only looks at the cash and market securities compared to the current ratio which looks at all the current assets.in the cross tabulation analysis the axis x and y represented one variable as a question and the other as another variable crucial in finding the underlying relationship within the surveyed results, the probability of making decisions I form of an uncertainty showing the likelihood that something will occur was at 1 as the results showed, thus enabling a firm understand which choices are safe and which ones are risky. A test of significance which is the objective of assessment that is used to compare observed data with a hypothesis using a formal technique and the p value showing a perfectly positive correlated value which shows the increase in one variable also leads to an increase in the other which shows the directive and relationship strength.

The summary of the findings is that most deposit taking micro finance institutions have different capital structures and asset base therefore the profits that can be got from institution 1,2,3,4 & 5,collection period of the institutions also cannot be the same, also the WCM indicators can vary with the different institutions and its overall effect to the firm's financial performance, they vary but are in the same range as clearly shown in the findings above, which leads to the results and

interpretation that have been discussed. And one thing is that when analyzing a firm, investors and creditors want to see a company with liquidity ratios above 1.0 and are likely to have the ability to cover short term obligations, determine credit worthiness and determine investment worthiness which aligns with the objective of investigating the relation among the management of working capital indicators and FP in selected Microfinance institutions that are deposit taking.

Findings are in line with a couple of local studies which includes J,Odhiambo (2011) which stated that the efficiency of the WCM can eventually lead to a better financial performance(in this case the SACCOs) leading to a positive relationship, concluding the study to better financial performance brought about by efficient management of working capital recommending further that the SACCO can maintain an efficient and skillful working capital holding it at its optimum level for better performance.

And according to Waithaka (2012), the study involved the variables of efficiency of each cash management (ECM), efficiency of receivables management (ERM) and efficiency of inventory management (EIM) which were positively related to financial performance through its findings at a significant level 0.01.

And the studies that differed from that included the study of Ma, Maina, (2013) which studied the working capital components that is cash receivables, inventory and payables against the financial performance, the turnover of inventory had a relation that was negative with ROE which meant that the increase in a firm's performance depended on the inventory days being reduced, which also applied to cash conversion period and net payment period recommending proper inventory management resulting to efficient outcome of investment.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction.

The study examined the working capital management and the financial performance on deposit taking micro finance institutions in Kenya. The chapter summarizes the findings in regards to the relationship that exists linking WCM variables with the FP variables of the MFIs in Kenya. Further the chapter contains the recommendations made, demerits of the study together with making proposition for more investigation.

5.2 Summary of Findings

The relation of WCM and FP is what the research was established involved the selected micro finance institutions in Kenya. A total of five (5) deposit taking micro finance institutions were sampled for the study of thirteen (13) which was the data that was available. A function of financial performance was the return on asset (ROA) and for current ratio and cash ratio it is the working capital, data collected through descriptive by cross tabulation and correlation to do the data analysis.

The different ranges of the working capital management variables from the institutions vary but clearly show a positive significance towards the financial performance variable which is the return on asset, averagely the institutions had a ratios of 1.10 and 0.2 which were the current ratio and cash ratio respectively which were considered healthy with a chi-square test of .259 and .125 which were positive and greater than 0.05 with a correlation analysis of that is perfectly positive shows that 100% of the time the variables in question move together by the exact same percentage and direction, calculating the level of change in one variable due to the change in another.

5.3 Conclusion

The study 's main objective was WCM and the FP of the micro finance institution that are deposit taking specific objective being to investigate the relationship in reference to its variables among the selected deposit taking micro finance institutions in Kenya. The objective was to clearly determine whether the variables for the working capital management which were the current ratio

and cash ratio that formed part of the independent variable do contribute on the impact of the financial performance whose dependent variable was the return on asset, data being for eight years.

The findings of the study did show that the independent variables which were the current ratio and cash ratio did have a significant impact on the individual deposit taking MFI's financial performance measured by ROA.

5.4 Recommendation

The study clearly shows and indicates that the capital structure and the asset base in this case of the microfinance institutions and the working capital management are not the same for the micro finance institutions therefore the changes in the figures do affect the firm's working capital management differently and in the long run the overall financial performance. Therefore categorizing the microfinance institutions based on their financial leverage will be highly recommended.

For deposit taking micro finance institutions, the study does provide the information required for its competitive advantage that is concentrating more on the variables that give much input on the performance of the firm thus enabling them to be competitive

The study does have an input overall to firms more so in the financial department, the strategies to use, what to improve that is the capital structure, the asset base and also the proper management of the WCM variables for survival purposes in the future.

And finally the study will help the scholars in boasting their material in reference to WCM and FP and also enable the policy makers to enhance proper regulatory policies.

5.5 Limitations

The major challenge that was experienced while conducting this study was the fact that some of the information was not complete and posted. Secondary data was used which basically the financial statements were making the study be limited to only five (5) institutions. The other challenge was that their asset base was completely different they were not the same or almost the same, making it slightly hard in conducting and analyzing the data.

The study was limited to only one measure of the dependable variable which was the return on asset (ROA), other studies should incorporate more measures of financial performance othere financial ratios like ROE, profit after tax, earnings per share and any other market value should be considered. Also, the study disregarded the use of qualitative information which could have created a variance or showed more indepth of the WCM and the MFI's performance.

5.6 Areas of Further Studies

Further studies need to be done so as to be able to conduct a study that is similar study for a lengthy time. A study similar to what has been done should be conducted on management of WC and the performance of the micro finance institutions in general that is both the deposit taking MFI's in Kenya and the non-deposit taking MFI'S in Kenya incorporating more variables.

Accounting on other variables should be incorporated to test the impact of the firm's performance and also to foster the strategies available and the recommendations of the management on implementing to stimulate the firm's performance. And also the study did not exhaust all the independent variables that influences the WCM of the MFI's and further recommendation is given so as to constitute other variables that might be there.

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Appendices

Appendix 1: LIST OF MFIs

1 Caritus DTM

2 Century Deposit Taking Microfinance Limited

3 Choice DTM Limited

4 Daraja DTM

5 Faulu KenyaDTM

6 Kenya Women Finance Trust DTM Limited

7 Maisha DTM

8 Rafiki Deposit Taking Microfinance

9 Remu DTM Limited

10 SMEP Deposit Taking Microfinance Limited

11 Sumac DTM Limited

12 U&I Deposit Taking Microfinance Limited

13 Uwezo Deposit Taking Microfinance Limited

Appendix 2: DATA CAPTURE FORM

MICRO FINANCE INSTITUTION	YEAR	CURRENT RATIO	CASH RATIO	ROA (%)
Rafiki Micro finance	2021			
	2020			
	2019			
	2018			
	2017			
	2016			
	2015			
	2014			
Kenya Women Trust	2021			
	2020			
	2019			
	2018			
	2017			
	2016			
	2015			
	2014			

SMEP	2021			
	2020			
	2019			