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Financial Management Practices and Financial Performance of Microfinance Banks in Nakuru County, Kenya

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Abstract

Purpose: This study sought to examine the influence of financial management practices on the financial performance of Microfinance Banks in Nakuru County, Kenya.

Methodology: The study adopted a descriptive research design to examine the influence of financial management practices on financial performance. The target population comprised 201 employees drawn from the finance departments of Microfinance Banks in Nakuru County. The sample size was 67 respondents selected through simple random sampling from the three levels of management. Secondary panel data was collected from financial reports, financial statements and relevant audit reports covering a period of five years. Questionnaires were also used to collect primary data. The data collected during the main study was subjected to appropriate statistical analysis to draw meaningful conclusions.

Findings: The analysis showed that financial planning (B = 0.271, p = .002), cash flow management (B = 0.298, p < .001), and risk management (B = 0.257, p = .001) each had a significant positive effect on financial performance. In contrast, budgeting practices had a significant negative effect (B = −0.107, p < .001). Overall, the regression model was statistically significant, $F(4, 55) = 12.500$, p = .001, and accounted for 35% of the variance in financial performance (R^2 = .350).

Unique Contribution to Theory Practice and Policy: The study recommended that Microfinance Banks strengthen their financial planning, cash flow management and risk management practices to improve and sustain their financial performance. The study further suggested that future research could examine financial management practices and financial performance in other financial institutions and geographical contexts in Kenya to provide comparative evidence and inform policy formulation.

Keywords: *Financial management practices, financial performance, microfinance banks, financial planning, working capital management*

INTRODUCTION

Financial management practices are widely recognized as key drivers of the growth, profitability and sustainability of financial institutions worldwide. Practices such as budgeting, financial planning, liquidity management, risk management and financial reporting help institutions use resources efficiently, control costs and improve financial outcomes (Barker & Chiu, 2017). Evidence from China shows that prudent financial management and transparent financial processes support organizational performance and investment outcomes (Elliott & Yan, 2019), while in the United States strong regulatory and governance frameworks reinforce budgeting, monitoring and accountability (McKinney, 2015). Research from Sri Lanka further shows that effective working capital management enhances profitability and business sustainability (Uduwaka & Dedunu, 2019). Globally, institutions also face credit, liquidity, market, interest rate and foreign exchange risks that can erode cash flows and profitability if not well managed (Tiwary, 2019).

Within Sub-Saharan Africa, financial institutions continue to contend with limited market liquidity, underdeveloped secondary markets and regulatory constraints that weaken risk management and expose them to liquidity, credit and market risks. Studies from the region nonetheless confirm the value of sound financial management. In South Africa and Nigeria, effective financial management strategies have enhanced the performance of listed companies (Dzingai & Fakoya, 2017), and working capital management, capital budgeting and financial reporting have been positively linked to the profitability of Nigerian SMEs (Babatunde & Akeju, 2016). Conversely, weak financial planning, poor controls and inadequate risk management have been identified as major causes of distress and failure in banking institutions across the region (Gadzo et al., 2019). Credit risk management has also been shown to significantly influence the profitability of community banks in Ghana and commercial banks in Nigeria (Ajuwon et al., 2018).

In Kenya, studies across sectors consistently show that budgeting, financial planning, financial reporting, internal controls, liquidity management and credit risk management improve financial performance (Harrison & Muiru, 2021). Microfinance banks, regulated by the Central Bank of Kenya under the Microfinance Act, 2006, play a vital role in financial inclusion, yet they face loan defaults, liquidity constraints, rising operating costs and competition from commercial banks and digital financial providers. The Central Bank of Kenya (2025), reported that the sector's combined loss before tax rose to KSh 3.5 billion in 2024 from KSh 2.4 billion in 2023, with only four of the fourteen licensed microfinance banks recording profits. Existing research on microfinance banks has largely emphasized capital adequacy, asset quality, liquidity and financial risk (Kimathi & Gitagia, 2024), while limited evidence exists on how specific financial management practices affect their performance, particularly in Nakuru County. This study therefore examines the influence of budgeting, financial planning, cash flow management and risk management practices on the financial performance of microfinance banks in Nakuru County, Kenya.

Statement of Problem

Microfinance banks are expected to promote financial inclusion by providing credit, savings and other financial services to low-income households and SMEs that have limited access to conventional banking, and their financial sustainability is therefore expected to support enterprise development and local economic growth (CBK, 2025; Wanjohi & Omwenga, 2017). Sound financial management practices, including budgeting, financial planning, cash flow management and risk management, are expected to help such institutions allocate resources efficiently, maintain liquidity and limit exposure to financial risks (Nyongesa, 2017; Gadzo et al., 2019). However, the sector's performance has deteriorated. The Central Bank of Kenya (2025) reported that the sector's pre-tax loss widened from KSh 2.4 billion in 2023 to KSh 3.5 billion in 2024, with only four of the fourteen licensed microfinance banks reporting profits. Net lending fell by 16%, from KSh 37.5 billion to KSh 31.2 billion, while return on assets declined from negative 4% to negative 6% and return on equity worsened from negative 35% to negative 78%. This decline has been linked to credit risk exposure, liquidity constraints, rising operating costs, persistent non-performing loans and growing competition from commercial banks, fintech firms and digital lenders (Harrison & Muiru, 2021). The problem affects the microfinance banks themselves, whose sustainability is threatened, as well as their investors, the regulators concerned with sector stability, and the low-income households and SMEs that depend on them for affordable credit.

Previous studies have shown that financial management practices improve organizational performance. Odongo (2018) found that financial planning, reporting, internal controls and working capital management significantly influenced the performance of construction firms. Harrison and Muiru (2021) established that liquidity, capital structure, credit risk and working capital management positively affected the performance of commercial banks, and Mbogo et al. (2021) reported that budgeting significantly improved the financial performance of manufacturing SMEs in Nairobi. However, these studies focused on commercial banks, construction firms, manufacturing firms and SMEs, leaving limited empirical evidence on microfinance banks, particularly in Nakuru County. This creates both a contextual and a sector-specific gap. This study therefore sought to fill that gap by examining the influence of budgeting, financial planning, cash flow management and risk management practices on the financial performance of microfinance banks in Nakuru County, Kenya.

LITERATURE REVIEW

Theoretical Framework

This study was anchored on four complementary theories: Modern Portfolio Theory, Priority-Based Budgeting Theory, Prospect Theory and Contingency Theory. Modern Portfolio Theory (MPT), developed by Harry Markowitz (1952), explains how institutions can maximize expected returns for a given level of risk by diversifying assets and investments. It distinguishes between

systematic risk, which cannot be diversified away, and unsystematic risk, which can be reduced through diversification (Markowitz, 1952; Mishkin & Eakins, 2021). For microfinance banks, which serve small businesses and low-income borrowers and are therefore exposed to relatively high default risk, the theory implies that diversifying loan portfolios across sectors, customer segments and locations, supported by prudent credit appraisal and monitoring, improves asset quality and stabilizes earnings (Ledgerwood, 2013; Saunders & Cornett, 2020). MPT thus anchors the risk management practices variable. Priority-Based Budgeting Theory, developed from the work of Kavanagh, Johnson and Fabian (2011) as a modification of Zero-Based Budgeting, holds that scarce resources should be allocated according to strategic priorities rather than historical spending (Kavanagh et al., 2011; Pidgeon, 2010). Applied to microfinance banks, it suggests that aligning budgets with institutional objectives improves expenditure control, resource utilization and profitability (Mbogo et al., 2021; Odongo, 2018), and it therefore anchors the budgeting practices variable.

