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ABSTRACT

This study sought to unveil the effect of financial management practices on financial performance of MFIs in Kenya. Specifically, the study sought to analyse the effect of working capital management, financial reporting, dividend pay-out and assets management on financial performance of Micro Finance Institutions in Kenya. The study was informed by residual effect theory, the transaction cost theory, contingency theory and Capital Asset Pricing Model (CAPM). Descriptive research design was used in analysing and collecting the data. The target population was 48 MFIs in Kenya and census was employed whereby all the 48 MFIs were included in the study. Both secondary data and primary data were used in the study. A secondary data collection sheet was employed in collecting the secondary data while the primary data was collected using structured questionnaire. The collected data was analysed through mixed method analysis while qualitative data was analysed using content analysis. Quantitative data was analysed using SPSS to generate mean, standard deviation and frequencies. The data was presented in form of table. Findings inferential analysis revealed that working capital management, financial reporting, dividend payout and assets management had a significant and positive influence on the financial performance of the Micro-Finance Institutions in Kenya. The study therefore, concluded that financial management practices have positive effect on financial performance of Micro Finance institutions in Kenya. The study recommended that the management ensures proper management of assets by upholding the effective management of cash and fixed assets through which they are able to maintain liquidity and steer performance. This would ensure that the MFIs are able to meet their financial obligations any time and effectively. Further, the study recommended that the management of the Micro-Finance Institutions in Kenya ought to enhance their effectiveness and financial performance through adopting the effectiveness means of working capital management.

Key Words: *Working Capital Management, Financial Reporting, Dividend Pay-Out, Assets Management, Financial Performance*

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INTRODUCTION

In the current 21st century, financing has been a key economic driver in many countries across the globe in that many businesses depend on financing as their source of capital. To this end, micro finance institutions are critical in providing financing especially among the marginalized groups and low income earners. However, financial independence of these institutions stands at the core of their capacity to meet their mandate. In the recent past, most MFIs have recorded decreased returns on investment and low profit margins a matter that has some of the MFIs close their operations while others merge and retrench to sustain their operations. On the other hand, financial management has been found to be a key aspect in influencing firm financial performance. Through effective working capital management, proper financial reporting as well as dividend pay-out, companies are able to finance their operations effectively thus enhancing their financial performance. Inefficient financial management, combined with the uncertainty of the business environment often led business enterprises to serious problems (Deresse&Prabhakara, 2012).

Financial management is the main path to development of nations. Firms, regardless of their size, require good financial management practice to achieve success (Norton, 2012). Effective financial management is a tool to show direction for future activities, adjust when needed, and help businesses to find best way during challenging times. Thus the success of the firm is the result of effective financial management practice (Regina, 2012). Financial management practice plays key role in increasing market value of business, leading towards growth and productiveness which, ultimately leads to overall success of the economy (Sunday & Solomon, 2012).

Microfinance industry had been relatively low for around 10 years and according to Hopes et al. (2002), in the past 20 years, the sector had seen a number of MFIs open their doors in addition to the boost by both the Kenya government and international donor agencies. Having identified the scarcity of credit as a major obstacle to economic growth, the government of Kenya, brought in the Microfinance Act that came into force on 2nd May, 2008 following the Microfinance (Deposit Taking Microfinance Institutions) regulations by the Central Bank.

The Act covers Deposit Taking Microfinance Institutions (DTMs) as well as non-deposit taking MFIs in addition to providing for banks to establish fully owned subsidiaries to undertake DTM business (FSD, 2010). The Act has paved way for a much more comprehensive and consistent regulatory environment for MFIs having been designed to promote the performance and sustainability of deposit taking MFIs (DTMs) in addition to protecting depositors 'interests better. The Act also enables MFIs to provide more wholesome financial services to the small micro enterprises' Sector (FSD, 2010).

Microfinance institutions such as Kenya Women's Finance Trust and K-REP have embraced product innovations in order to increase client outreach and profitability. Kenya women's Finance Trust impressive reputation comes from its innovative approach and unwavering commitment to its mission and meeting the needs of women. Likewise, K-REP has introduced a new type of agency based on membership in order to di versify its clientele and to increase outreach.

Statement of the Problem

Micro finance institutions play a significant role in the Kenyan economy. Despite providing employment and contribution to the country's GDP through taxation, the institutions provide funding to other business including SMEs through loans thus enhancing transformation of Kenya's economy across other sectors. However, despite their immense support to the country's economy, the MFIs face tremendous challenges most of which have threatened their continued existence and performance. Over 40% of MFIs have recorded declined profits and others losses while divestment, retrenchment and closure of branches have been high among the institutions over the last five (5) years (CBK, 2018). This shows a threat not only to the stakeholders of the MFIs but also to the investors and the overall economy of the country.

