

# CASH FLOW MANAGEMENT ON FINANCIAL PERFORMANCE OF COMMERCIAL BANKS IN ELDORET CITY COUNTY, KENYA

Pamela Kasaniak<sup>1.1\*</sup>, Dr. Julius Miroga<sup>1.2.</sup>, Dr. Elizabeth Nambuswa Makokha<sup>1.3</sup> (PhD)

<sup>1</sup>School of Business, Department of Economics, Accounting and Finance, Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi Kenya

<sup>2</sup>School of Business, Department of Economics, Accounting and Finance, Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi Kenya

<sup>3</sup>College of Human Resource Development, Department of Entrepreneurship and Procurement Leadership and Management. Jomo Kenyatta University of Agriculture and Technology, P.O. Box 62000 - 00200, Nairobi Kenya.

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**Abstract:** The purpose of the study was to establish the effect of cash flow management on financial performance of commercial banks in Eldoret city county, Kenya. The study was based on the following specific objectives: - to establish effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya, The study was based on Transaction Cost theory, Portfolio theory of Cash Management, Cash Management theory, Free Cash Flow theory and pecking order theory. The study used descriptive research design. The target population of the study was 32 employees in management and supervisory cadres (branch managers and credit managers) in commercial banks in Eldoret city county, Kenya. Census was adopted since the target population is small. Data collection instruments was questionnaires. Data collection methods was both primary and secondary. Pilot test was carried out for validity and reliability of research instruments. Data was analyzed using Statistical Package for Social Sciences (SPSS) windows version 27. Multiple linear regression analysis was carried out to test the significant levels of one variable to the other in the study. ANOVA was carried out to test the hypotheses of the study. The findings revealed that there was a significantly strong positive significant relationship between cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya. Basing on the findings, the study recommended that Banks should prioritize the preparation of timely, transparent, and comprehensive cashflow statements to enhance financial decision-making. Regular cashflow reporting enables management to assess the bank's liquidity position, identify areas of inefficiency, and plan for future obligations. The study will be significant to the banking sector and the government of Kenya in formulation of different financial decisions and in policy making.

**Keywords:** cash flow management, financial performance, commercial banks.

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## 1. INTRODUCTION

Cash flows are narrowly interconnected with the concepts of value, interest rate and liquidity (Jiang, et al., 2021). Cash flow notion is based loosely on cash flow statement accounting standards. The term is flexible and can refer to time intervals spanning over past-future (Zhao, Y., & Chen, R. 2025). Cash flow, the lifeblood of the firm, is the primary focus of the financial manager both in day- to - day finances and in planning and making strategic decisions focused on creating

shareholder value (Yoro, 2024). Cash flow is the difference in amount of cash available at the beginning of a period referred in accounting terms as opening balance and the amount at the end of that period referred as closing balance (Jiang, et al., 2021). Cash coming into the business is referred to as cash inflows. This happens mostly through sales of goods or services. Cash going out of the business is referred to as cash outflows (Dechow, 1994). This results from the need to pay for costs such as raw materials, transport, labor, and power. The difference between the two is called net cash flow. This is either positive or negative. A positive cash flow occurs when a business receives more money than it is spending. This enables it to pay its bills on time. A negative cash flow means the business is receiving less cash than it is spending (Beaver, 2009).

Cash management refers to a broad area of finance involving the collection, handling, and usage of cash (Jiang, et al., 2021). It involves assessing market liquidity, cash flow, and investments (Euromoney Cash Management Survey (2016). Nangih, et al., (2020) documented that Cash management involves managing monies of the firm to maximize cash availability and interest income on any idle funds. At one end the function starts when a customer writes a cheque to pay the firm on its accounts receivable and ends when a supplier, an employee, or the government, realizes collected funds from the firm on an account payable or accrual (Nangih, et al., 2020). All activities between these two points fall within the realm of cash management. The firm's efforts to get customers to pay their bills at a certain time fall within accounts receivable management. On the other hand, the firm's decision about when to pay its bills involves accounts payable and accrual management (Rahman, et al., 2020). Attom, (2014) declared that the success of enterprises largely depends on a number of factors including cash management practices. Rahman, et al., (2020) stated that the underlying objective of cash management is having enough cash available as and when needed and that sound cash management involves better timing of expenditure decisions, earlier collection and banking of revenue and more accurate forecasts.

Widyasti, I., & Putri, I. (2021) submitted that cash management is the process of planning and controlling cash flows. It consisted of three basic components: cash forecasting practices, cash surplus investment practices and cash-control practices. Afiezan, et al., (2020) affirmed that there is need for careful planning and monitoring of cash flows over time so as to determine the optimal cash to hold. (Lienert 2009) found out that modern cash management has four major objectives, namely; to ensure that adequate cash is available to pay for expenditures when they are due, to borrow only when needed and to minimize government borrowing costs, to minimize returns on idle cash and to manage risks, by investing temporary surpluses productively, against adequate collateral.

Zhao and Chen (2025) explored the relationship between cash flow statements and the financial performance of multinational firms. They focused on how cash flows from operations, investing, and financing affect profitability, liquidity, and solvency (World Bank, 2020). The study found that operating cash flow had the strongest relationship with financial performance, while cash flow from investing activities was negatively correlated with firm performance. Anderson and Nilsson (2023) explored how cash flow from operations, investing, and financing activities affects financial performance in multinational corporations (MNCs) operating across different continents. Findings is that Cash flows from operations were the primary determinant of financial performance in MNCs, with financing cash flows playing a more significant role in firms from Europe than from North America or Asia. The study did not consider the impact of different accounting standards (e.g., IFRS vs. GAAP) on how cash flows are reported and their subsequent effect on financial performance.