Prospect Theory, advanced by Kahneman and Tversky (1979), challenges the assumption of fully rational decision-making by showing that managers evaluate gains and losses asymmetrically, are loss-averse, and often decide on perceived rather than objective outcomes under uncertainty. Financial decisions on budgeting, financing, liquidity and risk therefore involve choosing between risky alternatives (Tversky & Kahneman, 1992). The theory underscores the need for sound financial planning, cash flow management and risk management so that microfinance managers, who routinely face uncertain decisions on loan approvals, credit risk and liquidity allocation, can make informed and prudent choices (Brigham & Ehrhardt, 2019; Ledgerwood, 2013). It thus supports the financial planning and cash flow management variables and links all four practices through their shared role in decision-making. Contingency Theory, attributed to Pike (1986) and informed by Chenhall (2003) and Henri (2006), argues that no single financial system suits every organization, because technology, environment, professional competency and capital budgeting control policies shape which practices work best. It implies that microfinance banks must tailor their financial management practices to their own settings if those practices are to improve performance.

Together, the four theories provide a coherent foundation for the study. MPT explains how risk should be managed to protect returns, Priority-Based Budgeting explains how resources should be allocated to achieve strategic objectives, and Prospect Theory explains how managers make financial decisions under uncertainty, which affects how budgeting, planning, cash flow and risk practices are actually applied. Contingency Theory then qualifies all three by emphasizing that the effectiveness of these practices depends on the institutional and environmental context of each microfinance bank. Collectively, the theories support the proposition that budgeting, financial planning, cash flow management and risk management practices, when well matched to the bank's circumstances, positively influence the financial performance of microfinance banks in Nakuru County, Kenya.

Conceptual Framework

Budgeting practices, financial planning, cash flow management, and risk management are independent variables that relate to the dependent variable, financial performance of microfinance banks.

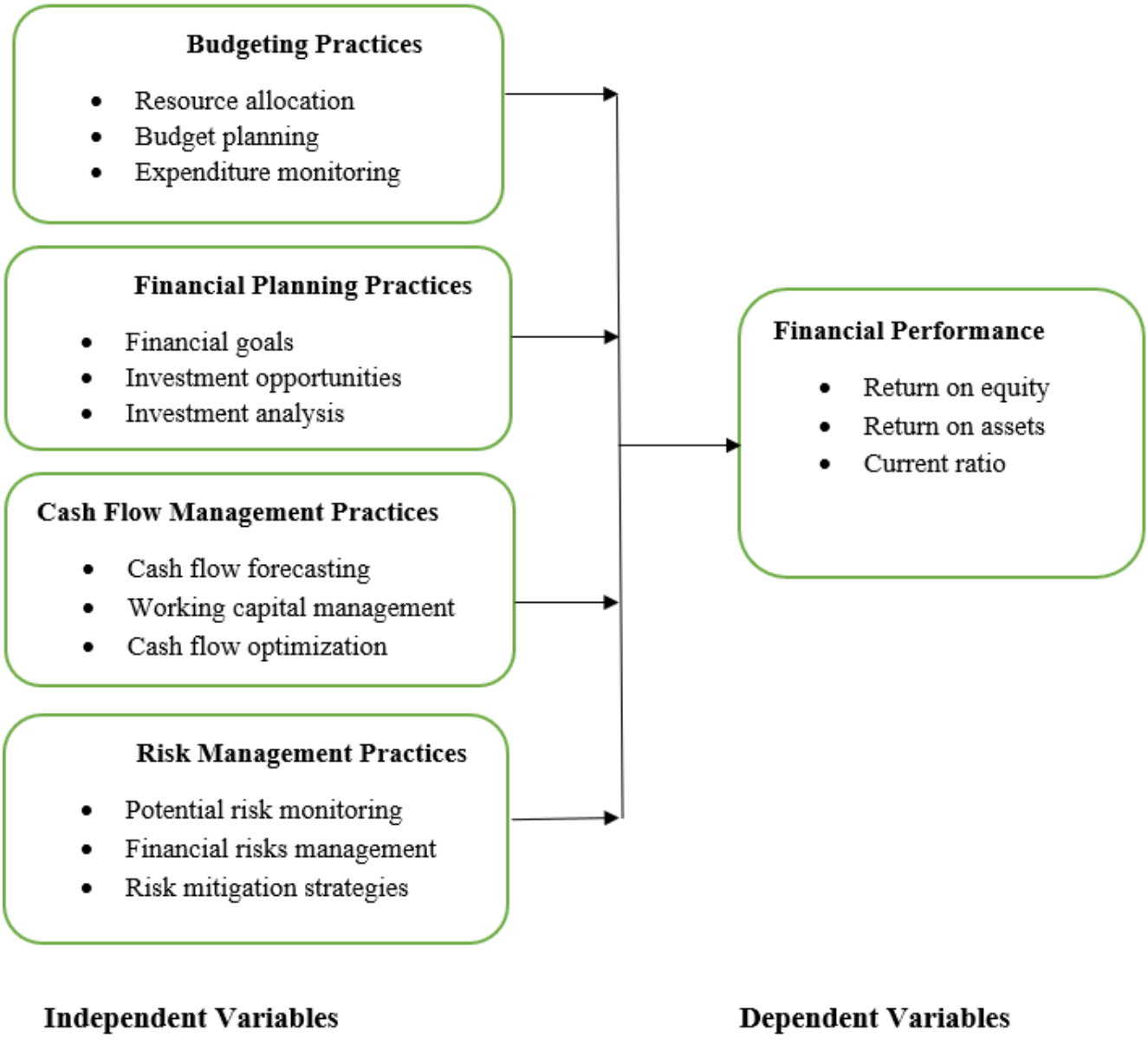


Figure 1: Conceptual Framework

Empirical Review

Suleman and Gujral (2024) examined the budgetary process and the financial performance of community-based credit unions in Ghana. Using descriptive and correlation methods on 54 of 70

registered credit unions, they assessed budget planning, implementation, monitoring and evaluation. Budgetary controls were not significantly associated with total assets or net assets, although budget planning had a moderate positive and significant relationship with total assets in 2017. The authors recommended flexible budgeting to accommodate changing institutional and economic conditions. These mixed results contrast with the Kenyan evidence, which reports a consistently positive effect of budgeting on performance (Mbogo et al., 2021), and suggest that the effect may depend on the type of institution. The study has three limitations. It focused on credit unions rather than regulated microfinance banks, it measured performance by asset size rather than profitability indicators such as ROA and ROE, and it was conducted outside Kenya. The present study addresses these gaps by examining budgeting practices in licensed microfinance banks in Nakuru County and relating them to financial performance.

Zhang, Zamore and Mersland (2026) studied debt, free cash flow and financial performance using a global sample of 484 rated microfinance institutions in 74 countries, applying static and dynamic panel models. They found that total debt reduced free cash flow, with short-term debt having the strongest negative effect, which underscores the need to plan financing decisions carefully. However, the study addressed only the financing component of planning, namely debt structure, and not financial planning practices as a whole, such as forecasting, goal setting and resource projection. Its cross-country sample also masks differences in national regulation and market conditions, and it does not cover Kenyan microfinance banks. This study fills these gaps by treating financial planning as a distinct practice and examining its influence on performance in Nakuru County.