Financial management practices have been found to be key in financial performance of most of the firms across the globe. The argument goes thus the practices such as working capital management, financial reporting and assets management provide the company with a mainstream of streamlining its operations and funding them towards success. Empirical studies have on the other hand depicted mixed results on the relationship between financial management practices and firm performance. Murketia (2016) argued that through proper alignment of dividend pay-out as well as ensure effective management of the working capital, the company assures its financial residual thus promoting its operations towards financial independence. On the other hand, Apurkar (2018) contemplated that financial management practices could only reduce fraud and ensure effective use of the company's funds and this could not necessarily mean enhanced financial performance.

The review herein therefore shows that indeed financial performance of the MFIs is a critical subject that needs attention as far as research is concerned. Moreover, it is evident that very little is known as far as management of these firms and their way towards promoting financial performance and sustainability is concerned. The available studies focused on other aspects such as strategic management and human resource dimensions but none has focused on financial management practices. It is against this background that this study sought to unearth the effect of financial management practices on financial performance of Micro Finance institutions in Kenya.

Objectives of the Study

The main aim of this study was to establish the effect of financial management practices on financial performance of Micro Finance institutions in Kenya. The following were the specific objectives of this study.

- To determine the effect of working capital management on financial performance of MFIs in Kenya.
- To assess the effect of financial reporting on financial performance of MFIs in Kenya
- To establish the effect of dividend pay-out on financial performance of MFIs in Kenya.
- To explore the effect of assets management on financial performance of MFIs in Kenya.

The study sought to test the following research hypotheses;

- H_{01}: Working capital does not significantly influence financial performance of MFIs in Kenya.
- H_{02}: Financial reporting does not significantly influence financial performance of MFIs in Kenya.
- H_{03}: Dividend pay-out does not significantly influence financial performance of MFIs in Kenya.
- H_{04}: Assets Management does not significantly influence financial performance of MFIs in Kenya.

LITERATURE REVIEW

Transaction Costs Theory of Working Capital

Williamson's (1985) theory deals with the theoretical concept of transaction costs as well as its implications for managing working capital operations and levels. According to Williamson (1985) a transaction occurs if a good or service is transferred across a technologically separable interface and can occur within the firm or outside the firm. Firms exist because there are transaction costs of using the price mechanism in the market (Williamson, 1985). In order to manage transaction costs firms have to design management of value chain approaches that efficiently reduce the costs of asset specific transactions.

In most developing countries, listed firms play the most fundamental role in facilitating transactions in capital markets. Of the main role of listed

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companies is providing economic returns to the investors. For a firm to be in a position to do so, it must be profitable and also exhibit a healthy liquidity position (Weston & Copeland, 1988). For our purpose of Working Capital Management the relevant situation is the asset specificity created due to dedicating assets to a transaction, which refers to the nature of investment the parties must make with the investment in mind. Cash is needed to satisfy the transaction motive, the need to have cash on hand to pay bills. Transaction related needs come from collection activities of the firm. The disbursement of cash includes the payment of wages and salaries, trade debts, taxes and dividends. An asset is transaction specific if it cannot be applied to alternative use without significant reduction in its value. In case asset specificity the partners to the transaction become dependent of each other. In order to minimize the potential loss firms have to incur costs which Williamson, 1985 categorizes as contact costs, cost of contract and costs of control.

Residual Equity Theory

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

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

The Contingency Theory

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

The first aspect is a firm's organizational characteristics. Decentralization and a more administratively oriented control strategy involving a higher degree of standardization are characteristics of large companies. Smaller, less complex organizations tend to adopt interpersonal, less sophisticated control systems. Hakas, Gordon & Pinches (1985) have an opposite opinion and argue that firms will experience more benefits from using sophisticated financial reporting techniques. They base their argument on Schall&Sundem (1980) study which shows that the use of sophisticated financial reporting techniques declines with an increase in environmental uncertainty. The second aspect is environmental uncertainty. The more variable and unpredictable the context of operation is, the less appropriate will be the highly bureaucratic, mechanistic financial reporting structures. Pike (1986) suggests that firms operating in highly uncertain environments are assumed to benefit from sophisticated investment methods, particularly in appraising risk. The last aspect concerns behaviour characteristics. Pike identifies three characteristics, i.e. management

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style, degree of professionalism and the history of the organization.