Banking sectors play an important role in economic development by mobilizing savings into investment activities (Mordi, 2002) and in the creation of wealth by facilitating capital formation, enhancing economic growth and development, reducing information costs and offering risk management services (Dogarawa, 2011). Banking system reforms may be initiated by the government in developing, as well as developed countries, to remedy any deficiencies undermining the banking system (Yusuf & Sheidu, 2015). Companies all over the world has continuously operated on an ever-changing environment calling in for proper management of scarce resources financially. Effective cash management is the fundamental standing point to ensure that the firm's finances are in strong position.

Canada's financial system successfully navigated the global financial crisis, and stress tests suggest that major financial institutions would continue to be resilient to credit, liquidity, and contagion risks arising from a severe scenario. The regulated and supervisory framework is strong, and is complemented by a credible federal system of safety nets, although there is no single body with an explicit mandate to take a comprehensive view of system risks or undertake crisis preparedness (IMF, 2014). U.K commercial real estate has been buoyant: annual price growth peaked in early 2015 above 10 per cent per annum. After the recession, domestic banks have reduced their commercial real estate exposures, but international investors have picked up the slack and now account for more than one half of commercial real estate financing

flows (IMF, 2014). Recently, Akpan et al. (2018) examine the cash flow management impact on operating performance of Nigerian banks during 1995-2012 and found a significant improvement in the investment banks after experiencing cash flow issues. Likewise, Abdou et al. (2016) find a positive influence of cash flow management on the financial performance of Nigerian banks. Hassen et al. (2018) examine the impact of cashflow management on 60 banks in 17 European countries during the period 2005-2013. They posit that cash flow management has a positive effect banks performance.

Cash flow management at the regional level is deeply influenced by local economic conditions, financial systems, governance structures, and the maturity of institutions. In regions such as Sub-Saharan Africa, South Asia, and parts of Latin America, businesses and government entities often face challenges such as irregular revenue streams, delayed payments, underdeveloped banking infrastructure, and limited access to credit facilities. These issues complicate the management of cash inflows and outflows, leading to frequent liquidity gaps and financial instability, especially among small and medium-sized enterprises (SMEs) and public institutions like county or regional governments. In many African regions, for example, the heavy reliance on donor funding and national government transfers causes unpredictability in cash flow, affecting the timely execution of development projects and service delivery. However, there are growing regional efforts to improve financial governance, including the adoption of integrated financial management systems (IFMIS), digital payment platforms, and mobile banking solutions that enhance transparency and cash tracking. Meanwhile, in more developed regional blocs like the European Union or East Asian economies, regional financial integration and harmonized fiscal policies contribute to more efficient cross-border cash flow management. These variations highlight that while cash flow management is universally important, its effectiveness and complexity are shaped by regional dynamics, policy environments, and levels of technological adoption.

Cash flow management very important especially in managing the financial performance of the firms (Nangih, et al., 2020).

Donnelly (2015) affirmed that financial flows from Africa are a large growing problem. Averaging 4% of gross domestic product, they are outstripping foreign direct investment and official development aid to the continent. Africa lost an annual average of 60.3 billion US dollars, or around 4 % of GDP in illicit outflows between 2003 and 2012. During the same period, Official Development Aid and Foreign Direct Investment averaged 42.1 billion US dollars and 43.8 billion US dollars respectively. Research estimates that Africa's capital stock would have increased by more than 60% if these illicit funds remained on the continent, while GDP per capita would be 15% higher.

(Donnelly, 2015) confirmed that these unlawful money flows involve practices such as tax evasion-through trade mis-invoicing and abusive transfer pricing-money laundering, bribery by international companies and abuse of office by public officials. Referencing research done by a high level panel of the African Union and United Nations Economic Commission for Africa examining illicit financial flows, noted that large commercial corporations account for the vast majority, or 65%, of illicit money flows, following by organized crime (30%) and corrupt practices (5%).

Domestically, the banking subsector faced liquidity risks coupled with skewed distribution and corporate governance issues that resulted in two banks being placed under receivership in 2015; and a third bank for the first half of 2016, for the first time in over a decade. One bank is undergoing liquidation process, while another one was re-opened. Commercial banks contribute to; mobilising saving for capital formation, financing industry, financing trade, agriculture and also helps in monetary policy. Moreover in Kenya, the commercial banks have contributed to 20% of GDP and have generated averagely 45% of employment .Despite the importance of the sector, the commercial banks in Eldoret city county are yet to reach with the optimal demands of the customers whose literacy level is steadily increasing by 15% as compared to other counties The subsector also recorded increased credit risks, with Non-Performing Loans ( NPLs) rising faster than historical trends and credit to private sector slowdown to about 14 per cent of GDP Financial Stability Report, (CBK, 2016).The year 2015 also experienced exchange rates and interest rates volatility in Q1 through Q3 that impacted credit markets negatively (CBK, 2015).

A Banking Fraud Investigation Department report (CBK,2014) revealed that Kenyan Commercial banks lost more than Ksh 137 million to fraudsters in May alone 2014. The disbursement of cash includes the payment of wages and salaries, trade debts, taxes and dividends. Cash is collected from sales from operations, sales of assets and new financing. The cash inflows (collections) and outflows (disbursement) are not perfectly synchronized and some level of cash holdings is necessary to serve as a buffer. The three motives for holding money include the transactions, precautionary and speculative motives. The transactions motive asserts that most transactions require money. Money passes from customers to firms to pay for the

goods and services produced by firms; money passes from firms to employees to pay for the labor services supplied by workers to firms. Money balances that are held to finance such flows are called transactions balances. Total transactions balances vary with the value of the wage bill.

