INFLUENCE OF FINANCIAL POLICY ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS LISTED IN NAIROBI SECURITIES EXCHANGE

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ABSTRACT

This study sought to assess the influence of financial policies on financial performance of commercial banks listed in NSE. The financial performance was measured by return on asset (ROA). The target population of the study comprised of eleven commercial banks listed in Nairobi Securities Exchange as at 31st December 2017. This study used secondary data extracted from the listed firms financial statements for a period of 5 years from the 2013 – 2017. Stata version 12 was used to analyze the data. Normality test using Jarque Berra test indicated that all variables were normally distributed. Descriptive research design was adopted and panel data extracted from the annual reports and financial statements of listed commercial banks obtained from the NSE websites, Capital Markets Authority library and banks websites. From regression analysis there was enough evidence to report that there is a positive and significant effect of investment policy on financial performance of listed commercial banks. Further, correlation analysis revealed a positive and significant effect of investment policy and financial performance. In addition, correlation analysis showed that there is a positive and significant effect of asset quality policy and financial performance. Correlation analysis revealed positive and significant effect of dividend policy and listed commercial banks financial performance. Regression analysis revealed a positive and significant effect of cash management policy and listed commercial banks financial performance. The study therefore recommended that policies adopted by listed commercial should be customized to serve their client needs. This study further recommended the need for commercial banks to adopt dividend policy which would match with their stages of growth. Finally, the study recommended need for commercial to simulate alternative cash management policies which they can adopt. This would ensure adoption of the most appropriate model more so depending on the prevailing accounting cycle circumstances.

Key Words: Investment, Dividend, Asset Quality, Cash Management Policies, Financial Performance, Commercial Banks
INTRODUCTION

Financial performance refers to how adequately a financial firm meets the needs of its shareholders (owners), employees, depositors and other creditors and borrowing customers. At the same time, commercial banks must find a way to keep government regulators satisfied that their operating policies, loans and investments are sound, protecting the public interest. The success or failure of these institutions in meeting the expectations of others is usually revealed by a careful study of the financial statements of the bank (Rose et al, 2008). Financial performance of a company, being one of the major characteristics, defines competitiveness, potentials of the business, and economic interests of the company’s management and reliability of present or future contractors. Therefore, financial performance analysis and identification of their weaknesses and strengths using financial performance indicators has its contribution to the management, shareholders, the public (customers of the bank), the regulator (the government), the financial sector, and the economy as a whole (Rose et al, 2008).

In a competitive financial market, bank performance provides signal to depositors and investors whether to withdraw or invest funds respectively from the bank. Similarly, it flashes direction to bank managers whether to improve its deposit service or loan service or both. Regulators are also interested in the financial health of banks for regulation purposes. The objective of financial statements is to provide information about the financial position, performance and changes in financial position of an enterprise that is useful to a wide range of users in making economic decisions. Owners and managers require financial statements to make important business decisions that affect its continued operations. Financial analysis which measure financial performance is then performed on these statements to provide management with a more detailed understanding of the figures (Rory and Marc, 2001).

Furthermore, the rationale of financial analysis is to diagnose the information contained in financial statement so as to judge the future earning, ability to pay interest, debt maturities, profitability and sound dividend policy (et al, 2008).

The financial system consists of public and private interests and the markets that serve them. It provides capital from individual and institutional investors who transfer money directly and through intermediaries (e.g. banks, insurance companies, and brokerage and fund management firms) to other individuals, firms, and governments that acquire resources and transact business. Financial performance measures the efficiency and profitability of investments, the safety of debtors’ claims against assets, and the likelihood that derivative instruments will protect investors against a variety of market risks (Seethaiah, 2012). The financial performance of companies changes over time as profits fluctuate from one year to another and from one company to another. Some companies obtain increases in profit while others record decreases and some even losses. These changes are determined by various factors. Performance factors can be structured in: factors of efficiency, that refer to economic, social and organizational efficiency; internal environmental factors that refer to ownership, management, company size, complexity, technical endowment, location, human potential, informational and intellectual capital, financial position, organizational culture; and external environmental factors: economical, technological, political, demographical, cultural, scientific, organizational, legal, social, educational, environmental and others (Sima, 2009).

In Ghana, studies have been done on how dividend policy affects financial performance of the firm on Ghana Stock Exchange. Samuel and Edward (2010) examined the relationship between dividend policy...
and financial performance of banks in Ghana. The study used panel data constructed from the financial statements of 16 commercial banks in Ghana for a period of 5 years, from 1999-2003. The result was in tandem with earlier studies that dividend policy had an effect on firm value. In Tunisia, Sayedi (2013) argues that both internal and external factors affect performance of firms. External environment consist of macroeconomic factors like interest rates which plays a crucial role in attraction of investors. Without interest rates stability, domestic and foreign investors will stay away and resources will be diverted elsewhere. Econometric evidence of investment behavior indicates that in addition to conventional factors (past growth of economic activity, real interest rates, and private sector credit), private investment is significantly and negatively influenced by uncertainty and macroeconomic instability.

In Kenya, Kamau (2013) conducted a study to assess the factors affecting the financial Performance of the Cross-Listed Companies in the Nairobi Security Exchange. The study however focused on the effect of the level of awareness of the market by the public, the regulation framework and technology on performance of cross-listed companies. The study revealed a need to carry out a related research so as to increase the generalizability of the findings. Also the researcher recommended a study on factors that determine performance of listed companies on the NSE. The financial journey in Kenya dates back to the pre-colonial periods. At first, the pioneering banks concentrated on financing international trade along the Europe-South Africa-India axis. They, however, soon diversified operations to tap the opportunities for profitable banking created by a growing farming settler community and pioneer traders in the local economy to whom they provided deposit and credit facilities. It was only a matter of time for banking to spread into the interior.

**Statement of the Problem**

Sound financial policy is important for sustainable growth in the financial sector thus contributing to economic growth. Banking sector plays a significant role in channelling funds to industries and contributing towards economic, financial growth and stability. If the banking industry does not perform well, the effect to the economy could be huge and broad. The financial policies are particular to a given institution, thus the factors that determine profitability in one bank are different from other banking institutions in Kenya. This explains as to why Barclays bank made a profit of 8.4million in 2014 and 2015, and 7.4million in 2016, hence a slight decrease in profit. Cooperative bank made a profit of 8million in 2014, 11.7million in 2015 and 12.7million in 2016 thus an increase in profit but at a decreasing rate. Kenya commercial bank in 2014 made a profit of 16.8million, 19.6million in 2015 and in 2016 19.7million though in a decreasing rate. This is According to the research conducted by cyntonn investment ltd (2016).