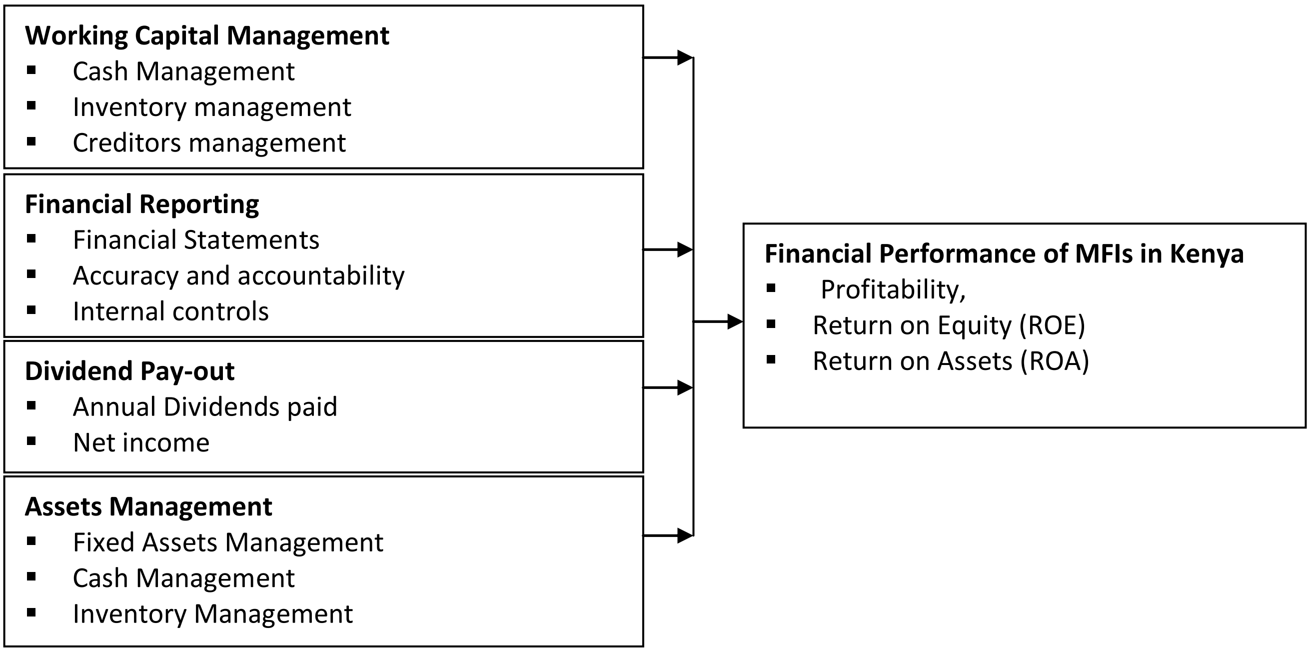
The Capital Asset Pricing Model (CAPM)

The CAPM model shows a linear relationship between the rate of return and risk for any given asset, given the market wide risk premium. It provides an analytical basis for explaining asset prices and the intuition that asset risk premium depend, not on total risk of the asset, but rather on the relationship of the asset to the overall market. The rate of return an investor receives from buying a common stock and holding it for a given period is equal to the cash dividends received plus the capital gain or minus the capital loss during the holding period divided by the purchase price of the stock (Wu, 2006). However, the actual realized returns may differ from the expected returns because fluctuating stock prices result in fluctuating returns, making stocks risky (Nyambura, Elijah, &Wawira, 2005).

The key to understanding the complexities of asset pricing in an emerging market, and in application to CAPM, lies with a set of some rather strict assumptions as pointed out by Nyambura, Elijah, and Wawira, (2005) citing Sabal (2002). First, CAPM assumes that there are many small investors such that no individual investor possesses enough wealth to influence the market. Second, that there is a risk-free asset, and money can be lent and borrowed at its interest rate. This limits investments to stocks, bonds, and a risk free asset.

The Theory and Practice of Financial reporting

The use of NPV in relation to IRR method is based on the problems arising from evaluation of mutually exclusive alternatives when project sizes differ, when the timing of the project cash flows differ or when the project represents a non-conventional project. That is, a project that has significant positive and negative cash flows over the life of the project. It has been argued (Trigeorgis, 1993; Dixit &Pindyk, 1995; Copeland & Keenan, 1998; Copeland &Antikarov, 2001) that NPV does not account for project flexibility and that the value of real options linked with projects should be included in the evaluation of capital projects.



Independent Variables **Dependent Variable**

Figure 1: Conceptual Framework

Empirical Review

Studies from across the globe have focused on the effect of working capital management on performance. Dong and Su (2010) carried a study on the role played by working capital management on the performance of firms listed in Vietnam stock exchange. The scholars based their study on secondary data collected from listed firms in Vietnam stock market for the period of 2006-2008. They investigated the relationship existing between profitability, the cash conversion cycle and its components for listed firms in Vietnam stock market. Their finding revealed that there is a strong negative relationship between profitability, measured through gross operating profit, and the cash conversion cycle. This means that as the cash conversion cycle increases, it will lead to declining of profitability of firm. As such the managers could create a positive value for making investment decisions critical and difficult and such decisions need better insight and understanding.

Kaddumi and Ramadhan (2012) carried out a study on the effect of working capital management on the performance of industrial corporations listed in Jordanian Amman stock exchange market.

The study aimed at unveiling the effect of leverage, cash management and inventory management. They explained that there is a negative relationship of accounts collection period and average age of inventory with profitability. This implies that handling proper inventory and shortening the debtors' collection period will increase the profitability. On the other hand they found positive relationship between average payment period and profitability implying that increase of payment period increase profitability.