According to MC Vaish, (2015) one finds it convenient to hold some cash on which one can lean readily when some unforeseen need arises. (Holt, et al 1999) explained that commercial Banks are the largest financial institutions and contribute immensely to economic growth. The main functions of Commercial Banks today are to lend money, accept deposits, and transfer money among businesses, other banks and financial institutions and individuals. The most common types of financial institutions include Commercial banks, Savings and loan associations, Mutual savings banks and Credit unions but Commercial banks make almost 40 percent of all mortgage loans and almost 50 percent of all other loans. Saleem (2013) documented that a commercial bank is a financial institution which deals with money, credit and is established to make profit. The main source of earnings of these banks is the interest charged on loans advanced to customers. A commercial bank accepts deposits from individuals, firms and companies and offers a certain interest and gives loans to those who need them at a higher interest rate. (Gitman & Chad, 2013) declared that commercial banks are among the most important financial institutions because they provide savers with a secure place to invest funds and they offer both individuals and companies loans to finance investments, such as the purchase of a new home and the expansion of a business. The traditional business model of commercial banks is taking in and paying interest on deposits and investing those funds back at higher interest rates- works to the extent that depositors believe that their investments are secure (Joshi, 2011).

In both public and private sectors, poor cash flow practices such as delayed billing, inefficient collections, lack of forecasting, and uncontrolled expenditures often result in financial strain. Organizations that do not track or plan for their cash inflows and outflows may experience negative cash flow cycles, where cash outflows consistently exceed inflows. This creates challenges in meeting short-term liabilities, affects supplier and creditor relationships, and limits the organization's flexibility to respond to unforeseen expenses or investment opportunities. In many developing economies, including Kenya, small and medium enterprises (SMEs) and even public institutions often lack robust cash flow management frameworks, relying instead on informal or reactive approaches to financial planning. This undermines financial performance indicators such as profitability, return on assets, liquidity ratios, and solvency. Additionally, inadequate cash flow controls can distort financial reporting, making it difficult for stakeholders to make informed decisions (World Bank, 2020). Although financial performance has been widely studied, there is a notable research gap in linking specific cash flow management practices such as cash budgeting, receivables/payables scheduling, liquidity forecasting, and cash reserve maintenance to measurable improvements in financial performance.

Most existing studies focus either on general financial management or on profitability, without deeply exploring the operational link between day-to-day cash flow practices and the financial stability of an organization (Omondi, 2022). Therefore, this study sought to establish effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya.

## **2. CASH FLOW STATEMENT REPORTING AND FINANCIAL PERFORMANCE**

Cash flow statement reporting refers to the process of preparing and presenting a financial statement that shows how changes in a company's cash and cash equivalents have occurred over a specific period of time typically quarterly or annually (Zhao, Y., & Chen, R. 2025). A cash flow statement reporting system is essential for tracking and analyzing the movement of cash in and out of a business. It provides timely, structured, and accurate insights into liquidity and financial health. Cash flow statement reporting system is a vital financial tool that strengthens decision-making, risk management, and organizational transparency helping businesses stay financially sound and strategically focused.

Zhao and Chen (2025) explored the relationship between cash flow statements and the financial performance of multinational firms. They focused on how cash flows from operations, investing, and financing affect profitability, liquidity, and solvency. The study found that high levels of cash flow volatility were positively associated with ROE and ROA for firms in developed economies. The study found that operating cash flow had the strongest relationship with financial performance, while cash flow from investing activities was negatively correlated with firm performance. The sample was limited to manufacturing firms, which may not be representative of service or tech firms, limiting the external validity of the results. A 5-year period may not capture the long-term effects of cash flow trends on financial performance. The study did not account for cash and cash equivalent and net changes that might have affected cash flows during the period.

Adebayo and Ibrahim (2020) investigated how cash flow statement components (operating cash flow, investing cash flow, and financing cash flow) influence the financial performance of Nigerian banks, specifically in terms of liquidity and profitability. Findings indicated that Operating cash flow was found to have a positive and significant effect on profitability and liquidity, whereas investing and financing cash flows had a lesser impact. Contextual gap is that Focusing only on Nigerian banks limits the generalizability of the findings to other sectors or countries with different economic or regulatory environments (Malimu 2023). The study identifies correlations but does not explicitly test causal relationships, which are crucial for policy and decision-making implications, hence panel data analysis gap. Zhang and Lee (2021) examined the impact of cash flow statements on firm performance across East Asian economies (China, Japan, and South Korea), with a focus on how cash flows from operating activities impact profitability and market value. The study used comparative design. Using a sample of 100 firms from the region over a 7-year period (2013–2019), the study employed both regression analysis and the GMM (Generalized Method of Moments) technique to control for endogeneity and examine the relationship between cash flows and firm value. The study found that operating cash flow was a significant predictor of firm performance in all three countries, with South Korea showing the strongest relationship, followed by Japan and China. The study did not explore the impact of institutional differences between the countries in terms of financial reporting or investor behavior, which may influence how cash flow information is interpreted. The study pooled firms across various sectors but did not conduct a sector-specific analysis hence longitudinal study.