Consequently, a number of approaches such as capital structure and financial risk management have been tried as a way of improving financial performance but with minimal success (Dyer & Blair, 2012). Muteti (2014) did a study in relationship between financial risk management and financial performance of commercial banks in Kenya. Ngari (2016) studied implementation of financial policy in Multinational Corporation in Kenya while Kamau (2012) did a study on the effects of financial policy on corporate performance. Despite heavy investment on financial performance on banks in Kenya, there is little empirical evidence showing an association between financial policy and financial performance in Kenya (Adam, 2001). Banks their fore come up with policies for their operations but there may be issues in putting them into use due to the unique nature of each bank. Therefore this study sought to fill this
gap by examining influence of financial policy on financial performance of commercial banks listed in Nairobi securities exchange. This makes this study timely and relevant.

Objectives of the Study
The general objective of this study was to assess the influence of financial policy on financial performance of commercial banks listed in Nairobi Securities Exchange. The specific objectives were:-

- To determine the influence of investment policy on the financial performance of Commercial Banks listed in Nairobi Securities Exchange.
- To establish the influence of asset quality policy on the financial performance of Commercial Banks listed in Nairobi Securities Exchange.
- To assess the influence of dividend policy on the financial performance of Commercial Banks listed in Nairobi Securities Exchange.
- To establish the influence of cash management policy on the financial performance of Commercial Banks listed in Nairobi Securities Exchange.

Hypotheses of the Study
H₀₁: There is no significant relationship between investment policy and financial performance of Commercial Banks listed in NSE.
H₀₂: There is no significant relationship between asset quality policy and financial performance of Commercial Banks listed in NSE.
H₀₃: There is no significant relationship between dividend policy and financial performance of Commercial Banks listed in NSE.
H₀₄: There is no significant relationship between cash management policy and financial performance of Commercial Banks listed in NSE.

LITERATURE REVIEW

Theoretical Review

Modern Portfolio Theory
In 1952, Harry Markowitz developed the modern portfolio theory which addresses the investment policy variable. The MPT is a theory of investment which attempts to maximize portfolio expected return for a given amount of portfolio risk, or equivalently minimize risk for a given level of expected return, by carefully choosing the proportions of various assets. According to scholar Chijoriga, (2007) he argues that in investment, modern portfolio theory management is a critical theory. It tries to look for the most efficient combinations of assets to maximize portfolio expected returns for given level of risk. Alternatively, minimize risk for a given level of expected return. Portfolio theory is presented in a mathematical formulation and clearly gives the idea of diversifying the assets investment combination with a purpose of selecting those assets that will collectively lower the risk than any single asset. In the theory, it clearly identifies this combination is made possible when the individual assets return and movement is opposite direction.

An investor therefore needs to study the value movement of the intended asset investment and find out which assets have an opposite movement. However, risk diversification lowers the level of risk even if the assets’ returns are not negatively or positively correlated (Omisore et al., 2012). Risk is defined as the standard deviation of return, i.e., to what extend is the actual return deviating from the expected return. Therefore, portfolio being a combination of assets, the model becomes a weighted combination of these assets’ returns.

When different assets are combined and whose returns are not perfectly positively correlated, then
portfolio theory leads to reduction of the total variance of such asset combination returns over a given period of investment. The return is calculated by getting the change in value of the assets plus any distribution received during a given period over which the assets are held and expressed as a fraction of the initial outlay. From this theory, it is evident that the level of risk in a portfolio depends on risk of each asset, proportion of resources allocated on each asset and the interrelationship between the assets making up the portfolio. The major assumptions in portfolio theory in managing risk are that the investors are rational and the market is efficient and perfect (Chijoriga, 2007).

The modern portfolio theory demonstrates that organizations manage their businesses on a portfolio basis. With assumptions that investors are homogenous and risk averse, they have to be motivated to invest, they need a rate of return that will compensate them for taking on the risk at the end of period of holding given asset(s).

**The Theory of Asset Pricing**

The theory addressed the second variable asset quality policy and was proposed by the economist Stephen Ross in 1976. The theory of asset pricing is concerned with explaining and determining prices of financial assets in an uncertain world (Santos, and Woodford 1997). The asset prices include prices of bonds and stocks, interest rates, exchange rates, and derivatives of all these underlying financial assets. Asset pricing is crucial for the allocation of financial resources and financial performance. Mispricing of financial assets would lead to inefficiency in investment and consumption in the real economy (Abel, 1990).

A portfolio is made up of a group of individual assets held in combination. An asset that would be relatively risky if held in isolation may have little or even no risk if held in a well-diversified portfolio. The feasible, or attainable, set represents all portfolios that can be constructed from a given set of stocks. This set is only efficient for part of its combinations. An efficient portfolio is that portfolio which provides the highest expected return for any degree of risk. Alternatively, the efficient portfolio is that which provides the lowest degree of risk for any expected return. The efficient frontier is the set of efficient portfolios out of the full set of potential portfolios (Santos & Woodford 1997).

Most importantly, risk corrections to asset prices should be driven by the covariance of asset payoffs with marginal utility and hence by the covariance of asset payoffs with consumption (Barberis, Huang, and Santos 2001). Other things equal, an asset that does badly in states of nature like a recession, in which the investor feels poor and is consuming little, is less desirable than an asset that does badly in states of nature like a boom in which the investor feels wealthy and is consuming a great deal (Ramsey, 1928). The former asset will sell for a lower price; its price will reflect a discount for its “riskiness,” and this riskiness depends on a covariance, not a variance. Asset pricing models describe the relationship between the risks of and the expected return. An estimate of the expected return that providers of capital require on investments is needed in order to value an asset.

**Signaling Theory**

This theory was suggested by Fama et al., (1969) and addressed the dividend policy variable. Signaling hypothesis assumes that the firm’s managers know a lot about their firm’s value as such the firm’s managers use dividend payout as a mean to convey favorable information to investors (Inyiama et al., 2015). According to this hypothesis, a firm may opt to pay more dividends to convey to market that the firm is successful; this aims at
improving the firm’s prospects (Dionne & Ouederni, 2010).

The foundation of dividend signaling models stem from game theory (Kapoor, 2009). This theory anticipates that with dividends, the firm is likely to receive positive or abnormal returns on announcement thus a more dividend payout sends out a signal that can affect investor’s opinion (Fairchild, 2010). According to the hypothesis, as a firm’s action, dividend payout influences stock price and has an effect on the firm’s returns from the stocks (Priya & Nimalathasan, 2013). This theory implies that any decrease or elimination of dividends is likely to be viewed with an extreme disfavor by financial markets (Hobbs, 2006).