Financial reporting is one of the most important factors in the process of corporate decisionmaking (Shinoda, 2010). Ahmed, Babar and Kashif (2010) did a study on financial reporting and its impact on organizational performance. This study measures the relationship between organizational performance and financial reporting like financial statements, accuracy of the statements, frequency of audits and financial performance assessment in Pakistani corporate sector. Sample of the study consisted of forty companies operating in Pakistan, related to different sectors and listed 19 at Karachi Stock Exchange. The finance executives and financial analysts of the companies responded to questionnaire that identified through company profiles and references. The questionnaires were self-administered to collect the data from respondents. The results show a positive and significant relationship between financial management practices and organizational performance in Pakistani corporate sector.

Saidu (2014) examined the problems and prospects of financial reporting among firms operating in Nigeria and noted that financial reporting is one of the most important decisions that is made by business enterprises in Nigeria. Its objective is to allocate resources to ensure firms earn optimum return from their resources. The study found that firms use combinations project appraisal techniques to reduce the defects that are inherent from employing a single method; the discounted cash flow method is highly popular among the methods that are used in Nigeria; the discounting method is susceptible to misapplication because of errors inherent in cash flow statement, discounting rates and risk adjustment methods; and to avoid the problems inherent from discounted cash flow is to supplement it with other methods.

Mokenela (2013) carried out a study on the effect of dividend pay-outs on firm performance. The study aimed at analysing the trends and determinants of dividend decisions. For survey purpose NSC listed 114 Indian Textiles companies have been taken during the period 1989-2009.The simple Regression model was used to evaluate the study. Study revealed that most of the dividends paying companies are profit making companies. The study also showed that absolute value of dividends and dividend paid-up capital shows the significant and positive relationship between dividend policy and lagged earnings belonging to common shareholders, profit after tax, earnings belonging to shareholders cash flows, size, cash dividends and lagged dividends (Mokenela, 2013). It also showed that current Ratio and assets management have insignificant influence on dividend policy.

Pasricha (2012) Investigated links between the dividend policy and value of firms. For survey purpose 20 sample companies of information technology and pharmaceuticals industries of India have been taken during the period 2001 to 2010.The sample has been chosen from S& P CNX Index on the basis of their Net- 23 Worth. The data mainly used for study purpose has been obtained from prowess database of the Centre for monitoring Indian Economy (CMIE) India. Multiple Regression model used for study purpose and graphical pictorial previews were used for presenting data. The study concluded that the dividend pay-outs have considerable bearing and positive significant relationship with the value of firms.

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

Iqbal, Hameed and Qadeer (2012) studied the impact of assets management on performance of manufacturing companies listed at Karachi, Lahore and Islamabad Stock Exchanges in Pakistan. The findings of the study indicate no positive relationship between assets management and firms' performance. Multiple comparisons showed that on average performance of companies at different levels of assets management is not same in terms of return on assets. Highly investing and less investing firms in assets management perform somehow equally as compared to moderately diversified firms based on return on assets. However, all three classes did not show much difference in performance according to their classes based on return on equity and market return as the results were insignificant.

Financial performance can be defined as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues (Özcan, 2016). Further this term is used as a general measure of a firm's overall financial health over a given period of time, and can be used to compare similar firms across the same industry or to compare industries or sectors in aggregation (Agyemang-Mintah, 2017). The recommended measures for financial analysis that determine a firm's financial performance are grouped into five broad categories: liquidity, solvency, profitability, repayment capacity and financial efficiency.

Liquidity measures the ability of the farm business to meet financial obligations as they come due, without disrupting the normal, ongoing operations of the business. Liquidity can be analyzed both structurally and operationally. Structural liquidity refers to balance sheet measures of the relationships between assets and liabilities and operational liquidity refers to cash flow measures (Goldmann, 2016). A frequent cause of liquidity problems occurs when debt maturities are not matched with the rate at which the business assets are converted to cash. Return on sales reveals how much a company earns in relation to its sales, return on assets determines an organization's ability to make use of its assets and return on equity reveals what return investors take for their investments. The advantages of financial measures are the easiness of calculation and that definitions are accepted worldwide. Traditionally, the success of a processing firm or any company has been evaluated by the use of financial measures (Tangen, 2003).

METHODOLOGY

Descriptive study was deemed appropriate for this study since it helps in understanding the characteristics of a group in a given situation, assists in systematic thinking about aspects in a given situation. The target population for this study comprised of the MFIs in Kenya. According to the Central Bank of Kenya (CBK) (2018) and the Association of MFIs in Kenya (2019), there were 48 MFIs in Kenya. These MFIs had their branches or main offices in Nairobi County. The study used a census and a purposive sampling technique. The study employed both secondary and primary data to draw the findings, conclusions and recommendations. The primary data was obtained by use of structured questionnaire. Quantitative information was analyzed through statistical procedures. Data was based on the objectives and research hypotheses of the study. Quantitative data collected was analysed using descriptive statistical techniques such as frequencies, mean, standard deviation. In order to establish the combined influence of the independent variables on the dependent variable, a linear model was used.