Nambozo (2025) examined liquidity monitoring, cash budgeting and digital banking at Pride Microfinance Bank, Mbale Branch, in Uganda. About 35% of respondents rated liquidity management as having a very high impact on performance, 60% reported that liquidity shortages affected loan disbursement and operational costs, and 90% confirmed the adoption of digital banking. The study concluded that these practices improved transaction efficiency and financial control. Its findings, however, rest on a single branch of one institution and are reported as respondent percentages, which limits generalization and does not establish the strength of the relationship between cash flow management and financial performance. It is also set in Uganda

rather than Kenya. The present study addresses these limitations by covering microfinance banks in Nakuru County and examining the effect of cash flow management on financial performance across institutions.

Molla and Kaur (2025) analyzed financial statement data from 24 Ethiopian microfinance institutions using a two-step system GMM estimator. Financial leverage, interest rate risk and the cash-to-total-deposits ratio were negatively associated with ROA and ROE, while loan loss provisions and loans and advances were negatively and significantly related to ROA but not ROE. The findings show that uncontrolled risk exposure weakens returns. The study, however, used financial ratios as proxies for risk exposure and did not assess the risk management practices that managers actually apply, such as risk identification, assessment, monitoring and mitigation. It was also conducted in Ethiopia, whose regulatory and market environment differs from Kenya's. This study addresses these gaps by measuring risk management practices directly and examining their effect on the performance of microfinance banks in Nakuru County.

The contextual gap is that none was conducted among licensed microfinance banks in Nakuru County, Kenya; they were set in Ghana, Uganda, Ethiopia or global samples. The conceptual gap is that each examined only part of a practice (budget controls, financing structure, a single branch's liquidity, risk ratios) and none considered budgeting, financial planning, cash flow management and risk management together. The methodological gap is that the studies relied on asset-based measures, financial-ratio proxies, one-branch perceptions or cross-country panels, rather than measuring managerial practices directly and relating them to performance. By examining all four practices within one framework in the Nakuru County context, this study fills these gaps.

METHODOLOGY

This study was descriptive in nature and therefore adopted a descriptive design. This study targeted 201 employees of licensed microfinance banks operating in Nakuru County, Kenya. The respondents comprised senior, middle and lower-level management employees who were directly involved in budgeting, financial planning, cash flow management and risk management. These employees were considered because of their roles and responsibilities hence were deemed to possess relevant knowledge of the financial management practices and financial performance of their respective institutions. In this study, the sampling frame comprised the consolidated lists of

senior, middle and lower-level management employees of the selected licensed microfinance banks operating in Nakuru County. The list of senior, middle and lower-level personnel from the microfinance banks served as the sampling frame. The sample size was 67 employees of microfinance banks, determined by Yamane (1967) formula. The microfinance banks served as the study's unit of analysis. The study adopted simple random sampling technique to select the samples for the study. This was used together with purposive sampling technique to ensure that the study only selected desired individuals participated in the study. Purposive sampling ensured that only cases with desired information of the study were selected to participate in the study. The researcher used both primary and secondary data for this study. For primary data, the study adopted a questionnaire. For secondary data, the study used financial statements, audit reports, and other relevant financial documents that contained the desired information for review. The financial statements were obtained for a period of five years that stemmed from 2017 to 2021. These statements and reports were obtained from the Microfinance banks. The study used a secondary data collection sheet to gather the secondary data for the study. The questionnaire was administered using a drop and pick later method to the various employees from the related departments of microfinance banks. Secondary data involved past reports such as annual budget data, progress reports and financial reports to review the financial management practices and key information that was helpful to the research study. This data was obtained through desk review of the reports Microfinace Banks in Kenya in Nairobi. Quantitative data was analyzed using quantitative analysis and for qualitative data, using content analysis. Both descriptive and inferential statistics were used to analyze the data. Quantitative data was analyzed using quantitative analysis and for qualitative data, using content analysis. Both descriptive and inferential statistics were used to analyze the data. The descriptive statistics was used to assess the quantitative data using the Statistical Package for Social Sciences (SPSS) version 23. Regressions models was also used in inferential analysis. Multiple regression models were used to assess how the independent variables affect the dependent variable. This model was used to determine and measure the degree of relationship between each independent variable and the dependent variable. Analyzed data was then presented in tables, charts and graphs.

The general form of the regression that was used took the following form:

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where:

Y = Dependent Variable (Financial performance)

X_1 = Budgeting practices

X_2 = Financial Planning practices

X_3 = Cash Flow Management practices

X_4 = Risk Management practices

β_0 = Constant

β_1–β_4 = Regression coefficients

ε = Error term

RESULTS

Response Rate

The study targeted 67 respondents whom were issued with questionnaires. The aim of this was to enable the researcher gather data that would be instrumental in establishing the influence of financial management practices on financial performance of microfinance banks in Nakuru county, Kenya. The study administered the questionnaires to employees from the three levels of management. Out of 67 questionnaires issued, the researcher managed to collect 60 questionnaires back. This represented 89.6% response rate.

Descriptive Statistics

Financial Management Practices

The study sought to know the respondents' opinion on how often the following financial management practices were reviewed in their organization. The responses were presented as shown in Figure 1 below;

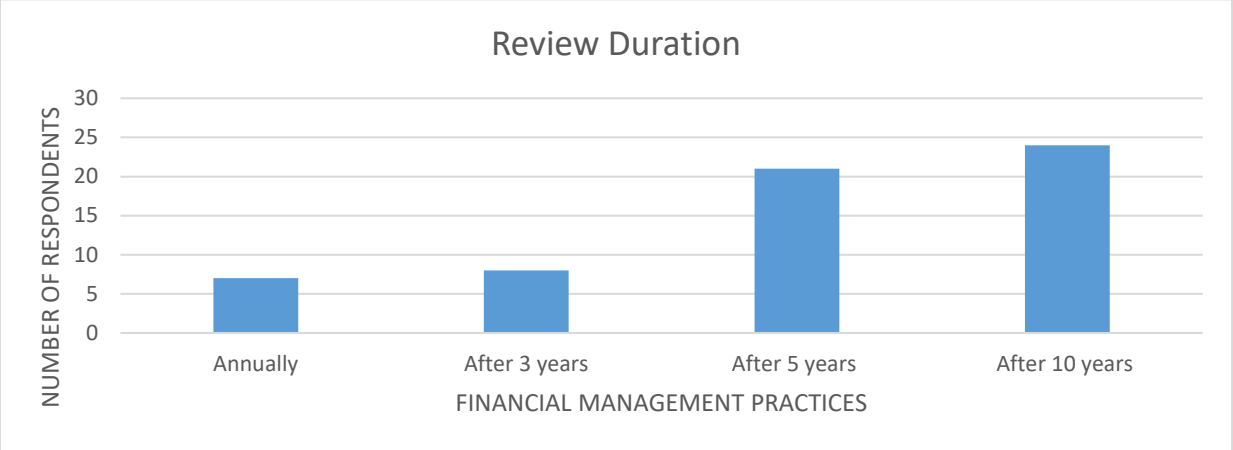


Figure 1: Financial management practices review duration

The study sought to know the how often financial management practices were reviewed at the microfinance banks in Nakuru County, Kenya. Findings revealed that respondents opined that majorly the financial management practices were reviewed after 5 years whereas some were reviewed after lapse of 10 years. Furthermore, findings also showed that some FMPs were reviewed on annual basis whereas some were reviewed after three years.