Signaling hypothesis supports that analysts and investors and analysts can discern whether the firm’s managers are just signaling positive information to the market or misleading the market with an aim earning more profits in a short-term period (Salih, 2010). According to the signaling hypothesis, the main aim of paying dividends is to convey important information to the market and not to reach an optimal price level (Hobbs, 2006).

Cash Management Theory

According to scholar Erkki (2004) the purpose of cash management is to determine and achieve the appropriate level and structure of cash, and marketable securities, consistent with the nature of the business’s operations and objectives (Brigham, 1999). As Erkki (2004) asserts, Models on cash balance management have been proposed by (as cited in (Baumol, 2008), among others. (William Baumol, 1952) was the first person to provide a formal model of cash management. As Erkki (2004) asserts, this model applied the economic order quantity (EOQ) to cash. Brokerage fees and clerical work form order costs while foregone interest and cash out costs form the costs of holding cash. Baumol’s model is however probably the simplest, most stripped down and sensible model for determining the optimal cash position (as cited in Ross, 1990), on the other hand modified Baumol’s model to incorporate overdraft facilities. According to Lockyer’s approach the total annual cash policy cost attributable to the use of overdraft facilities is given by the sum of total annual cash transfer cost, total annual overdraft cost and the total annual holding cost. As Erkki (2004) asserts, Lockyer’s model is critiqued for assuming overdraft facilities, which are not automatic especially for firms with poor credit rating. The model also assumes disbursements are even over the planning period.

As Erkki (2004) asserts, the cyclical nature of cash is recognized (as cited in Archer, 1966) who reasons that apart from providing cash balance for transactional purposes, a cash balance should be provided for precautionary purposes, especially for seasonal activities that are unpredictable. In Archer’s approach, costs related to overdraft facilities and capital costs of precautionary balances are compared to determine the optimum. Archer’s approach is advantageous for it recognizes the cyclical nature of net cash flows of many firms. As Erkki (2004) asserts, enhances the reasoning (Archer, 1956). According to Gibbs, the determination of optimal cash balance involves a combination of investment and financial decisions. In Gibbs approach, cases where demand for money is of a cyclical nature a combination of short and long term borrowing should be used to avoid the use of long term funds to cover peaks arising from idle cash balance, during periods of low cash demand. Gibbs contends that, the determination of the amount of buffer money to hold is seen as an investment decision.

Gibbs approach emphasizes holding costs, costs of short and costs of long-term borrowing and the
costs of investment in marketable securities, (Erkki, 2004). In order to do this a variety of activities need to be undertaken, because of the integrative nature of cash to the operation of the commercial banks. Since most of the commercial banks operations revolve around advancement of cash then it is imperative for a considerable minimum level of cash to be maintained. How a commercial bank manages cash will definitely have implications on the liquidity of the commercial bank. The theory therefore is of essence on the bases of the policy the bank may have in place with regard to cash retention so as to avoid illiquidity.

Conceptual Framework

![Conceptual Framework Diagram]

**Investment policy**
- \( \ln(\text{interest income}) \)

**Asset quality policy**
- \( \frac{\text{nonperforming loans}}{\text{total loans}} \)

**Dividend Policy**
- \( \frac{\text{Dividend}}{\text{net income}} \)

**Cash management policy**
- \( \frac{\text{Current assets}}{\text{current liabilities}} \)

**Financial performance**
- Return on Asset

Independent variable  Dependent variable

**Figure 1: Conceptual Framework**

**Investment policy**
Investment involves decisions to commit the firm's funds to the long term assets. Investment decisions are of considerable importance to the firm since they tend to determine its value by influencing its growth, profitability and risks (Brown and Reilly, 2009). Banks make investment decisions based on the return. The return may consist of capital gain or investment income, including dividends, interest, rental income etc., or a combination of the two. Banks tend to invest in high-yielding fixed income instruments with longer maturity. This includes treasury bills, bonds and other securities etc. (Garfinkel, 2006)

‘Investing’ could be associated with different activities, but the common target in these activities is to ‘employ’ the money (funds) during the time period seeking to enhance investor’s wealth. Funds to be invested come from, assets already owned, borrowed money or savings. Investment is broadly classified into real and financial investments. Real investment generally involve some kind of tangible asset, such as land, machinery factories among others (Barringer and Ireland, 2006).

Investment plays a very significant role in the financial performance of an organization. Organizations invest their resources in order to earn returns that will enable them enhance their financial performance. The is a position that has been confirmed by Loof and Heshmat (2008) who assert that there is a positive relationship between investment and the level of financial performance achieved by an organization. However, they argue that the effect of investment on the financial performance of a firm may not be long-lasting but a temporary position that may last for some short time.

Young and Rice (2003) also reveal that investment both interest and non interest investment compliments each other in improving the financial performance of an organization. Lantz and Sahut (2005) however, indicate that investments should also be viewed from the perspective of research and development. They argue that any many that a firm spends on research and development has the potential of improving the investments as well as the financial performance of the firm. They argue
that expenditure on research and development increases the future earnings of a firm.

**Asset quality policy**

Most banks usually fail owing to poor quality of their assets. Loans are the riskiest assets of a bank with most of the loan losses arising from delinquent loans. Non-performing loans ratio and provision to loan losses reserve are the best indicators of asset quality. Financial institutions are regulated to cushion the bad debts by having adequate provisions to the loan loss reserve, Frost (2004).

The bank’s asset is another bank specific variable that affects the financial performance of a bank. The bank asset includes among others current asset, credit portfolio, and fixed asset, among other. Often a growing asset (size) related to the age of the bank (Athanasoglou et al., 2005). More often the loan of a bank is the major asset that generates the major share of the banks income. The quality of loan portfolio determines the profitability of banks. The loan portfolio quality has a direct bearing on bank profitability. The highest risk facing a bank is the losses derived from delinquent loans (Dang, 2011). Thus, nonperforming loan ratios are the best proxies for asset quality. Different types of financial ratios used to study the performances of banks by different scholars. It is the major concern of all commercial banks to keep the amount of nonperforming loans to low level. This is so because high nonperforming loan affects the profitability of the bank. Thus, low nonperforming loans to total loans shows that the good health of the portfolio of a bank. The lower the ratio the better the bank performing (Sangmi and Nazir, 2010).