FINDINGS AND DISCUSSIONS

Descriptive Analysis of the Study Variables

The descriptive analysis of the study findings were as herein discussed. The results were presented systematically based on the study variables which included working capital management, financial reporting, dividend pay-out and assets management. The major descriptive statics captured herein are mean, standard deviation and percentages.

Working Capital Management

The first objective of the study was to establish the influence of working capital management on the financial performance of Micro-Finance Institutions in Kenya. The descriptive results are as shown in Table 1. As the findings portray, majority of the respondents agreed that their respective organizations maintained an optimum cash balance (Mean = 3.67) and that they also maintained optimum inventory levels (Mean = 3.83). The respondents further agreed that working capital was extensively used as a performance measurement in their respective companies' internal reports as evidenced by a mean of 3.89 and a standard deviation of 0.75. Most of the respondents being financial and accounting experts indicated that they strongly believed that it was possible to combine a high focus on working capital and long-term growth in their respective organizations (Agree = 63.1%; Strongly agree = 15.3%; Mean = 3.87; Std Dev = 0.79).

The findings further revealed that majority of the respondents were of the opinion that their respective MFIs practiced stretching accounts payable i.e. paying bills as late as possible without damaging its credit rating as a way of ensuring that their working capital is effectively managed to maintain operational finances and this is evidenced by a mean of 3.92 and a standard deviation of 0.72. The respondents agreed that their respective MFIs took advantage of cash discounts offered by creditors as a way of maintaining their liquidity levels (Strongly agree = 15.3%, Agree = 63.7; Mean = 3.90 and Standard deviation = 0.72).

The findings imply that working capital management is upheld by the Micro-Finance Institutions in Kenya as a tool towards keeping their operations running through liquidity maintenance and this is significant in enhancing financial performance. The findings are in line with those by Napompech (2013) who established that one of the major aspects of financial management is through management of working capital by ensuring that the organization saves on operational costs and maintains certain levels of liquidity so as to keep its operations running. According to Runyora (2012), through effective working capital management, the business is able to steer growth and financial freedom as well as overcome risks arising from unprecedented financial circumstances.

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Table 1: Descriptive Results on Working Capital Management

Statement	SD	D	N	A	SA	Mean	SDV.
The firm maintains optimum Cash balance	5.7	7.6	14.0	59.2	13.4	3.67	1.00
The firm maintains optimum inventory level	2.5	3.8	18.5	58.0	17.2	3.83	0.85
The firm has set various stock levels	7.6	7.0	14.6	53.5	17.2	3.66	1.08
The firm orders economic quantities when purchasing	1.9	3.2	16.6	63.7	14.6	3.86	0.77
The firm determines stock turnover for each stock item	8.3	6.4	15.9	53.5	15.9	3.62	1.09
Working capital is extensively used as a performance measurement in our company's internal reports	1.9	1.9	16.6	64.3	15.3	3.89	0.75
Employees in our organization are frequently evaluated on working capital KPIs	1.9	1.9	17.2	63.7	15.3	3.89	0.75
I strongly believe it is possible to combine a high focus on working capital and long-term growth in my organization	2.5	1.9	17.2	63.1	15.3	3.87	0.79
Our firm practices stretching accounts payable i.e. paying bills as late as possible without damaging its credit rating	1.9	0.6	16.6	65.0	15.9	3.92	0.72
Our firm takes advantage of cash discounts that are offered by creditors	1.3	1.9	17.8	63.7	15.3	3.90	0.72

Financial Reporting

The second objective of the study was to assess the influence of financial reporting on financial performance of Micro-Finance Institutions in Kenya. Table 2 showed the descriptive results for the objective. As the findings portray, the respondents agreed that their budget reporting in their respective MFIs made it easy to track the financial contribution of every programme and this is as shown by a mean of 3.85 and a standard deviation of 0.79. According to Martinez-Ferrero (2014), one of the main advantages of appropriate financial reporting is enabling the organizational management to track-down the contribution of any programmes, product or service hence enabling the management to make the decision on whether to continue with the programme or not based on its contribution to the financial coffers of the organization.

The respondents further agreed that their respective organizations adopted various budgeting techniques as a way of ensuring effective financial reporting and that the major financial statements were adequately and timely prepared as required by the regulator (CBK) as shown by a mean of 3.86 and a standard deviation of 0.76. The respondents agreed that their respective organizations ensured that their financial statements were keenly counterchecked for minimization of errors and promotion of accuracy. The findings imply that most of the MFIs employed financial reporting as a financial management which could enhance their ability to track down their performance. The findings compare with those by McMahon (2012) who found that adequate financial reporting plays a significant role in ensuring that companies are comparing their performance and tracking them to enhance their continued improvement. Ssekajugo (2013) on the other hand established that financial reporting was a key aspect of financial management that ensures accountability of finances and placing the organization in the right measure of its progress.