Alonso and Martínez (2020) analyzed the relationship between cash flow statements and financial performance in Latin American firms, focusing on how cash flows from operations impact profitability and long-term financial sustainability. Using data from 50 firms in Brazil, Argentina, and Chile from 2014 to 2018, the study employed regression analysis to examine the effect of operating cash flow on profitability (measured by ROA and net income). Findings is that Operating cash flow was positively correlated with profitability, but the impact was less pronounced in firms from Argentina due to economic instability in investing activities. Conceptual gap is that while operating cash flow was emphasized, the role of investing and financing cash flows could have been explored in more detail. The study will make use of longitudinal design benefit from a longer time horizon to examine how trends in cash flow over time impact long-term sustainability and financial performance.

Wilson and Thomas (2022) analyzed the role of cash flow statements in evaluating the financial performance of global corporations, examining the effects of operational, investing, and financing cash flows on stock performance and profitability. The study used a sample of 150 global firms from North America, Europe, and Asia, covering the period 2015–2020. Panel data analysis with fixed-effects models was used to analyze the impact of cash flow components on financial performance, measured by stock returns and profitability ratios. Findings; Operating cash flow was the most significant determinant of stock returns and profitability, with investing cash flow showing a negative correlation with firm performance, especially in technology companies. The study did not account for the varying importance of cash flow components across different industries. For example, firms might rely more on non-operational cash flows, such as from investments, than traditional manufacturing firms. Contextual; The study focused on large, developed market firms, and its findings might not be generalizable to firms in emerging markets where financial reporting and cash flow management dimensions can differ.

Andersson and Nilsson (2023) explored how cash flow from operations, investing, and financing activities affects financial performance in multinational corporations (MNCs) operating across different continents. The study used data from 200 MNCs in Europe, North America, and Asia over a 10-year period (2011–2021), employing regression analysis and structural equation modeling (SEM) to assess the impact of cash flows on long-term financial performance. Findings is that Cash flows from operations were the primary determinant of financial performance in MNCs, with financing cash flows playing a more significant role in firms from Europe than from North America or Asia. The study did not consider the impact of different accounting standards (e.g., IFRS vs. GAAP) on how cash flows are reported and their subsequent effect on financial performance. Many studies identify correlations between cash flow components and financial performance, but few establish causal relationships. This study will use panel regression methodologies since most studies treat cash flow components as a general determinant of financial performance, but sector-specific differences are underexplored. Conceptually different sectors have different cash flow dynamics and time series using random effects.

Lee and Kim (2020) examined the relationship between cash flow statements on firm performance in Asian markets. The research adopted mixed-methods approach combining quantitative analysis with case studies. The target of publicly traded

companies in emerging Asian markets, including China, India, and South Korea were used. Regression models used to assess cash flow and firm value, supplemented by case studies of selected firms. The study found that strong operating cash flow significantly enhanced firm value in emerging Asian markets. Firms with efficient cash flow management were more attractive to investors, leading to higher firm valuations. The study recommends that companies in these regions focus on improving operational efficiency and cash flow management to attract investors and boost firm value. The integration of quantitative and qualitative data could be more robust, ensuring that findings from case studies are adequately reflected in the quantitative analysis. Emerging markets in Asia have diverse economic conditions, which might affect the generalizability of the results. Contextually, the study will consider industry-specific factors, as cash flow dynamics vary greatly across sectors, especially in capital-intensive industries versus technology or service sectors.

Lee (2020) examined the effect of cash flow statements on financial performance using an event study methodology for industries listed from United States on NASDAQ. Their study analyzed how stock prices reacted to the disclosure of quarterly cash flow statements. The findings revealed that positive and significant cash flow reporting increases financial performance using stock returns. The study recommends that firms prioritize comprehensive and appropriate reporting of cash flows. Analysis gap will be identified as while the study shows a correlation results, it does not establish causality. The relationship between cash flows and stock performance will be influenced by other factors, such as management's overall financial strategy, market expectations, or broader financial conditions. Anyanwu and Ajao (2020) explored the impact of cash flow statements on the performance of corporations in the United States. The study focused on understanding how different components of cash flow contribute to a company's overall financial health. The study found that investing cash flow had a mixed impact on financial performance. Some types of investing cash flow were positively correlated with financial performance, while others were not. Additionally, cash and cash equivalents in cash flow were found to have a positive and statistically significant effect on financial performance. However, the study did not explore why certain types of investments contributed positively to financial performance, while others did not. The regression coefficients indicated a statistically significant effect of cash flow statement reporting on financial performance.

Nasimiyyu (2023) analyzed cash flow statement analysis on financial performance of small and medium-sized enterprises (SMEs). This investigated how cash flow statements impact the financial performance of SMEs, aiming to provide insights. Findings revealed that cash and cash equivalent cash flow reporting also moderate a positive and significant relationship with financial performance. The study recommends that SMEs should prioritize effective cash flow statement reported, particularly focusing on optimizing operating cash flow to enhance financial performance. The data analysis gap to use panel data analysis to explore and provide a deep analysis of how cash flow components impact financial performance across different firms listed. Adebayo and Olayemi (2020) explored cash flow statements and its impact on financial performance of Nigeria banking sector. The study aimed to explore on cash flow statements and how it influenced financial performance of banking industry. The study findings is that banks that Investing and financing cash flows also play significant roles, with financing cash flows indicating a firm's ability to raise capital and manage debts. Moreover, the limited number of respondents (only 15) significantly undermines the generalizability of the findings across the entire banking sector hence large sample gap. Instrumental gap to focus on using secondary data alongside primary survey data will provide a more comprehensive analysis of cash flows. While the study found a correlation between cash flow and financial performance, it focused mainly on basic financial indicators without breaking down which specific financial performance using return on equity and profits margin were most significantly impacted. A more return on assets of different performance measures would help pinpoint the specific areas of financial performance that benefit most from cash flow statements. Given the complexity of financial performance, employing regression analysis or structural equation modeling SEM will provide deeper insights into the specific impact of cash flows on different aspects of financial performance using return on assets as a conceptual gap.