**Dividend policy**

Dividend policy is long-term financial choice on how to utilize net income generated from company undertakings that is, how much to invest in the company, and how much to pay stakeholders as dividends. The determination of the amount of dividends paid is a vital decision that firms take since shareholder wealth maximization is the foremost objective of the companies (Waithaka et al., 2012). The dividend policy of the firm defines the pattern of dividend payment over time. A company can pay a large fraction of its earning as dividend or decide to pay a lesser proportion of its net income and reinvest the rest. There are two forms of dividends; cash dividends and stock dividends. When stock dividends are issued, the stockholders receive new stock in the company as dividend thus their number of shares increases and hence the shareholders do not receive cash. Corporations ought to ensure that they have a suitable and healthy dividend policy in place so as to improve their performance and attract more investments (Naum, 2014).

**Cash management policy**

Cash management has the following purposes: controlling spending in the aggregate, implementing the budget efficiently, minimizing the cost of borrowing, and maximizing the opportunity cost of resources. Control of cash is a key element in macroeconomic and budget management. However, for budget management purposes, it must be complemented by an adequate system for managing commitments, and it is not a substitute for sound budget preparation (Patel, 2010). Cash budgeting is a continuous process that can be checked for consistency and accuracy by comparing budgeted amounts with amounts that can be expected from using typical ratios or financial statement relationships (Herbert, 2007).

Operating liquidity is the level of liquidity required to meet an institution’s day-to-day cash outflow commitments. Operating requirements are met through asset/liability management techniques for controlling cash flows, supplemented by assets
readily convertible to cash or by an institution's ability to borrow. Managing liquidity is a fundamental component in the safe and sound management of all financial institutions. Sound liquidity management involves prudently managing assets and liabilities (on- and off-balance sheet), both as to cash flow and concentration, to ensure that cash inflows have an appropriate relationship to approaching cash outflows. This needs to be supported by a process of liquidity. A cash flow forecast predicts the amount of cash coming into, and going out of, the business each month along with the amount remaining at the end of the forecast period. This helps to create a day-to-day management resource that allows one to monitor your cash position and avoids a cash crisis; helps to show that business is planning ahead and to plan solutions that will meet cash flow fluctuations created by market conditions beyond your control (Patel, 2010).

Financial Performance
Financial performance of an enterprise is the ability to leverage operational and investment decisions and strategies to achieve a business’ financial stability. It is the measure of an enterprise’s achievement of its financial goals guided by its financial objectives and benchmarks. Banks, as the critical part of financial system, play an important role in contributing to a country’s economic development. If the banking industry does not perform well, the effect to the economy could be huge and broad. Studies on performance of banking institutions are plenty. Results of these studies strongly suggest that bank profitability determinants vary across countries and also among regions of the world (Doliente, 2003). In accordance with the study of Grier (2007), profitability ratios are often used in a high esteem as the indicators of credit analysis in banks, since profitability is associated with the results of management performance. Return on Assets (ROA), measures the overall effectiveness of management in generating returns to ordinary shareholders with its available assets (Majed, Ahmed, & Dahmash, 2012). Return on assets (ROA) when positive indicates that the use of the total assets used to operate to provide profit to the company. Conversely, when a negative return on assets indicates that the use of total assets, the company suffered a loss. So that if a company has a high ROA then the company has a great opportunity to enhance the growth of their own capital. But conversely, if the total assets used by the company are not making a profit it will inhibit the growth of their own capital (Devine & Seaton, 2015).

Alkhatib (2012) studying the financial performance of Palestinian commercial banks listed on Palestine securities exchange (PEX) measured financial performance using three indicators; Internal–based financial performance measured by Return on Assets (ROA), Market based financial performance measured by Tobin’s Q model (Price / Book value of Equity) and Economic–based financial performance measured by Economic Value add. The study employed the correlation and multiple regression analysis of annual time series data from 2005-2010 to capture the impact of bank size, credit risk, operational efficiency and asset management on financial performance measured by the three indicators, and to create a good-fit regression model to predict the future financial performance of these banks. The study rejected the hypothesis claiming that “there existed statistically insignificant impact of bank size, credit risk, operational efficiency and asset management on financial performance of Palestinian commercial banks”.

Wong (2004) stated that a higher ROA shows that the company is more efficient in using its resources. Similarly, Uchida (2006) found that the ROA has positive and significant impact on Tobin’s Q. But the
Imam and Irwansyah (2002) found that the ROA had no significant effect on stock return. In accordance with the concept of signalling theory, ROA can be used as signal information regarding future cash flows. Therefore, the ROA will be significant positive effect on stock returns or firm value. Research conducted by Ulupui (2007) found results that ROA significant positive effect on stock returns one period ahead.

Chinaemerem and Anthony (2012) examined the impact of capital structure on financial performance of Nigerian firms. Panel data for the selected firms were generated and analyzed using ordinary least squares (OLS) as a method of estimation. The result shows that a firm’s capital structure surrogated by Debt Ratio (DR) has a significantly negative impact on the firm’s financial measures (Return on Asset, ROA, and Return on Equity, ROE). The findings indicated consistency with the M&M study.

Kyalo (2013) examined the factors influencing profitability of banks in Kenya for a 3 years period from 2010 – 2012. Secondary data collected from the 44 banks in Kenya was used in the study. Using the regression model the study established that capital invested has a significant influence on ROE while operational efficiency, GDP and inflation have insignificant effect on ROE. The study recommended that commercial banks in Kenya should put more focus both in the bank specific factors and the external environment together to come up with effective strategies to enhance their financial performance.

Mwathi (2009) studied on the relationship between commercial banks’ financial performance and their ownership structure. She categorized them as private banks, government banks, foreign banks and domestic banks. Using regression analysis, the study was centered on banks where the top 10 shareholders hold more than 50% of the shares for the period between 2004 and 2008 in Kenya. Using ROA as the performance measure, the study revealed that bank ownership structure had a fair positive influence on performance. The findings also showed that both private and state owned banks had a negative correlation with performance. She underscored that both banks that are foreign owned and those owned domestically had a positive correlation with performance. The study hypothesized that commercial banks that are state owned perform dismally than the foreign or domestic commercial banks. The study concluded that widely held banks perform well than closely held ones.

**Empirical Review**

**Investment policy**

Kemboi (2010) carried out an investigation on, how listed firms in Kenya financed their investment in capital market. The objective of the study was to establish sources of funds for the firm and find out whether cash flows and debt influence the firm’s investment decisions. Tests were based on fundamentals investment equations in which cash flow and debt were added as explanatory variables. All these variables were normalized by beginning capital stock. The study showed a significant positive relationship between debt and investment levels in the firm. It was concluded that corporate investments in firms did not respond to market fundamentals and liquidity position. The findings support corporate life cycle hypothesis whereas firms become mature, past investments generate higher cash flows, making present investment rates to slow down and become less attractive, hence the negative empirical relationship between investment and cash flows.