Table 2: Descriptive Results on Financial Reporting

Statement	SD	D	N	A	SA	Mean	SDV
Our budget report makes it easy to see the financial contribution of each program	2.5	1.9	18.5	62.4	14.6	3.85	0.79
We incorporate critical balance sheet items into our budget report for appropriate disclosures	3.8	0.6	17.8	63.7	14.0	3.83	0.82
Our budget report makes it easy to see future financial commitments and forecasts	3.2	2.5	18.5	61.8	14.0	3.81	0.83
The major financial statements required by the regulator are adequately and timely prepared and disclosed accordingly	1.9	2.5	17.8	63.1	14.6	3.86	0.76
The institution management adequately involves employees in financial statements preparation processes to enhance openness and accountability	1.3	1.3	17.8	65.6	14.0	3.90	0.69
Our company frequently employs various budget techniques that are directed towards enabling accountability	0.0	0.6	18.5	65.6	15.3	3.96	0.60
The reporting of financial statements in our institution is counterchecked for accuracy and error minimization	3.2	5.7	26.1.	47.8	17.2	3.70	0.93
There are adequate internal controls put in place in our institution to ensure proper financial reporting	2.5	3.2	15.9	57.3	21.0	3.91	0.85

Dividend Pay-out

The third objective of the study was to determine the influence of dividend payout on the financial performance of MFIs in Kenya. The findings for the variable were as shown in Table 3. As the results showed, majority of the respondents (Agree = 56.7%; 14.6% = Strongly Agree) were of the opinion that through the formulation of dividend policies, a maximum value for the shareholders was attained. The respondents indicated that stable dividends were more valued than stable payout ratios and that most of the investors preferred immediate dividends than future ones to avoid risks and uncertainties (Mean = 3.68). The respondents also agreed that payment of dividends was considered as a major way towards enhancing the effectiveness and trust among the shareholders (Mean = 3.78). According to Cooper and Neophytos (2018), dividend pay-out stands to enhance the management of the organizational profits and uphold the interests of the firm and those of the shareholders.

Table 3: Descriptive Results on Dividend Pay-out

Statement	SD	D	N	A	SA	Mean	SDV
Our firm formulates its dividend policy to produce maximum value for its shareholders	3.2	4.5	21.0	56.7	14.6	3.75	0.87
Stable dividends are much valued than stable payout ratios in our firm	5.7	7.0	19.1	54.1	14.0	3.64	1.00
Market forces are more influential in determining stock prices than dividend policy in our company	0.6	7.0	17.2	59.9	15.3	3.82	0.80
Changes in cash dividend affects firm value in our organization	1.3	7.0	22.3	50.3	19.1	3.79	0.88
Since markets are not fully efficient higher more stable dividends don't reflect higher stock prices	1.3	4.5	19.7	58.0	16.6	3.84	0.80
An optimal dividend policy strikes a balance between current dividends and future growth that maximizes stock price	1.3	3.8	15.9	57.3	21.7	3.94	0.80
Investors in our firm prefer dividends now instead of future	3.8	5.7	24.8	50.3	15.3	3.68	0.94

higher dividends that might be riskier							
Investors in our firm prefer a certain dividend stream rather than an uncertain price appreciation	1.3	0.6	15.9	58.0	24.2	4.03	0.74
Increasing dividend is unclear as it can suggest future growth or a lack of investment opportunities	0.6	3.2	20.4	60.5	15.3	3.87	0.73
By paying of dividends in our firm, it acts as an encouragement for managers to fulfill interests of outside shareholders	2.5	4.5	19.7	59.2	14.0	3.78	0.84

Assets Management

The fourth objective of the study was to examine the influence of assets management on financial performance of Micro-Finance Institutions in Kenya. The results were as shown in Table 4. The respondents disagreed that theMFIs had a well-defined fixed assets portfolio in the organization that has led to increased profitability as evidenced by a mean of 2.87 and a standard deviation of 1.74. The respondents indicated that there was efficient utilization and management of cash has led to increase in profitability in the institution. Majority of the respondents (Mean = 3.97; standard deviation = 0.80) agreed that their respective companies had a maintenance approach on assets which led to increase in profitability. The respondents further stated that the diversification strategy adopted for financial assets investments in their respective firms had minimized risks thus increasing profitability as evidenced by a mean of 3.84 and standard deviation of 0.84. The findings are in line with those by Dang, Minjoo and Yongcheol (2014) who found out that effective assets management ensures that organizations are set to maintain reliable sources of funds especially equity and debts which are critical in steering the firms' financial performance. According to Shaheen and Malik (2012), assets determines the extent to which the firm is aligned towards creating a reliable source of funds and ensuring that debts are well managed to promote continued trust among the debtors thus ensuring enhanced financial performance.