Budgeting Practices

The first objective sought to assess the influence of budgeting practices on financial performance of microfinance banks in Nakuru County, Kenya. To achieve this objective, participants were asked to rate their opinion based a Likert scale of 1 to 5; where 1= Very small extent; 2= small extent; 3=Moderate extent; 4=Large extent and 5= Very large extent.

The first question sought to establish whether national museums of Kenya prepare operational budget upon which they manage their activities and routine operations. The respondents were asked to give their opinion by indicating "Yes or No" based on their views. The results were presented as under in Figure 2 below.

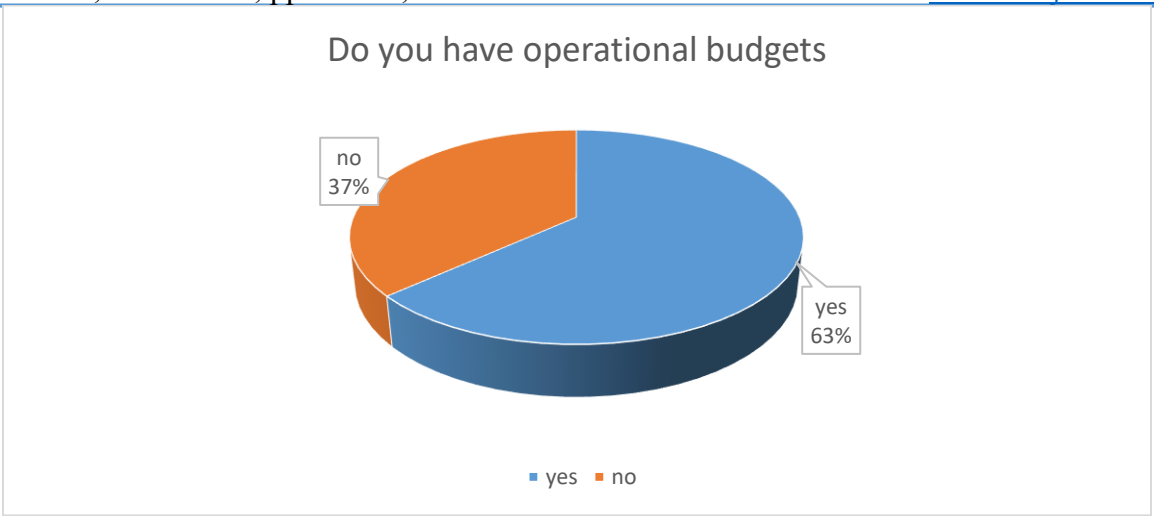


Figure 2: Formulation of operational budgets

Based on the findings as indicated in the above Figure 4.7, the microfinance banks in Nakuru County, Kenya, prepares operational budgets to foresee its operations as opined by the majority of the respondents involved in the study (63%). However, 37% of the remaining respondents gave a contrary opinion.

The study further sought to establish the level of agreement with statements regarding the influence of budgeting practices on financial performance of microfinance banks in Nakuru County, Kenya. The respondents were required to provide their ratings of the statements using a scale of 1-5 where 1= Very small extent, 2= Small extent, 3= Moderate extent, 4= Large extent and 5= Very large extent. The summarized results of these findings were presented in Table 1 below;

Table 1: Descriptive Statistics on Budgeting Practices

Statement	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Our firm carries out budget planning for its activities	60	4.10	.752	-.168	.309	-1.190	.608
The firm performs resource allocation during budgeting	60	3.68	.770	-.071	.309	-.331	.608
Our firm carries out budget coordination and evaluation	60	2.73	1.260	.369	.309	-.879	.608
Our firm carries out expenditure monitoring to oversee use of available resources	60	4.07	.800	-.328	.309	-.794	.608
Activity based budgeting	60	4.20	.443	.917	.309	.468	.608
Valid N (listwise)	60						

The results in Table 1 show that microfinance banks in Nakuru County, Kenya largely apply sound budgeting practices. Respondents agreed that the banks carry out budget planning (mean = 4.10, SD = 0.752) and allocate resources during the budgeting period to support smooth operations (mean = 3.68, SD = 0.770). Expenditure monitoring to oversee the use of available resources was also widely agreed upon (mean = 4.07, SD = 0.800). Activity-based budgeting emerged as the main technique used to align budgets with organizational activities and to ensure efficient resource allocation toward the banks' mandate, and it received the highest rating with the lowest variation (mean = 4.20, SD = 0.443), indicating strong consensus. In contrast, budget coordination and evaluation recorded a moderate mean of 2.73 with a high standard deviation of 1.260, showing

that this practice is less consistently applied and that respondents held divergent views on whether budget components are tailored toward achieving budget goals.

Financial Planning Practices

The second objective of the study was to assess the influence of financial planning practices on financial performance of microfinance banks in Nakuru County, Kenya. To accomplish this objective, participants were requested to express their level of agreement with statements regarding the influence of financial planning practices on financial performance of microfinance banks in Nakuru County, Kenya.

The first question under this objective aimed at establishing whether financial planning practices had influence on performance of microfinance banks in Nakuru County, Kenya. The respondents were to give their opinions on a Yes or No format. A summary of the findings is presented as under in the Figure 3 below;

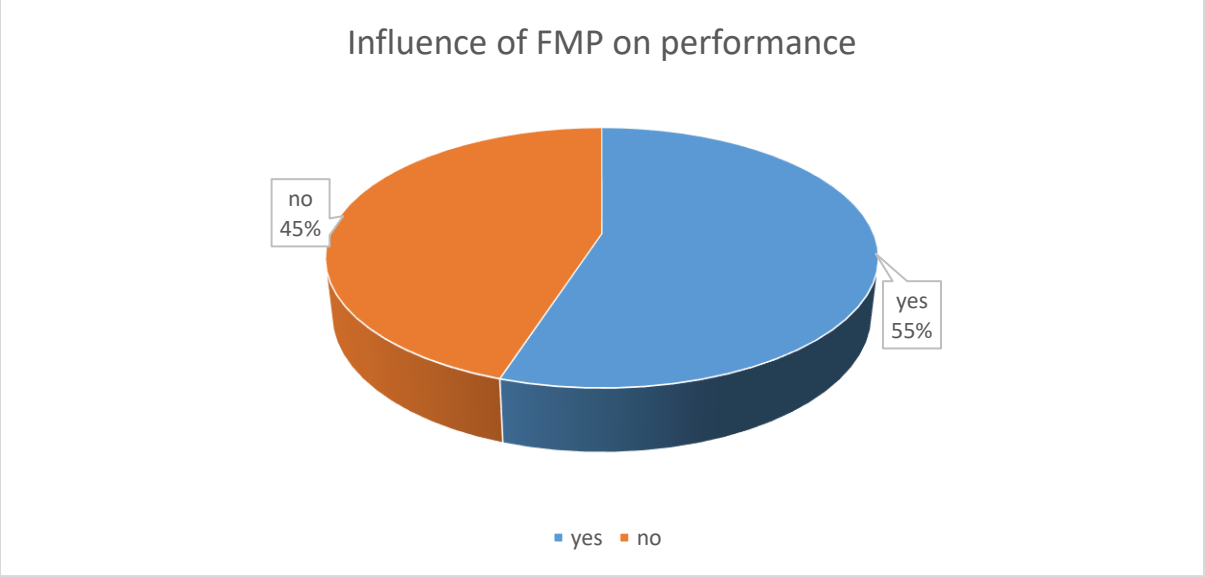


Figure 3: Influence of financial planning practices on performance

The results showed that 55% of the respondents believed financial planning practices such as investment analysis, setting of financial goals, and aligning with investment opportunities positively impacted on the financial performance of microfinance banks in Nakuru County, Kenya. However, 45% believed financial planning practices employed by the organization did not have any influence on the organization's financial performance as shown in Figure 4.8 above.