Kogi (2003) conducted a study on the future of collective investments schemes in Kenya and concluded that collective investments had experienced slow growth. He made several
observations; first slow growth was perhaps due to the type of investment and investment strategies adopted. In addition, the author cited investor awareness, education, low returns, and challenges facing collective investment schemes.

Nyale (2010), studied on the relationship between leverage and investment decisions for companies quoted at the NSE. The study methodology was designed with the objective of establishing relationship between leverage and investment decisions by use of multi linear regression analysis method. The study considered diversification that involved investments in new products, investments in totally new service lines and venture into new geographical with different political and economic environments. Findings indicated that 36% of listed companies at the NSE engaged in diversification investment decisions. The study further found out that, there was a weak relationship between the levels of leverage of a company and how much money the company can commit to a diversification investment decision. This insinuates that companies view each diversification investment decision on their own merit and how much money is committed to an investment decision is not entirely dependent on the level of leverage of the company.

Mutswenje (2009) conducted a survey of the factors influencing investment decisions by taking the case of individual investors at the NSE. The author concluded that personal factors such as gender, income status, level of education, level of experience with stock market, the characteristics of the securities, and the investor needs influenced the investment decision. However, the study did not address the type of investment decisions adopted by investment firms.

Edelen and Kadlec (2013) examined the link between a firm’s investor base, discount rate, capital budgeting decisions and profitability. They argue that a downward shift in discount rates (cost of capital) associated with an expanded investor base can account for both poor stock returns and operating performance following security offerings. Their finding was that an expansion in the firm’s investor base is both a necessary and sufficient condition for poor performance. This finding contradicts the M&M study; it shows that a change in the capital structure can affect performance of a firm.

Khaled and Samer (2013) studied the impact of cost of capital, financial leverage and the growth rate of dividends on rate of return on investment. The study used multiple linear regression analysis; the model included a number of independent variables which are the cost of capital, financial leverage, and growth rate of dividends. The results of the study showed that there is appositive effect and statistically significant for growth rate of dividends on rate of return on investment. On the other hand, the study showed no effect with statistical significance for each of the cost of capital and financial leverage on rate of return on investment. This support the M&M study showing insignificant relationship between cost of capital, financial leverage and rate of return on investment.

Asset quality Policy

Several studies have been done on the topic of asset quality both locally and internationally Adeolu, (2014) did a study on asset quality and performance of commercial banks in Nigeria. He concluded that asset quality had a strong and positive statistical influence on bank performance. However, he found no correlation between bank loans and its profitability which contradicts Khalid (2012) who reported an inverse correlation between asset quality and profitability in the banks. Trujillo-Ponce (2012) studied what determined profitability for banks in Spain. The findings of the
study were; that asset quality is indicated by loan loss provision to total loans and that provision for loan losses significantly and directly influenced bank profitability.

In Kenya, Mwongela (2015) looked at the relationship between profitability and asset quality. He concluded that as commercial banks increase loans loss provisions, profitability and return on assets increases; and as banks generate more income for their non-lending activities, profitability and return on assets increased. He also noted negative relationships between expenses and return on assets, between growth in money supply and return on assets, between the annual inflation rate and return on assets and between market capitalization and return on assets.

Khalid, (2012) studies the effects of asset quality to profitability of private banks found in India using Return on Asset as profitability variable for the period 2006 – 2011. The research used various models of regression to analyze correlation between banks asset quality and operating performance. The research found out that a negative relationship exists between banking operating performance after control of impacts on operating scale and bad asset ratio, idle fund ratio and traditional banking business concentration.

Dividend policy
As explained before, dividend policy is one of the key variables that affect financial performance of commercial banks. Murekefu and Ouma (2012) carried out a study to establish the relationship between dividend payout and firm performance among listed firms in the Nairobi Securities Exchange. Regression analysis indicated that dividend payout has a significant positive relationship with firm performance. The findings support earlier studies (Howalt et al. 2009; Amidu, 2007). The study used actual dividends paid and actual net profit. Nevertheless, the actual dividend paid may not be a good measure of a firm's dividend policy as the amount paid will largely depend on the size of the firm, which in turn influences the total earnings and these will differ from one company to another. A better measure of dividend policy would perhaps have been dividend payout ratio.

In another study Waithaka (2012) investigated the effects of dividend policy on share prices of companies listed in the Nairobi stock exchange. The study focused on the market performance of the stocks, but the current study focused on financial performance of the companies listed in the NSE.

Nishat and Irfan (2014) investigated the relationship between dividend policy & shareholder wealth in Pakistan. For this purpose, they used a sample of 75 listed companies & data collected from State Bank of Pakistan & Karachi Stock Exchange 100 index for a period of 2005 to 2010. The shareholders’ Wealth dependent variable measured by market price per share & dividend policy independent variable measured by dividend per share & multiple regression & stepwise regression model used in this research for data analysis. The result of this study showed that dividend policy significantly influences shareholders wealth as far as dividend paying companies are concerned & also found out that the difference in average market value relative to book value of equity is high between dividend paying companies & on dividend paying companies.

Musiega (2013) examined the determinants among dividend pay-out of nonfinancial firms listed on Nairobi Securities Exchange. The population of the study consisted 50 listed non-financial companies and a sample of 30 firms was selected using purposive sampling technique. Secondary data, covering 5 years (2007-2011), was collected from...
audited financial statements of companies from Nairobi Securities Exchange website. Descriptive statistics and multiple regressions were used in data analysis. The research study concluded that Return on equity, current earnings and firms’ growth activities were positively correlated to dividend pay-out and that business risk and size, as moderating variables, increased the precision of significant variables from 95% to 99% hence among major determinants of dividend pay-out.

Azhagaiah and Priya (2008) conducted a study on the impact of dividend policy on shareholder wealth in South India. Secondary data was used which was collected from Centre for Monitoring India Economy. A sample of 28 companies in chemical industry was selected from 114 listed companies in Bombay Stock Exchange using multi stage random sampling techniques for a period of 1997 to 2006. Multiple regression & stepwise regression models were used for data analysis. Dividend per share, retained earnings per share, lagged price earnings ratio & lagged market price independent variables & market price per share dependent variable. There is a significant impact of dividend policy on shareholder wealth in organic chemical companies while shareholders wealth is not influenced by dividend payout as for as inorganic chemical companies.