Firm's Financial Performance largely depends on proper management of financial resources. Organizational Financial Performance is the measure of how efficient and effective an organization is- how well it achieves appropriate objectives (Stoner, et al, 2009). (Robbins and Coulter, 2013) affirmed that Organizational Financial Performance is the accumulated results of all the organization's work activities. (Cole, 2004) affirms that Financial Performance refers to how well an organization manages its resources effectively and efficiently to meet or achieve its goals. (Hornby, 2012) stated that Financial Performance is how well or badly something works. Financial Performance of Commercial banks can be measured using investing surplus cash, return on assets and return on equity (Ainsworth and Deines, 2009). Waweru (2009) affirmed that financial Performance of a firm involves increased profitability, higher efficiency and increased output (Teruel, 2008).

Assessment of managerial Financial Performance poses practical challenges. The capital market only has the current profit statement and other public disclosures with which to assess Financial Performance. These are inadequate measures of managerial quality since they ignore "soft issues" and strategic off-the balance sheet items in such as human resource development, expansion of production capacity and Research and Development whose return can only be realized in subsequent accounting periods (Star, 2008).

The nature of a given financial Performance indicator may be fundamental, as there is some disagreement regarding the extent to which any board or executive decisions might impact accounting versus market-based measures of financial Performance. Besides, financial accounting returns are difficult to interpret especially in the case of multi- industry participation by firms. It is notable that financial accounting measures do not normally account for shareholder investment risk. Fearing the loss of their jobs, managers might put too much emphasis on how their decisions influence short-term profits and other public disclosures. Managers thus have a tendency to act myopically (Mathuva, 2009). The emphasis on short-term Financial Performance is a common practice among executives. The danger is that current profits are over-valued by the market relative to strategic decisions that are likely to generate future profits. The danger is that current profits are over- valued by the market relative to strategic decisions that are likely to generate future profits. Hence, management will use a very high discount rate when making investment decisions. Good projects that reap their gains in the distant future was ignored and bad projects with a short payback period accepted (Michalski, 2009).

Financial Performance is an essential measure to access the well-being of a company. This measures the ability of the company to utilize its resources efficiently and effectively to achieve the desired result. This assertion is in line with the view of Kenton (2021) sees "financial Financial Performance as a subjective measure of how well a firm can use assets from its primary mode of business and generate revenues". The financial Performance of a company can be accessed through various indicators like profitability ratios and liquidity ratios. The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009; Meredith, 2010; McMahan, 2011). The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009; Meredith, 2010; McMahan, 2011). Over-reliance on financial indicators to judge overall Commercial banks Financial Performance is often misleading especially if the Commercial bank in question has a lot of intangible assets component in its operations including human resources, Research and Development and other non-balance sheet assets. Hence, the need to pay attention to non-financial indicators of Financial Performance, or at least one that combines aspects of both, for a more comprehensive appraisal of firm Financial Performance cannot be overemphasized (Emory, 2009). Market-based returns have a number of advantages. They do reflect risk adjusted Financial Performance; they are not adversely affected by multi- industry or multinational issue may, however, be that market- based Financial Performance indicators are often subject to forces beyond management control (Falope, 2009). As there appears to be no consensus regarding the efficacy of reliance on one set of indicators, a combination of financial and market –based indicators is recommended in order to capture the issues that are under the control of management as well as those that are market driven.

According to Horne and Wachowicz, (2009), the choice between the short term borrowings and liquid assets holding will depend upon the firm's policy regarding the mix of short term financing. The excess amount of cash held by the firm to meet variable cash requirements and future contingencies should be regarded as near moneys. A number of marketable securities may be available in the market. The financial manager must decide about the portfolio of marketable securities in which the firm's surplus cash should be invested. Alti (2003) found out that investment is sensitive to cash flow, even after controlling for its link to profitability by conditioning market. Furthermore, the sensitivity is substantially higher for young, small firms with high growth rates and low dividend payout ratios. The uncertainty these firms face about their growth prospects amplifies the investment-cash flow sensitivity in that; the uncertainty is resolved in time as cash flow realizations provide new information about investment opportunities. This makes capital expenditure highly sensitive to free cash flow surprises. Bo Becker (2006) established that in frictionless financial markets, investment does not depend on internal cash flows and that firms invest more on average when they have higher cash flow. (Hovakimian and Hovakimian, 2005) concluded that there is a positive relationship between internal funds and investment decisions due to the liquidity constraints faced by firms as a result of the gap between the cost of external financing and internal financing. Firms adopt the pecking order theory by utilizing retained earnings since no floatation cost is involved. When it is over, they use debt to control ownership and finally external equity is employed to spread risks among various stakeholders.