Therefore, the study concluded that financial planning practices affect the performance of microfinance banks in Nakuru County, Kenya.

The second question under this objective sought to establish the respondents' opinion on the various statements regarding financial planning practices as practiced at microfinance banks in Nakuru County, Kenya. The respondents' views were then summarized as under in Table 2 below;

Table 2: Descriptive Statistics on Financial Planning Practices

Statements	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Our firm has sound financial plans to realize its financial goals	60	3.78	.798	-.071	.309	-.331	.608
The firm has new investment opportunities to supplement its revenue collection streams	60	4.20	.403	1.539	.309	.379	.608
The firm performs investment analysis for its new projects to measure their viability	60	4.05	.832	-.278	.309	-1.037	.608
Optimum use of funds	60	3.90	.838	-.523	.309	-.091	.608
Our financial plans are objective oriented to facilitate achievement of organization's financial goals	60	4.03	.736	-.317	.309	-.293	.608
Solvency and liquidity	60	4.07	.710	-.096	.309	-.962	.608
Valid N (listwise)	60						

The results in Table 2 show that microfinance banks in Nakuru County, Kenya largely apply sound financial planning practices. Respondents agreed that the banks have opportunities to diversify their income sources through additional financial services and investment activities, which received the highest rating with the lowest variation (mean = 4.20, SD = 0.403), and the positive

skewness indicated that responses were concentrated at the higher end of the scale. Respondents also agreed that the banks conduct investment analysis to assess the viability of new projects before implementation (mean = 4.05, SD = 0.832) and that their financial plans are objectively oriented and facilitate the achievement of financial goals (mean = 4.03, SD = 0.736). Similarly, respondents agreed that the banks are committed to meeting their long-term obligations through their liquidity preference, which in turn improves financial performance (mean = 4.07, SD = 0.710), although the negative skewness showed that responses leaned toward the higher end of the scale. Budgeting practices were also agreed to enhance optimum use of available funds (mean = 3.90, SD = 0.838), but the relatively higher variation suggests room for improvement in how funds are utilized.

Cash flow management Practices

The third objective assessed the influence of cash management practices on the financial performance of microfinance banks in Nakuru County, Kenya, using three questions on which respondents gave their opinions. In response to the first question, on how cash flow management affects revenue performance, respondents considered effective cash flow management essential for ensuring that the banks had sufficient funds for day-to-day operations and planned activities. They noted that monitoring cash inflows and outflows helped the banks maintain adequate liquidity, meet operational expenses, finance activities such as expanded lending, digital banking investment and improved customer service, and meet withdrawal demands and other obligations on time while retaining funds to seize emerging investment opportunities. Respondents also observed that a healthy cash flow gave the banks financial stability, helped them withstand economic downturns and unexpected expenditures, and ensured continuity in operations and revenue generation. Overall, the study found that proper cash flow management was crucial for the sustainable revenue performance of the banks, strengthening operational efficiency, attracting and retaining customers, and keeping the banks financially viable. The third question then sought respondents' opinions on a set of statements on cash management practices, rated on a five-point Likert scale from 1 (very small extent) to 5 (very large extent), and the responses are summarized in Table 3.

Table 3: Descriptive Statistics on Cash Management Practices

Statement	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Optimal cash balances are maintained always by the organization at all times	60	4.32	.469	.809	.309	-1.394	.608
We have elaborate cash flow tracking system to oversee our organization cash flows.	60	3.98	.725	-.251	.309	-.261	.608
Optimization of working capital to achieve reasonable profits	60	3.17	1.486	-.264	.309	-1.455	.608
Our revenue streams from ticketing, donations and government support help in forecasting cash flow trends	60	4.30	.646	-1.157	.309	3.484	.608
Cash flow management creates sufficient liquidity for our operations	60	2.53	1.321	.610	.309	-.814	.608
Our organization has sufficient cash flows to meet its financial obligations as and when they fall due	60	3.18	1.157	.172	.309	-1.087	.608
Valid N (listwise)	**60**						

The respondents generally rated cash management practices in microfinance banks in Nakuru County, Kenya favorably, though with notable weaknesses. They expressed strong confidence in the banks' ability to maintain optimal cash balances at all times (mean = 4.32, SD = 0.469), in their use of revenue streams to forecast cash flow trends (mean = 4.36, SD = 0.646), and, to a slightly lesser degree, in their cash flow tracking systems (mean = 3.98, SD = 0.725), although the

variation in responses points to some concerns about those systems. In contrast, respondents were less satisfied with the banks' ability to optimize working capital to achieve reasonable profits (mean = 3.12, SD = 1.486) and with the banks' having sufficient cash flows to meet obligations as they fall due (mean = 3.18, SD = 1.157). The weakest rating was for the statement that cash flow management creates sufficient liquidity for operations (mean = 2.53, SD = 1.321), and the high standard deviations on these items show divergent views among respondents. Taken together, these results suggest that management needs to strengthen working capital optimization and liquidity management to improve financial performance. Respondents also reported that, beyond traditional cash flow streams, the banks explored other measures to maximize cash flows, including partnerships with county governments, collaborative community projects, grants from international agencies, and income-generating initiatives such as membership programs, venue renting, merchandise sales, virtual tours, a café or restaurant, fundraising drives and traveling exhibitions.