Wasike and Ambrose (2015) undertook a research to find out determinants of dividend policy in Kenya. Data were sourced from the firms’ annual reports. The census study used panel regressions techniques to analyse the data of all listed 60 (sixty) companies at Nairobi Securities Exchange (NSE) for the period 2004-2014. The research results showed that there are affirmative associations between dividend policy and profitability, cash flow, and tax, and that there are adverse associations between dividend policy and risk, institutional holding, growth and market-to-book value. This study supports the signalling theory of dividend policy.

Muchiri (2006) studied the determinants of dividend payout for the listed companies in Kenya. Research findings identified the company’s current and future profitability as the prime consideration in the dividend policy decision. Other factors also considered as significant were the cash flow position, the immediate financial needs and the availability investment opportunities. Further, the study indicated that the sector/industry, size of the company and age do not significantly influence a company’s dividend payout decision as these variables do not affect the factor rankings. However, smaller companies and young companies (less than 10 years old) tended to rate certain factors tied to their limited capital base highly, such as financial needs and availability of alternative finance.

**Cash Management Policy**

Liquidity position of a firm can be determined by using ratio analysis. The ratios that assist in liquidity measurement are current ratio, quick ratio and operating cash flow ratio (Operating Cash Flow Ratio = Operating Cash Flow / Current Liabilities). It is vital for organizations to be concern on this because, if they need to sell inventory, they also need a customer to buy that inventory (Gosh, 2009). The operating cash flow ratio is a measure of a company's liquidity. If the operating cash flow is less than 1, the company has generated less cash in the period than it needs to pay off its short-term liabilities. This may signal a need for more capital. Thus, investors and analysts typically prefer higher operating cash flow ratios. It is important to note, however, that having low operating cash flow ratios for a time is not always a bad thing.

There are several reasons why investors might place more (less) weight on cash flow (accrual)
information in the presence of a cash flow forecast. First, issuing a cash flow forecast requires additional effort on the part of the analyst, over and above the effort required to issue an earnings forecast. Given that analysts are among the most sophisticated participants in the capital markets, investors may view this additional effort and attention to operating cash flows as a credible signal of the usefulness and importance of the underlying cash flow information. Analysts’ forecasts provide investors with richer information set with which to evaluate firms. If investors have more information with which to estimate, evaluate, and forecast the cash component of earnings, it is natural that this component of earnings would receive relatively more weight in firm valuation.

Safdar (2016) investigated the liquidity-profitability trade off in Sugar Industry in Pakistan. A sample of 36 sugar mills was selected. Secondary data was used for the 5 years; starting from 2007 and ending on 2011. Results of the study articulated that liquidity of sampled sugar mills is positively linked to their profitability. Konadu (2009) in a study in Ghana found no positive relationship between liquidity trend and profitability and concluded that there is a negative relationship between liquidity and profitability in the Ghana banking sector.

Nyamweno and Olweny (2014) sought to determine the effect of working capital management on performance of firms listed at the Nairobi Securities Exchange in Kenya. A sample of 27 listed firms was used for the period 2003 to 2012. The study employed a Robust GMM applied to Arellano-Bover/Blundell-Bond linear dynamic panel data estimation analysis. The results revealed that days of accounts receivables and cash conversion cycle have an indirect effect on performance measured by gross operating profit. Days of accounts, payables and days in inventory have a significant and direct effect on performance.

Kithii (2008) examined the empirical relationship between WCM and firm’s profitability. The study used secondary data obtained from annual reports and financial statements of companies listed on the Nairobi Security Exchange (NSE). The study used a sample of 24 companies listed on the (NSE) for a period of six (6) years from 2001 – 2006. Pearson’s correlation and regression analysis (pooled least squares) were used for analysis. The results showed that there is a statistical significant negative relationship between variables of WCM and the profitability of firms except for the average payment period which showed a positive relationship.

Mungai (2013) did a research on the relationship between working capital management and financial performance of private hospitals in Kenya. The objective of this study was to examine the relationship between working capital management and financial performance of private hospitals in Kenya. The study established a positive relationship with working capital management. This implies that profitability increases with increase in inventory and average accounts payable while decreasing with increasing average accounts payable. The study concluded that management must continue to manage their working capital in a more efficient way as this will always affect profitability if not managed efficiently. Besides, constant efforts should be made to reduce on the amount of inventories and that they must not only increase their debtors’ collection efforts while negotiating for higher credit periods with their creditors but also create value for their shareholders by reducing the number of days for accounts receivables.

Odhiambo, 2013 in his study on the relationship between working capital management and financial performance of deposit taking savings and credit
co-operative societies licensed by SACCO societies regulatory authority in Nairobi county. Interest rate on members’ deposits as measure of financial performance was used as the dependent variable. The independent variable (working capital management) was measured by cash conversion cycle, current ratio, and debt ratio and turnover growth. The findings indicated that efficient working capital management leads to better financial performance of a SACCO; hence a positive relationship existed between efficient working capital management and financial performance variable.

METHODOLOGY
The study adopted descriptive survey research design to investigate the influence of financial policy on financial performance of commercial banks listed in NSE. Descriptive research method permits the researcher to explore and describe the phenomena as it is and give actual information that can be used to solve some problems (Ngechu, 2004). The target population of the study comprised of all the 11 commercial banks listed in NSE, that includes Equity group holdings, Kenya commercial bank, Barclays bank of Kenya, Corporative bank of Kenya, Standard chartered bank of Kenya, NIC bank ltd, I&M holdings, National Bank of Kenya, Housing Finance Group, CFC Stanbic bank and Diamond Trust Bank Kenya as at 31st December 2017. The panel regression model is as laid below.

\[ Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \epsilon_{it} \]

Where;

\[ Y_{it} \] = financial performance (Dependent Variable)  
\[ \beta_0 \] = Constant Term  
\[ \beta_{1t}, \beta_{2t}, \beta_{3t}, \beta_{4t} \] = Beta coefficients  
\[ X_1 \] = Investment policy  
\[ X_2 \] = asset quality policy  
\[ X_3 \] = dividend policy  
\[ X_4 \] = cash management policy  
\[ \epsilon_{it} \] = Error Term

FINDINGS
Descriptive Analysis

As shown in Table 1, the average performance of listed commercial banks was 18%, with a minimum of 8% and maximum of 28%. Normality test using Jarque Berra test indicated that all variables were normally distributed since their p values were greater than 0.05. The average investment policy was 12.64 with a maximum of 22.51, there was a wide spread on amount of interest income by listed commercial banks. Listed commercial banks had an average of 24% on their asset quality policy which indicated low levels of nonperforming loans within the period under consideration. The average dividend policy was 18% with a maximum of 25% which indicated that most of the commercial banks ploughed back their profits. The average cash management policy adopted by listed commercial banks was 36% which indicated that most of them had prudent cash management policies and they had low chances of having idle cash.