There are various determinants of investment ratio identified in the prior literature. For instance, Pearce (2015) suggests that return on investment is considered as the most authentic one and it is calculated by subtracting the total cost from total revenue and dividing it with the total cost and multiplying the output with 100 to achieve a percentage. Return on assets is a useful indicator of how profitable a company is relative to its total assets. The ROA is calculated by dividing a firm's annual earnings by its total assets (Pandey, 2009). The ROA is calculated by dividing a firm's annual earnings by its total assets (Pandey, 2008). This ratio is an indicator of what the company can do with what it has got, i.e., how much profit it can achieve using one unit of assets that they control. It is an indication of how effective management is in utilizing the resources that it controls to make profits (Ross, 2008). The higher the ratio the higher the profits generated per unit of assets. Return on Assets has proved to be a very useful number for comparing competing companies in the same industry. The number will vary widely across different industries. For example, capital-intensive industries (like railroads and steel structures) will yield a low return on assets, since they have to own such expensive assets to do business. Labor-intensive companies (like software, job placement firms) will have a high ROA since their asset requirement is minimal (Shah, 2009). ROA ratio has been widely used in researches on corporate profitability and found to be extremely robust. Other researchers who have used ROA include Sanger (2009), Singh (2008), Nyakundi (2008), English (2010), Ondiege (2008), and Ngaba (2008), all of whom were investigating various aspects of financial management, and their impact on financial Performance. Return on Assets (ROA) is very relevant to the current study since it enables us to evaluate the result of managerial decisions on the use of shareholder assets which have been entrusted to them for stewardship and value creation.

Return on investment is net income divided by total assets multiplied by one hundred (Hornsgren and Foster, 2013). Sinha and Gupta (2011) indicate that cash management specifically affect particular financial parameters such as economies of scale and scope, EBIT, return on investment, profit and interest ratios. The term investment may refer to total assets or net assets. Net assets equal net fixed assets plus current assets minus current liabilities excluding loans. The funds employed in net assets are known as capital employed. ROI is profit after taxes divided by total assets multiplied by one hundred (Pandey, 2013). (Schall and Haley, 2008) affirmed that return on investment is net income divided by total assets multiplied by one hundred. The return on equity is net profit after taxes divided by shareholders' equity which is given by net worth. Ross and Westfield, (2010) return on equity is residual income divided by equity multiplied by one hundred. Return on Equity refers to the earnings generated by shareholders' equity over a period of one year. ROE stands as a critical weapon in the investor's arsenal if it is properly understood for what it is. Shareholders equity is an accounting convention that represents the assets that have actually been generated by the business (i.e. total assets less liabilities) (Meredith, 2010).

A business that creates a lot of shareholder equity is a business that has sound investment, as the original investors in the business was able to be repaid with the proceeds that come from the business operations. Businesses that generate high returns relative to their shareholder's equity are those that pay their shareholders off handsomely, creating substantial assets. These businesses are more than likely to be self-funding companies that require no additional debt or equity investments. One of the quickest ways to gauge whether a company is an asset creator or cash consumer is to look at the return on equity that it generates. By relating the earnings generated to the shareholder's equity, an investor can quickly see how much cash is created from the existing assets. (Mona, 2012) utilized ROE to study the relationship between working capital management policies and firm's profitability.

### 3. METHOD

This study adopted a descriptive research design. Descriptive survey design focuses attention on the formulation of objectives, design of data collection instruments, collection of data, processing and analyzing data and reporting findings (Mugenda and Mugenda, 2003). A descriptive survey involves administering questionnaires to individuals by mail, telephone or in person. The target population for the study was 32 respondents comprising of management cadre (branch managers and credit managers) within commercial banks in Eldoret city county, Kenya. Since the study population was small, the study worked with entire population which is census. Data collection instrument of the study was questionnaire and other information relevant to the study. A structured questionnaire was administered to the respondents. The Primary data collection instruments was mainly research questionnaires. The Secondary data collection instruments was from bank journals, commercial banks budgeted statements and financial statements. Piloting was done to test the validity and reliability of the data collection instrument. The data was reduced, organized, coded, edited, classified using a table and analyzed to bring out the meaning under each of the factors. Once data was collected, it was coded, entered and analyzed descriptively using IBM Statistical Package for Social Sciences (SPSS 27). Pearson correlation analysis was used to test

the relationship between variables in the study hypotheses. ANOVA and multiple linear regression analysis was adopted computed to determine the statistical relationship between the independent variable and the dependent.

#### 4. DISCUSSIONS

The objective of the study was to establish effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya. The composite means of 3.41 indicates that the respondents slightly agreed on the effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya. The standard deviation of .839 further indicates that the responses did not vary much from their averages. Table 4.5 below shows how the various statements measuring effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya.

**Table 4.1: Effect of Cash Flow Statement Reporting on Financial Performance of Commercial Banks**

<b>Cashflow statement reporting</b>	<b>Mean</b>	<b>Std dev</b>
Cash flow statement reporting is essential for evaluating a firm's liquidity and overall financial health	3.26	1.371
Cash flow statements is one of the financial reports which provide a company's ascending activities in receipting and paying money for a given period.	3.19	1.337
From the accept face it presents detail regarding the operation, investment, and financing of the business (IFRS) gives intrinsically results regarding the business as perceived by the flow of cash.	3.46	1.483
The cash flow statement enables external users determine the solvency and efficiency of an organization in the generation of cash and payment of its liabilities and the financing of operations and investments.	3.74	1.352
Cash flow reporting system a useful tool for investors, creditors and management when it comes to making decision on the health and viability of the business.	3.48	1.218
Cash flow statements are a crucial component of financial reporting, providing detailed insights into the cash inflows and outflows of a business over a specified period. Unlike other financial statements which are prepared on an accrual basis, the cash flow statement is prepared on a cash basis, reflecting actual cash transactions	3.35	1.402
<b>Average cashflow statement reporting</b>	<b>3.41</b>	<b>.839</b>