Risk Management Practices

The last objective entailed establishing the influence of risk management practices on financial performance microfinance banks in Nakuru County, Kenya. The aim of this objective was to answer the question "What is the influence of risk management practices on financial performance of microfinance banks in Nakuru County, Kenya?" The first question under this objective sought to establish whether microfinance banks in Nakuru county, Kenya implemented risk management measures to safeguard their financial resources. The results obtained were presented in Figure 4.9 below;

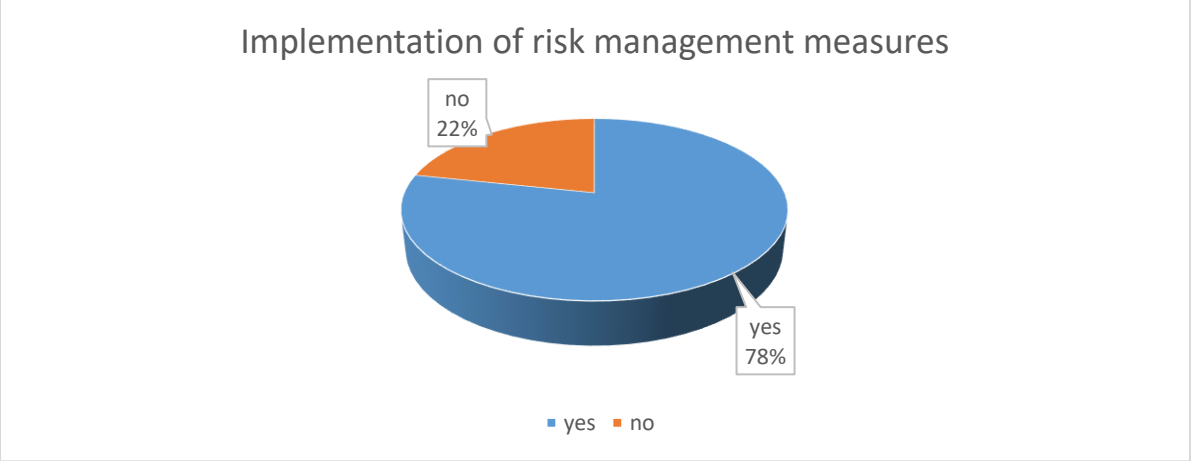


Figure 4: Implementation of risk management measures

The results show that most respondents (78%) agreed that microfinance banks in Nakuru County, Kenya implement risk management measures, while 22% disagreed, suggesting that some

employees are not fully conversant with these measures and that more awareness is needed. The high level of agreement also indicates that the banks recognize the need for robust risk measures to safeguard and enhance their financial performance. Respondents identified several measures in place, including adequate internal controls, effective budget instruments to guide operations, a functional audit department, adequate personnel responsible for financial reporting, oversight of compliance with legal and regulatory requirements, efficient procedures and systems for governance and risk management roles and responsibilities, and a suitable and effective control environment. The third question then asked respondents to rate their opinions on statements about risk management practices, and these results are presented in Table 4.

Table 4: Descriptive Statistics on risk management practices

Statement	N	Mean	Std. Deviation	Skewness		Kurtosis	
	Statistic	Statistic	Statistic	Statistic	Std. Error	Statistic	Std. Error
Our organization has put in place a functional risk management department	60	1.83	.977	1.361	.309	2.046	.608
Our organization has elaborate risk monitoring system to identify potential risks	60	3.08	.779	3.093	.309	7.826	.608
Risk diversification strategies to reduce risk impact	60	1.93	.516	-.106	.309	.893	.608
Prioritized risk analysis in our planning activities	60	1.88	.613	.065	.309	-.295	.608
The organization has sound risk mitigation strategies	60	2.60	.694	1.046	.309	1.139	.608
We have insurance policy against risks that might affect our operations	60	3.90	.656	.477	.309	.845	.608
Valid N (list wise)	**60**						

The results show that respondents had low confidence in most risk management practices in microfinance banks in Nakuru County, Kenya. The functional risk management department

received a very low rating (mean = 1.83, SD = 0.977), as did risk diversification strategies, which were seen as unable to reduce risk impact (mean = 1.93, SD = 0.516), and the prioritization of risk analysis among planned activities, which was considered inadequate (mean = 1.88, SD = 0.613). Respondents were moderately positive about the banks' risk monitoring systems for identifying potential risks (mean = 3.08, SD = 0.779) and more confident about the insurance policies that guard against operational risks (mean = 3.90, SD = 0.656). The study also found that the banks lacked sound risk mitigation strategies, as the auditor's report for 2021/2022 pointed to inherent limitations that could prevent internal controls from detecting or preventing misstatements and non-compliance, and warned that their effectiveness could decline over time with changes in the environment or weaker compliance. Overall, the findings suggest that management should strengthen the risk management department, diversification strategies, risk analysis and mitigation to protect financial performance.

Trend Analysis

Trend analysis was carried out for financial performance which was measured by current ratio (C.R), return on assets (ROA) and return on equity (ROE) of microfinance banks in Nakuru County, Kenya. The following sections discuss the trend analysis results.

Financial Performance (Current Ratio)

The financial performance of microfinance banks in Nakuru County, Kenya was measured based on the current ratio. This was used to measure microfinance banks' ability to meet its short-term obligations with its short-term assets. Figure 5 below shows the current ratio of microfinance banks in Nakuru County, Kenya for the period of five years, from 2017 to 2021;

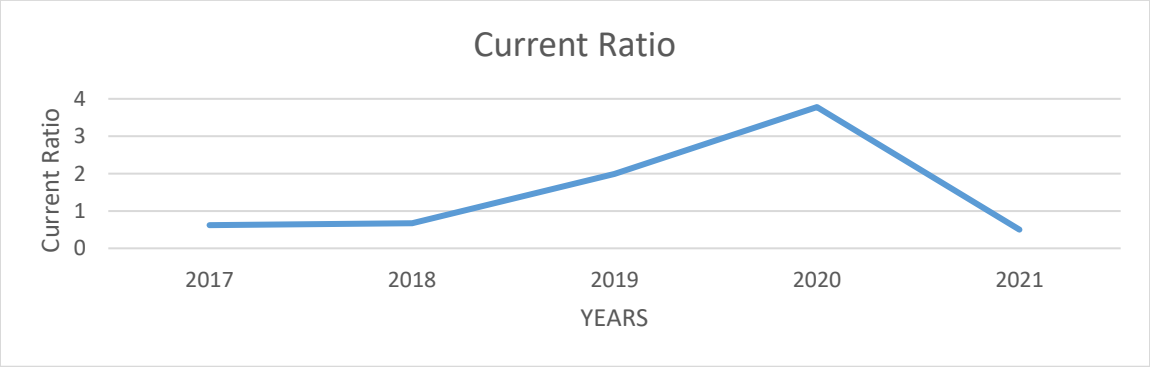


Figure 5: Trend analysis on the current ratio

The findings on Figure 5 above shows that current ratio was changing over the period as evidenced from the slopes on the curve. The current ratio of microfinance banks in Nakuru County, Kenya

was lowest in 2017 and rose to the highest in the year 2020 before again dropping sharply in the year 2021. The results show that microfinance banks in Nakuru County, Kenya was able to meet its short-term obligations with its short-term assets. However, the declining ratios could an indication that the microfinance banks were struggling to meet its obligations. This could also be a reflection that as much as microfinance banks in Nakuru County, Kenya was realizing positive financial performance, there were some other concerns that were affecting its financial health which management needs to address.

Return on assets

The return on assets was used to measure the profitability of microfinance banks in Nakuru County, Kenya on their returns on the invested assets for the period of five years 2017 to 2021. The results of trend analysis are presented in Figure 6 below;



Figure 6: Trend analysis on the ROA

The results show that the ROA had experienced mixed trends over the period of 2017 to 2021 with the highest being witnessed in the year 2019. The ROA rose steadily from 2017 up to 2018, achieving its peak in 2019 and started to drop slightly in 2020 before gradually dropping to its lowest in the year 2021. This shows that from 2018 microfinance banks in Nakuru County, Kenya was able to make profits up to 2019 but the margins slightly started dropping in 2020. During the financial year of 2021, microfinance banks in Nakuru county, Kenya made substantial losses from

its activities and operations. This adversely affected their financial performance and had to incur additional deficits.