Table 4: Descriptive Results on Assets Management

Statement	SD	D	N	A	SA	Mean	SDV
We have a well-defined fixed assets portfolio in the organization that has led to increased profitability	62.6	14.5	17.2	2.4	5.3	2.87	1.74
The acquisition process for fixed assets has led to increased profitability	1.9	5.7	20.4	53.5	18.5	3.81	0.87
Efficient utilization and management of cash has led to increase in profitabilityin the institution	0.0	4.5	18.5	60.5	16.6	3.89	0.72
The maintenance approach taken regarding the assets has led to increase in profitability	1.3	3.2	15.9	56.1	23.6	3.97	0.80
The method of disposal for fixed assets has led to difference in profitability	5.1	7.6	21.7	52.2	13.4	3.61	0.98
The diversification strategy adopted for financial assets investments has minimized risks thus increasing profitability for the MFI	2.5	3.2	19.1	58.0	17.2	3.84	0.84
There is improved effectiveness of collection efforts over time on collection of cash receivables	3.2	8.9	18.5	51.6	17.8	3.72	0.97

Financial Performance of MFIs

The study sought to establish the financial performance of the Micro Finance Institutions in Kenya.

The data was collected from the CBK reports and the respective MFIs' financial reports as well as from the surveyed respondents. Some MFIs had no published financial statements even in CBK reports hence primary data was also incorporated on the financial performance of the institutions.

Among the major aspects of assessing financial performance is sales revenue. This is the amount of sales value that an organization generates out of sell of its services and/or products. The sales revenue for the MFIs was sought in the study. From the findings, in the year 2015, the MFIs recorded an average of Kshs. 14.09 billion while in the year 2016, the MFIs recorded sales revenues totalling to Kshs. 14.65 billion. N the year 2017, the revenues dropped to Kshs. 13.69 billion and dropped further in the year 2018 to Kshs. 13.08 billion. This was an indication that sales revenues of the MFIs have been unstable and declining drastically in the past five years implying that that there were significant challenges facing the MFIs. Shaheen (2014) established that financial performance is mainly signalled by sales revenues which when they are declining, there is need for the company to make changes and consider decisions can cut the costs and enhance revenues.

The other aspect of financial performance is net profit. This is the profits after tax and other expenses. While the sales revenue may be higher or lower, the net profits may follow a different suit in that the revenues may be high but the expenses are high thus lowering the net profits and on the other hand, the sales revenue might be lower and the expenses low hence the net profit may be high (Pasricha, 2012). The findings as shown in the year 2015, the MFIs recorded an average net profit of Kshs. 616 million, in the year 2016, the profits dropped by over 150% where the firms recorded a loss of Kshs. 361 million, in 2017 the MFIs recorded an average net profit of Kshs. 2.35 billion while in the year 2018, the profits drastically declined to record a loss of Kshs. 1.19 billion.

The Return on Assets (ROA) also was sought as a measure of financial performance and the findings revealed that in the year 2015, the MFIs recorded a 0.9% ROA while in the year 2016, the MFIs had a decline in ROA to 0.5%. As the findings further show, in the year 2017, the MFIs recorded a ROA of 3.5% and in 2018, the MFIs had ROA of 1.7%. The findings implied that in the ROA of the MFIs has been declining for the past five years and this calls for financial management practices.

The Return on Investment (ROI) for the Micro-Finance Institutions was sought. The findings revealed that in the year 2015, the average ROI for the MFIs was 5.3% which dropped to -3.1% in the year 2016 and increased to 20.8% in the year 2017. In 2018, the ROI drastically dropped to -11.4% an implication that the ROI and the overall financial performance for the MFIs was unstable.

Inferential Results

Overall Model (Multiple Regression Model)

The overall regression model for the study was as herein shown. The model comprised of the model summary, the Analysis of Variance (ANOVA) and the regression coefficients. The model summary as shown in Table 5 revealed that the R-Square (R^2) for the model was 0.868. This was an implication that the combined effect of working capital management, financial reporting, dividend pay-out and Assets management can explain up to 86.8% of the variations in financial performance of MFIs in Kenya.

Table 5: Model Summary (Overall Model)

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.932[a]	.868	.864	.18453

a. Predictors: (Constant), Assets Management, Working Capital Management, Financial Reporting, Dividend Payout

The ANOVA results in Table 6 on the other hand revealed that the F-statistics for the overall model was 249.502 at a significant level of 0.000<0.05. This implied that when combined, working capital management, financial reporting, dividend pay-out and assets management can significantly predict the financial performance of MFIs in Kenya.

Table 6: ANOVA Results (Overall Model)

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	33.983	4	8.496	249.502	.000[b]
	Residual	5.176	152	.034		
	Total	39.159	156			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Assets Management, Working Capital Management, Financial Reporting, Dividend Payout

The regression coefficients for the overall model are as shown in Table 7. The regression coefficients for the working capital management, financial reporting, dividend pay-out and assets management are 0.317, 0.897, 0.475 and 0.354 respectively. The model now becomes:

$$Y = 0.126 + 0.317X_1 + 0.897X_2 + 0.475X_3 + 0.354X_4 + e$$

The p-values for working capital management, financial reporting, dividend pay-out and assets management were 0.001, 0.000, 0.000 and 0.001 respectively. The findings implied that working capital management, financial reporting, dividend pay-out and assets management had a significant and positive impact on the financial performance of MFIs in Kenya.