The study found that cash flow statement reporting is essential for evaluating a firm's liquidity and overall financial health. This was indicated by the mean of 3.26 and standard deviation of 1.371. It was not clear also whether cash flow statements is one of the financial reports which provide a company's ascending activities in receipting and paying money for a given period. This was shown by the mean of 3.19 and standard deviation of 1.337. The respondents slightly agreed that from the accept face it presents detail regarding the operation, investment, and financing of the business (IFRS) gives intrinsically results regarding the business as perceived by the flow of cash. This was supported by the mean of 3.46 and standard deviation of 1.483. It was also revealed that the cash flow statement enables external users determine the solvency and efficiency of an organization in the generation of cash and payment of its liabilities and the financing of operations and investments. This was indicated by the mean of 3.74 and standard deviation of 1.352. The study also revealed that cash flow reporting system a useful tool for investors, creditors and management when it comes to making decision on the health and viability of the business. This was supported by the mean of 3.48 and standard deviation of 1.218. However, it wasn't clearly indicated whether cash flow statements are a crucial component of financial reporting, providing detailed insights into the cash inflows and outflows of a business over a specified period. Unlike other financial statements which are prepared on an accrual basis, the cash flow statement is prepared on a cash basis, reflecting actual cash transactions. This was shown by the mean of 3.35 and standard deviation of 1.402. The study generally indicated that respondents slightly agreed on the cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya. About 50% of the statements had a positive influence on cashflow statements reporting since the means were greater than the composite means of 3.41.

#### 4.2 Financial performance of Commercial Banks in Eldoret city county, Kenya

The main objective of the study was to 'examine the effect of financial performance of commercial banks in Eldoret city county, Kenya'. The composite mean of 3.36 indicates that the respondents were neutral on financial performance of commercial banks in Eldoret city county, Kenya. The standard deviation of .604 further indicates that the responses did not vary much from their averages. Table 4.2 below shows how the various statements measure the financial performance of commercial banks in Eldoret city county, Kenya.

**Table 4.2: Financial Performance of Commercial Banks**

Financial Performance of Commercial Banks	Mean	Stdv
When commercial banks perform well financially, operationally, and in service delivery—they create a ripple effect of positive outcomes for individuals, businesses, the financial sector, and the overall economy.	3.41	1.362
A performing commercial bank is not only beneficial for its shareholders but also plays a vital role in fostering economic resilience, social welfare, and financial system efficiency.	3.46	1.310
Investing surplus cash, return on assets and return on equity influences performance of commercial banks.	3.36	1.327
Several key themes emerge regarding the impact of various capabilities on the performance of commercial banks.	3.18	1.293
There is a provision of risk management and compliance	3.34	1.294
Financial performance of a firm involves increased profitability, higher efficiency and increased output.	3.08	1.284
<b>Average Performance of Commercial Banks</b>	<b>3.36</b>	<b>.604</b>

The respondents slightly agreed that when commercial banks perform well financially, operationally, and in service delivery—they create a ripple effect of positive outcomes for individuals, businesses, the financial sector, and the overall economy. This was indicated by the mean of 3.41 and standard deviation of 1.362. A performing commercial bank is not only beneficial for its shareholders but also plays a vital role in fostering economic resilience, social welfare, and financial system efficiency. This was evident from the mean of 3.46 and standard deviation of 1.310. Investing surplus cash, return on assets and return on equity influences performance of commercial banks as shown by the mean of 3.36 and standard deviation of 1.327. Further, it wasn't clear whether several key themes emerge regarding the impact of various capabilities on the performance of commercial banks. This was evident from the mean of 3.18 and standard deviation of 1.293. It was also not clear whether several key themes emerge regarding the impact of various capabilities on the performance of commercial banks as shown by the mean of 3.34 and standard deviation of 1.294. There is a provision of risk management and compliance, the mean of 3.08 indicated that respondents were not sure about that. Most of the statements negatively influenced the performance of Commercial Banks since their means were below the average mean of 3.36.

#### 4.3 Correlation Analysis

To determine the existence of relationships between the predictor variables and the dependent variable, the Pearson correlation coefficient (r) was employed to determine the relationship, direction, and magnitude, as described by Yount (2006). The correlation's direction specifies whether it's inverse (-) or direct (+). The correlation can be weak, somewhat high, or none at all. The correlation can either be explained as significant or inconsequential. For this investigation, the correlation coefficients are reported in Table 4.3.

**Table 4.3: Correlation Matrix**

	Performance of Commercial Banks	Cashflow statement reporting
Pearson Correlation (r)	1	.376**
Sig. (2-tailed)		.000
N	30	30

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

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

Based on the findings shown in Table 4.3 there is a significant positive correlation between cashflow statement reporting and performance of commercial banks in Eldoret City County Kenya though the correlation is weak ( $r = .376$ ,  $Sig = .000$ ). However, the association is weak since the  $r (.376) < 0.5$ . Thus, a unit increase in cashflow statement reporting may lead to an increase in performance of commercial banks in Eldoret city County Kenya by .376 units. The findings correspond with Karuga et al (2024) who found a strong correlation ( $r = .559$ ) between reporting statement and performance of commercial banks in Nairobi.

#### 4.4 Regression Analysis

The study variables were regressed to reveal the link between the independent and dependent variables. The study evaluated the analysis of variance, model summary, and model fitting.

##### 4.4.1 Model Summary

The coefficient of determination ( $r$ ) was used to assess the relationship between the dependent variable (financial performance of commercial banks in Eldoret city County, Kenya) and the independent variables (cashflow reporting statement,  $l$ ). In this study, the coefficient of determination ( $r$ ) was 0.729, indicating a strong relationship between the independent factors (cashflow reporting statement) and the dependent variable (financial performance of commercial banks). The R squared was 0.567, indicating that independent factors (cashflow reporting statement) could account for 56.7% of the dependent variable (financial performance of commercial banks in Eldoret city County Kenya). Thus, cashflow management practices can only account for 57.0% of the financial performance of commercial banks in Eldoret city, County Kenya.