Returns on Equity

The returns on equity was used to measure the profitability of microfinance banks in Nakuru County, Kenya and its efficiency in generating returns for the microfinance banks in Nakuru county, Kenya. The results were presented as under in Figure 7;

The findings revealed that ROE curve rises steadily from the year 2017 up to year 2019. This is an indication that financial performance of microfinance banks in Nakuru County, Kenya improved drastically from the year 2017 to 2019 due to its profitability. The ROE was lowest in the year 2021 showing a decline in the profitability. The results reveal an alarming trend that management of microfinance banks in Nakuru County, Kenya needs to relook at in order to revamp its performance. On overall the financial performance of microfinance banks in Nakuru County, Kenya has been fluctuating since 2020, an indication that the organization needs to relook at its financial management strategies.

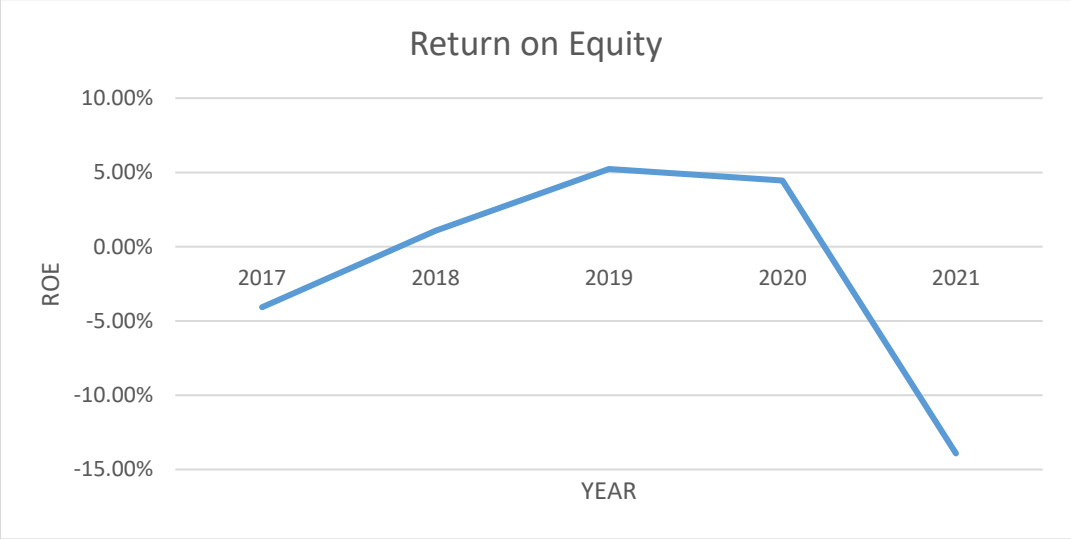


Figure 7: Trend analysis on ROE

Financial Leverage Index

The financial leverage index was used to measure the impact of financial leverage on microfinance banks in Nakuru county, Kenya returns on equity. The results were presented in Figure 8 below;

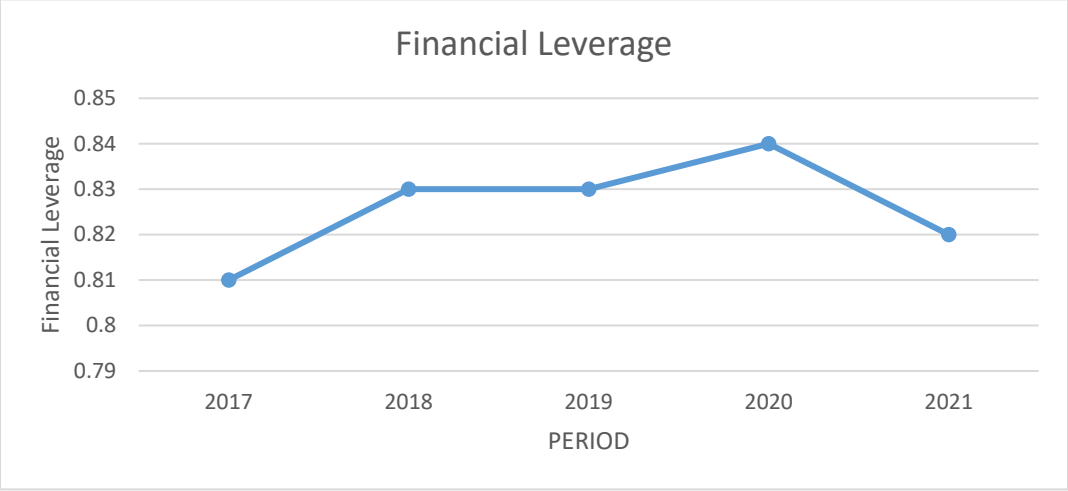


Figure 8: Trend analysis on financial leverage

Since microfinance banks in Nakuru County, Kenya relies on government funding and donations from donor agencies, the study purposed to evaluate microfinance banks financial leverage on its ROE. The results show a steady trend from year 2017 up to year 2020. However, the trend showed that financial leverage index in 2017 was 0.81 and rose to 0.83 in year 2018 and 2019. From year 2020, it rose to its peak up to 0.84, then finally dropped significantly to 0.82. This shows that microfinance banks in Nakuru County, Kenya was able to amplify its returns on equity however, the low signifies presence of some financial risks that microfinance banks in Nakuru County, Kenya.

Regression Analysis

The study computed multiple regression analysis to determine the relationship between financial management practices and financial performance of microfinance banks in Nakuru County, Kenya. The findings were presented in three tables hereunder;

Model Summary

The model summary was used to establish the amount of variation in financial performance of microfinance banks in Nakuru County, Kenya that could be explained by changes in financial management practices i.e. budgeting practices, financial planning practices, cash management practices and risk management practices.

From the findings in Table 5 below, show that the coefficient of correlation was 0.592. The study therefore came to a conclusion that there existed a significant relationship between financial management practices and financial performance since the p-value was less than 0.05. The R-square 0.350 gives an indication that 35% of the variation in financial performance is influenced by variables in the model i.e. budgeting practices, financial planning practices, cash management practices and risk management practices. This implies that there are other factors that are not discussed in this study that contributes to the remaining 65% that affect the financial performance of microfinance banks in Nakuru County, Kenya. The findings therefore, conform with those of Wandera and Sang (2017) and the findings of Majimbo and Musau (2021) who established that financial management practices positively and significantly affect financial performance of a firm.

Table 5: Model Summary[b]

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.592[a]	.350	.392	1.80276

a. Predictors: (Constant), RM, BP, CM, FPP

b. Dependent Variable: FP

Analysis of variance

Analysis of variance was used to determine whether the model was significant and whether it shows a good fit for the data. The significance of the model was tested at 5% significance level. The findings in Table 6 below shows that the model was significant since the p-value (0.001) was less than 0.05. Therefore, the model was statistically significant in determining the influence of budgeting practices, financial planning practices, cash management practices and risk management practices on the financial performance of microfinance banks in Nakuru County, Kenya. Furthermore, the F-calculated (12.500) was greater than the F-critical (2.399) suggesting significance. Hence there was goodness of fit of the model fitted for this study.