Table 7: Regression Coefficients (Overall Model)

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	.126	.200		.631	.529
	Working Capital Management	.317	.032	.317	9.906	.001
	Financial Reporting	.897	.035	.918	25.741	.000
	Dividend Pay-out	.475	.040	.471	11.875	.000
	Assets Management	.354	.031	.349	11.419	.001

a. Dependent Variable: Financial Performance

Hypothesis Testing

First, study hypothesis one (H_{01}) stated that working capital does not significantly influence financial performance of MFIs in Kenya. Multiple regression results indicate that Working capital has significant influence on financial performance of MFIs in Kenya (β = 0.317 at $p<0.05$). Hypothesis one was therefore rejected. The results indicated that a single improvement in Working capital will lead to 0.317 unit improvement in financial performance of MFIs in Kenya.

Secondly, study hypothesis two (H_{02}) stated that financial reporting does not significantly influence financial performance of MFIs in Kenya, Kenya. Multiple regression results indicated that Financial reporting has significant influence on financial performance of MFIs in Kenya (β = 0.897 at $p<0.01$). Hypothesis two was therefore rejected. The results indicated that a single improvement in financial reporting will lead to 0.897 unit improvement in financial performance of MFIs in Kenya.

Thirdly, study hypothesis three (H_{03}) stated that dividend pay-out does not significantly influence

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financial performance of MFIs in Kenya. Multiple regression results indicated that Dividend pay-out has significant influence on financial performance of MFIs in Kenya ($\beta = 0.475$ at $p<0.05$). Hypothesis three was therefore rejected. The results indicated that a single improvement in dividend pay-out will lead to 0.475 unit improvement in financial performance of MFIs in Kenya.

Fourthly, study hypothesis four (H_{04}) stated thatassets management does not significantly influence financial performance of MFIs in Kenya, Kenya. Multiple regression results indicated that assets management has significant influence on financial performance of MFIs in Kenya ($\beta = 0.354$ at $p<0.01$). Hypothesis four was therefore rejected. The results indicated that a unit improvement in assets management will lead to 35.4% improvement in financial performance of MFIs in Kenya.

CONCLUSION AND RECOMMENDATIONS

The study concluded that working capital management was a significant aspect in enhancing the financial performance of the Micro-Finance institutions in Kenya. The cash management, creditors management and inventory management among the MFIs steered their ability to have streamlined capital for their operations and this is essential in promoting the financial independence of the institutions.

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

Dividend pay-out was found to be effectively embraced among the MFIs. The study therefore concluded that dividend pay-out among the MFIs is significant in promoting the financial performance of the institutions. Through continued focus on annual dividend and effectively paying dividends to the shareholders, the firms are able to enhance the trust and encourage the investors to invest more in financing the company's operations.

Finally, the study concluded that assets management was a critical driver in enhancing the financial performance of the micro-finance institutions. The MFIs obtained finances through effective management of the fixed assets and cash management. Through continued effective management of the assets, the MFIs were able to maintain their liquidity levels thus steering their financial performance.

The study recommended that the management of the Micro-Finance Institutions in Kenya ought to enhance their effectiveness and financial performance through adopting the effectiveness means of working capital management. The management should embraces proper cash inventory and creditors management so as to ensure the institutions are able to finance their operations without financial limitations.

The MFIs are regulated by the Central Bank of Kenya and one of the key policy requirement of the institutions is to provide audited financial statements annually. The management of the institutions should therefore uphold effective financial reporting by upholding timelines, accuracy, appropriateness and accountability so as to ensure the MFIs are in line with the regulations. They should also embrace proper use of the financial reporting in order to effectively forecast their financial trends and plan ahead.

The MFIs through their management team should be at the forefront of promoting and upholding dividend pay-out to the shareholders. Since the MFIs deal with liquid cash, enhancing their liquidity through keeping proper relationship with the shareholders is appropriate. This will ensure the name of the institutions is held high especially by the shareholders.

The management of the Micro finance Institutions is obliged to ensure that the institutions' assets are properly managed as a way of better service and operation. The management of the MFIs ought to ensure that there are frameworks on how assets should be managed and clearly outlined procedures of assets disposal. The cash management in the MFIs should also be upheld as a key financial management practices that ought to enhance the finance independence of the MFIs. .

Areas for Further Researcher

This study focused on the Micro-Finance Institutions in Kenya. It is recommended that a similar study be carried out to focus on other financial institutions that face similar challenges with MFIs such as the small banking institutions and SACCOs.

The study majored on the financial management practices (working capital management, financial reporting, dividend pay-out and assets management). As similar study should be carried out to establish other aspects influencing the financial performance of the MFIs apart from these four.

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