**Table 4.4: Model Summary**

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.729 <sup>a</sup>	.567	.434	.432312

a. Predictors: (Constant), cashflow reporting statement,

The findings are also supported by previous findings done in different regions relating to cashflow management practices and financial performance of commercial banks in Eldoret city County Kenya'. The study found cashflow reporting statement, to have significant correlation with financial performance of commercial banks in Eldoret County Kenya.

##### 4.4.2 Analysis of Variance

ANOVA was used to determine if the model was a good fit for the data. As depicted in Table 4.5 below, the F calculated (4, 155) was 37.902 which is higher than the F critical value 2.43. The sig value was 0.000 which is less than the significant level of 0.05. This implies that the model was a good fit for the data and hence can be used to show the influence of the independent variables (cashflow reporting statement) on the dependent variable (financial performance of commercial banks in Eldoret County Kenya).

**Table 4.5: Analysis of Variance**

Model	Sum of Squares	Df	Mean Square	F	Sig.
Regression	31.493	1	7.449	44.617	.000 <sup>b</sup>
1 Residual	24.609	29	.174		
Total	56.102	30			

a. Dependent Variable: financial performance of commercial banks in Eldoret city County Kenya

b. Predictors: (Constant), cashflow reporting statement

##### 4.4.3 Regression Coefficients

Regression analysis helps understand how a typical value of a dependent variable or criterion variable changes when any one of the independent variables is varied, while the other independent variables are held constant. Table 4.6 below shows the values for the coefficients. The regression results show that the constant for the study model the constant for the model was 1.271 and also significant ( $Sig = .000 < 0.05$ ) as supported by t-calculated (6.318) which was found to be greater than the t-critical ( $\pm 1.955$ ).

**Table 4:6: Regression Results**

Model	Unstandardized Coefficients		Standardized Coefficients		T	Sig.
	B	Std. Error	Beta			
(Constant)	1.283	.203			5.227	.000
Cashflow reporting statement	.426	.047	.261		3.312	.001

a. Dependent Variable: financial performance of commercial banks in Eldoret city County Kenya

For the first objective of the study which was to ‘determine the effect of cashflow reporting statement on financial performance of commercial banks in Eldoret city County Kenya’. R cashflow reporting statement ( $\beta = .426$ , Sig = .001) has a significant relationship with financial performance of commercial banks in Eldoret city County Kenya. There is a direct relationship between cashflow reporting statement and financial performance of commercial banks in Eldoret city County Kenya since ( $\beta = .426$ ) indicating that an increase in cashflow reporting statement by .426 units leads to an increase in the financial performance of commercial banks in Eldoret city County Kenya by a unit in Cashflow reporting statement influences the financial performance of commercial banks in Eldoret city County Kenya.

#### 4.4.4 Model Fitting

Multiple regression was carried out to determine the relationship of the study model by predicting the Dependent variable in terms of the independent variables. The following multiple regression model was used to come up with the results in Table 4.13 below.

$$Y = \beta_0 + \beta_1 X_1 + \varepsilon$$

Where, Y= performance of commercial banks in Eldoret County Kenya.

$\beta_0$  = Constant (Coefficient of intercept)

$X_1$  = cashflow reporting statement

$B_{1-4}$  = regression coefficient.

$e_0$  = Error term

$$Y = 1.283 + .426X_2$$

## 5. CONCLUSION AND RECOMMENDATIONS

The objective of the study was to establish effect of cash flow statement reporting on financial performance of commercial banks in Eldoret city county, Kenya. The study found that Cash flow statement reporting is essential for evaluating a firm’s liquidity and overall financial health and cash flow statements is one of the financial reports which provide a company’s ascending activities in receipting and paying money for a given period. From the accept face it presents detail regarding the operation, investment, and financing of the business (IFRS) gives intrinsically results regarding the business as perceived by the flow of cash and that cash flow statement enables external users determine the solvency and efficiency of an organization in the generation of cash and payment of its liabilities and the financing of operations and investments. The study also revealed that cash flow reporting system a useful tool for investors, creditors and management when it comes to making decision on the health and viability of the business and that Cash flow statements are a crucial component of financial reporting, providing detailed insights into the cash inflows and outflows of a business over a specified period. Unlike other financial statements which are prepared on an accrual basis, the cash flow statement is prepared on a cash basis, reflecting actual cash transactions.

The following conclusions were made from the study findings: The objective of the study was to ‘determine the effect of cashflow reporting statement on financial performance of commercial banks in Eldoret city County Kenya’. R cashflow reporting statement ( $\beta = .426$ , Sig = .001) has a significant relationship with financial performance of commercial banks in Eldoret city County Kenya. There is a direct relationship between cashflow reporting statement and financial performance of commercial banks in Eldoret city County Kenya since ( $\beta = .426$ ) indicating that an increase in cashflow reporting statement by .426 units leads to an increase in the financial performance of commercial banks in Eldoret city County Kenya

by a unit in Cashflow reporting statement influences the financial performance of commercial banks in Eldoret city County Kenya. Basing on the conclusion, the study recommended that Banks should prioritize the preparation of timely, transparent, and comprehensive cashflow statements to enhance financial decision-making. Regular cashflow reporting enables management to assess the bank's liquidity position, identify areas of inefficiency, and plan for future obligations. The use of real-time financial dashboards integrated with enterprise resource planning (ERP) systems can improve accuracy and minimize reporting delays.

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