Table 6: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	32.504	4	8.126	12.500	.001[b]
	Residual	178.746	55	3.250		
	Total	211.250	59			

a. Dependent Variable: FP

b. Predictors: (Constant), RM, BP, CM, FPP

Beta Coefficients

Kothari (2004) observed that the magnitude of the coefficient for each independent variable, or "beta coefficient," indicates the magnitude of the influence that variable has on the dependent variable. The direction of the influence is indicated by the sign of the coefficient (positive or negative). In a regression with a single independent variable, the coefficient shows how much the dependent variable is anticipated to change when the independent variable increases by one, depending on whether it is positive or negative.

The regression beta coefficients were used to determine the influence of the independent variables on the dependent variable of the study. The beta coefficients allowed the researcher to ascertain which among the variables of budgeting practices, financial planning practices, cash flow management practices and risk management practices had the greatest influence on financial performance of microfinance banks in Nakuru County, Kenya. The study applied the coefficient of regression to determine the importance of the financial management practices in predicting the extent to which they affected financial performance of microfinance banks in Nakuru County, Kenya. The findings were presented in Table 7.

Table 7: Coefficients of Regression

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	3.584	4.642		.772	.003
	BP	-.107	.123	-.111	-.867	.000
	FPP	.271	.155	.223	1.749	.002
	CM	.298	.093	.267	2.136	.000
	RM	.257	.141	.238	1.111	.001

a. Dependent Variable: FP (Financial Performance)

b. Independent Variable: BP(Budgeting practices), FPP (Financial planning practices), CM (Cash management practices) and RM (risk management)

Findings from the table revealed that budgeting practices, financial planning practices, cash management practices and risk management practices were good predictors of financial performance since their p-values were less than $p<0.05$ together with their beta values. This signifies that budgeting practices, financial planning practices, cash management practices and risk management practices have a significant impact on the financial performance of microfinance banks in Nakuru County.

From the coefficient of regression, the predicted model was illustrated as;

$$FP = 3.584 – 0.107X_1 + 0.271X_2 + 0.298X_3 + 0.257X_4$$

The regression results show that budgeting, financial planning, cash management and risk management practices are all significant predictors of the financial performance of microfinance banks in Nakuru County, Kenya, since each had a p-value below 0.05. Financial planning ($\beta = 0.271$, $p = 0.002$), cash management ($\beta = 0.298$, $p = 0.000$) and risk management ($\beta = 0.257$, $p = 0.001$) each had a positive and significant influence, so that a unit improvement in each practice raises financial performance by the respective amount. The findings on financial planning agree with Odongo (2018), who found that financial planning, reporting, internal controls and working capital management positively affected the performance of construction companies. The cash

management findings agree with Nangih et al. (2020), who found a positive relationship between cash flow management and the performance of oil and gas companies in Nigeria. The risk management findings, however, differ from Mutai and Miroga (2023), who found a negative relationship between credit risk management techniques and the performance of Kenyan commercial banks, while Kambi and Ali (2016) found that banks applied financial risk management practices but could not establish their effect on performance.

Budgeting practices, by contrast, had a negative and significant relationship with financial performance ($\beta = -0.107$, $p = 0.000$), meaning that a unit change in budgeting practices reduced performance by 0.107 units. This result does not agree with Mbogo et al. (2021), who found that budgeting positively and significantly influenced the performance of manufacturing SMEs in Nairobi. The study suggests that performance could be improved through strategic action on budgeting, such as cash flow planning and control, resource allocation, activity coordination and performance monitoring, together with a collaborative approach to the concerns affecting performance. Overall, the study concluded that all four practices significantly influence financial performance, in line with Nyongesa (2017) and Gadzo et al. (2019), and recommended that management of the banks strengthen them to achieve better performance.

SUMMARY, CONCLUSION AND RECOMMENDATIONS

Summary of Findings

The study examined the influence of financial management practices on the financial performance of microfinance banks in Nakuru County, Kenya, and achieved a high response rate of 89.6%. On the first objective, budgeting practices, comprising resource allocation, budget planning and expenditure monitoring, were found to have a negative influence on financial performance, which suggests that management should formulate sound budget policies that improve performance without eroding the gains already made in fulfilling the banks' mandate. On the second objective, financial planning practices, including setting financial goals, creating additional investment opportunities and performing investment analysis, had a significant positive influence on financial performance, indicating that the banks should continue enforcing robust financial planning strategies to realize and sustain their financial goals. On the third objective, cash flow management practices, covering cash flow forecasting, working capital management and cash flow optimization, had a positive and significant influence, underscoring the value of entrenching cash flow management as a means of improving performance. On the fourth objective, risk management

practices, including monitoring potential risks, managing financial risks and developing mitigation strategies, also had a positive and significant influence, showing that financial risk management is instrumental in checking factors that could undermine financial objectives and that robust strategies are needed to ensure efficient and effective use of financial resources to meet the banks' obligations.

Conclusions

The study concluded that sound financial management practices significantly influence the financial performance of microfinance banks in Nakuru County, Kenya. Financial planning, cash flow management and financial risk management practices were found to have a positive and significant influence, implying that these practices have contributed to the banks' financial success. Financial planning, which involves setting sound financial goals, creating new investment opportunities to diversify revenue streams and conducting investment analysis, is therefore a practice the banks should embrace. Cash flow management, supported by forecasting, cash flow optimization and working capital management, is likewise integral to achieving desired performance targets, while risk management strategies are needed to control financial risks that threaten the realization of financial objectives. In contrast, budgeting practices, including resource planning, resource allocation and budgetary monitoring, had a significant negative effect on financial performance, even though they are crucial in principle for the efficient allocation and use of scarce resources. This calls for management to revisit their budgeting strategies and policies and align them with financial goals, focusing on the budgeting practices that will boost performance.

Recommendations

The study recommends that management of microfinance banks in Nakuru County, Kenya strengthen their financial management practices to improve financial performance. On budgeting, it recommends robust measures to ensure that resource planning, allocation and budget monitoring contribute positively to performance, supported by cost control measures and investment appraisal techniques that evaluate the feasibility and returns of investment opportunities, while also giving attention to other financial management practices that promote financial performance. On financial planning, it recommends strengthening existing strategies and formulating adequate policies as a foundation for sound planning, with strategic investment decisions aligned to the banks' long-term objectives and risk tolerance through thorough analysis of opportunities and diversification of investment portfolios. On cash flow management, it recommends continuous monitoring of cash flows to meet short-term obligations and ensure liquidity, using forecasting tools and optimized cash conversion cycles to improve performance. On risk management, it recommends strengthening risk policies, implementing risk management frameworks and contingency plans to minimize potential losses, and investing more in risk management measures, with strategies tailored to each bank's circumstances, risk appetite and objectives.

Suggested Area for Further Research

This study focused on examining the influence of financial management practices (budgeting, financial planning, cash flow management and risk management practices) on the financial performance of microfinance banks in Nakuru County, Kenya. Further studies can be done on other segments of nonprofit making public entities in Kenya to compare the results and advise for policy formulation. Secondly, the study recommends a closer focus by other researchers in examining the influence of budgeting practices on the financial performance of other entities, in view of the contradicting findings of the current study. Lastly, the variables under the current study had a 35% contribution meaning that there were other factors, external to this study, that affected financial performance. This study, therefore recommends more studies be undertaken to unlock the other factors that affect financial performance of public entities.

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