<table>
<thead>
<tr>
<th>Table 1: Descriptive Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Investment Policy</strong></td>
</tr>
<tr>
<td>Mean</td>
</tr>
<tr>
<td>Median</td>
</tr>
<tr>
<td>Maximum</td>
</tr>
<tr>
<td>Minimum</td>
</tr>
</tbody>
</table>
Panel Diagnostic Tests
Since, the study conceptualized relationship between financing policy and financial performance of listed commercial banks it was necessary to carry out diagnostic test on the data prior to fitting the hypothesized model. First, Breusch Pagan Lagrangian Multiplier test was carried out to test the appropriateness of fitting pooled effects regression model. As shown in Table, 2 the p value was less than 0.05, hence null hypothesis could not be rejected and consequently the pooled effects was not appropriate to be fitted in the data.
Secondly, test parm test was carried out to investigate fixed effects across entities. The test assumed that all dummy variables were zero. Since, the p value was greater than 0.05, there was enough evidence to warrant rejection of the null hypotheses and conclude that it was not necessary to introduce dummy variables or carry out two way analysis. Thirdly, heteroskedasticity was carried tested and the results of the study revealed that there was uniform variance and no need to use robust standard errors. Finally, there was no serial correlation across the variables since the p value was greater than 0.05.

Table 2: Panel Diagnostic Tests

<table>
<thead>
<tr>
<th></th>
<th>( \chi^2 )-value</th>
<th>p-value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Breusch –Pagan LM Test</td>
<td>1.644</td>
<td>0.002</td>
</tr>
<tr>
<td>Test Results for Time Fixed Effects</td>
<td>F-value</td>
<td>p-value</td>
</tr>
<tr>
<td></td>
<td>2.02</td>
<td>0.435</td>
</tr>
<tr>
<td>Heteroscedasticity test</td>
<td>( \chi^2 )-value</td>
<td>p-value</td>
</tr>
<tr>
<td></td>
<td>20.41</td>
<td>0.095</td>
</tr>
<tr>
<td>Serial correlation</td>
<td>F-value</td>
<td>p-value</td>
</tr>
<tr>
<td></td>
<td>1.225</td>
<td>0.892</td>
</tr>
</tbody>
</table>

Correlation Analysis
To test the strength of the relationship between financial performance and financial policy as well as test for multicollinearity between independent variables, correlation analysis was carried out. As shown in Table 3 there was a positive and significant relationship between investment policy and financial performance of listed commercial banks in Kenya (rho= 0.712, p value <0.05). This is an indication that positive change in listed commercial banks interest income increased return on assets.
Secondly, there was a positive and significant relationship between asset quality policy and financial performance of listed commercial banks in Kenya (rho= 0.682, p value <0.05). This implies that an increase in asset quality management increases return on assets of commercial banks in Kenya. Thus, there is need to diverse measures to eliminate chances of loan defaults.
Thirdly, there was a positive and significant relationship between dividend policy and financial performance of listed commercial banks in Kenya (\( \rho = 0.543, p \text{ value } <0.05 \)). This indicates that positive change in dividend policy increases return on assets of listed commercial banks. Finally, there was a positive and significant relationship between cash management and financial performance (\( \rho = 0.532, p \text{ value } <0.05 \)).

**Table 3: Correlation Analysis**

<table>
<thead>
<tr>
<th></th>
<th>Financial Performance</th>
<th>Investment Policy</th>
<th>Asset Quality Policy</th>
<th>Dividend Policy</th>
<th>Cash Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Financial Performance</td>
<td>1</td>
<td>1</td>
<td>0.043</td>
<td>0.233</td>
<td>0.145</td>
</tr>
<tr>
<td>Investment policy</td>
<td>0.712**</td>
<td>1</td>
<td>0.057</td>
<td>1</td>
<td>1</td>
</tr>
<tr>
<td>Asset Quality policy</td>
<td>0.682**</td>
<td>0.043</td>
<td>0.233</td>
<td>1</td>
<td></td>
</tr>
<tr>
<td>Dividend Policy</td>
<td>0.543**</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Cash Management</td>
<td>0.532**</td>
<td>0.315*</td>
<td>0.145</td>
<td>0.146</td>
<td>1</td>
</tr>
</tbody>
</table>

* Correlation is significant at the 0.05 level (2-tailed).
** Correlation is significant at the 0.01 level (2-tailed).

Hausman Test was applied to choose between random effects model and fixed effects model. As shown in Table 4, Chi-square statistics of 22.32 and p value of 0.004. This implies the most appropriate model to fit the data was fixed effects regression model.

**Table 4: Hausman Test**

<table>
<thead>
<tr>
<th>Test Summary</th>
<th>Chi-Sq. Statistic</th>
<th>Chi-Sq. d.f.</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Hausman Test</td>
<td>22.32</td>
<td>4</td>
<td>0.004</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Variable</th>
<th>Fixed</th>
<th>Random</th>
<th>Var (Diff.)</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment Policy</td>
<td>0.034</td>
<td>0.033</td>
<td>0.001</td>
<td>0.528</td>
</tr>
<tr>
<td>Asset Quality Policy</td>
<td>0.031</td>
<td>0.033</td>
<td>-0.002</td>
<td>0.612</td>
</tr>
<tr>
<td>Dividend Policy</td>
<td>0.026</td>
<td>0.025</td>
<td>0.001</td>
<td>0.715</td>
</tr>
<tr>
<td>Cash Management policy</td>
<td>0.039</td>
<td>0.04</td>
<td>-0.001</td>
<td>0.623</td>
</tr>
</tbody>
</table>

**Regression Analysis**

As shown in Table 5 regression analysis was used to test the effect of financial policy on financial performance of listed commercial banks in Kenya. From the findings there was a joint significant effect of investment policy, asset quality policy, dividend policy and cash management policy on financial performance of listed commercial banks, \( F=35.66, p \text{ value } <0.05 \). Moreover, an R squared of 0.658, indicate that 65.8\% of the changes in commercial banks financial performance can be accounted by investment policy, asset quality policy, dividend policy and cash management policy while the remaining percentage can be accounted for by other factors excluded in the model.

The first hypotheses of the study stated that there investment policy had no significant effect on financial performance of listed commercial banks.
Results of the study revealed positive and significant relationship between investment policy and financial performance of listed commercial banks ($\beta = 0.034$, p value $<0.05$). This implies that a unit change in investment policy while holding asset quality policy, dividend policy and cash management policy constant increase listed commercial banks financial performance by 0.034 units. These results were in support of Kemboi (2010) and Nyale (2010) who reported that sources of financing impacted positively on financial performance of listed company and they should adopt investment alternative which guaranteed maximum benefits.

Secondly, it was hypothesized that asset quality policy had no significant effect on financial performance of listed commercial banks. Results of the study revealed positive and significant relationship between asset quality policy and financial performance ($\beta = 0.031$, p value $<0.05$). This implies that a unit change in asset quality policy while holding investment policy, dividend policy and cash management policy constant increase listed commercial banks financial performance by 0.031 units. These results mirrored Adeolu (2014) and Mwongela (2015) who supported the need to continuously evaluate quality of assets adopted by listed companies since they would impact positively on financial performance.

Thirdly, it was hypothesized that dividend policy had no significant effect on financial performance of listed commercial bank. Results of the study revealed positive and significant relationship between dividend policy and financial performance ($\beta = 0.026$, p value $<0.05$). This implies that a unit change in dividend policy while holding investment policy, asset quality policy and cash management policy constant increase listed commercial banks financial performance by 0.026 units. These results were in support of Murekefu and Ouma (2012) and Nishat and Irfran (2014) who reported positive and significant influence between dividend policy and financial performance of listed companies.

Finally, it was hypothesized that cash management policy had no significant effect on financial performance of listed commercial banks in Kenya. Results of the study revealed positive and significant relationship between cash management policy and financial performance ($\beta = 0.039$, p value $<0.05$). This implies that a unit change in cash management policy while holding investment policy, asset quality policy and dividend policy constant increase listed commercial banks financial performance by 0.039 units. This was in tandem with Safdar (2009) and Konado (2009) who reported significant influence between cash management policy and financial performance.

<table>
<thead>
<tr>
<th>Variable</th>
<th>Coefficient</th>
<th>Std. Error</th>
<th>t-Statistic</th>
<th>Prob.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Investment policy</td>
<td>0.034</td>
<td>0.013</td>
<td>2.615</td>
<td>0.00</td>
</tr>
<tr>
<td>Asset quality Policy</td>
<td>0.031</td>
<td>0.011</td>
<td>2.912</td>
<td>0.00</td>
</tr>
<tr>
<td>Dividend Policy</td>
<td>0.026</td>
<td>0.011</td>
<td>2.415</td>
<td>0.00</td>
</tr>
<tr>
<td>Cash Management</td>
<td>0.039</td>
<td>0.014</td>
<td>2.865</td>
<td>0.00</td>
</tr>
<tr>
<td>Constant</td>
<td>0.062</td>
<td>0.278</td>
<td>0.223</td>
<td>0.20</td>
</tr>
<tr>
<td>R-squared</td>
<td>0.658</td>
<td>Mean dependent variable</td>
<td>0.12</td>
<td></td>
</tr>
<tr>
<td>Adjusted R-squared</td>
<td>0.641</td>
<td>S.D. dependent variable</td>
<td>0.025</td>
<td></td>
</tr>
<tr>
<td>S.E. of regression</td>
<td>0.029</td>
<td>Akaike info criterion</td>
<td>-1.32</td>
<td></td>
</tr>
</tbody>
</table>
CONCLUSION AND RECOMMENDATIONS

From regression analysis there is enough evidence to report that there is a positive and significant effect of investment policy on financial performance of listed commercial banks. Further, correlation analysis revealed a positive and significant effect of investment policy and financial performance. The results of the study showed that there was a positive and significant effect of asset quality policy and listed commercial banks financial performance. In addition, correlation analysis showed that there is a positive and significant effect of asset quality policy and financial performance.

Thirdly, regression analysis revealed positive and significant effect of dividend policy and listed commercial banks financial performance. Moreover, correlation analysis revealed positive and significant effect of dividend policy and listed commercial banks financial performance.

Finally, regression analysis revealed a positive and significant effect of cash management policy and listed commercial banks financial performance. Moreover, their correlation analysis revealed a positive and significant relationship between cash management policy and financial performance.

Conclusion

Based on the study findings it can be concluded listed commercial banks financial performance is dependent on investment policy, asset quality policy, dividend policy and cash management policy. Since there are key four decisions in any financial management position, there is need to create healthy and harmonious financial policy which will steer an organization to positive growth.

Although, commercial banks are operating in an era of capped interest rates there is need for banks to develop measures towards increasing and diversifying their lending capacity. This will enhance and improve financial performance of listed commercial banks. Since there are registered growth in micro lending of micro loans more so after the capping of interest rates there is need for listed commercial banks to diverse to attract more customers despite of facing from both micro finance banks and deposit taking savings and credit societies.

Although, commercial bank thrives in lending, there is need for listed commercial banks to diverse measures geared towards minimizing bad debt. Any increase in nonperforming loans will impact negatively on financial performance more with the recent changes in international financial reporting standards. Since dividend policy adopted by listed commercial banks have positive impact on financial performance of listed commercial banks. There is need for listed commercial to evaluate their investors and understand their investment needs. Moreover, there is need to strike a balance between dividend yield and capital gains.

Finally, there is need for commercial banks to continuously improve their cash management policy. Although, there are three policies which can be adopted, every bank must understand its cash needs and adopt a policy which will uniquely serve their cash interests.

Recommendations

From the study findings, the following recommendations were drawn. All listed commercial banks must be pace setters in adoption of aggressive investment policy. Policy adopted by listed commercial banks should be customized to serve their client needs. This will only be possible through diversification of loan products in different
segments. This will ultimately increase interest income.

With the current changes in international financial reporting, there is need for listed commercial banks to screen their customers this will minimize cases of bad debts. With decreased bad debt, financial performance of commercial will be improved and consequently minimize chances of bad debts and maximize on shareholders returns.

Thirdly, there is need for commercial banks to adopt dividend policy which will match with their stages of growth. Through this policy commercial banks will minimize agency costs and eliminate the need to incur monitoring cost and ultimately increases commercial banks financial performance.

Finally, there is need for commercial to simulate alternative cash management policies which they can adopt. This will ensure adoption of the most appropriate model more so depending on the prevailing accounting cycle circumstances.

**Suggestions for Further Study**

The current study considered only a five year period for listed commercial banks only. There is need for a subsequent study to be carried and it should consider a long period to avoid challenges associated with short panels. A similar investigation on the influence of financial policy on financial performance of non-listed commercial banks and micro finance banks to authenticate the applicability of the current findings in non listed commercial banks. There is need to increase number of independent variables as well as vary operationalization of variables. A comparative analysis ought to be carried before and after promulgation of new constitution. There is for an examination on the effect of financial policy on financial performance of listed companies.

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