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Factors of Cash Flow Management on Financial Performance of Selected Commercial Banks in Bungoma County, Kenya

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Abstract*: Cash flows are narrowly interconnected with the concepts of value, interest rate and liquidity (Auerbach, A. J., & Devereux, M. P. (2013). Proper cash flow management systems in business help the managers to: Control spending with respect to the specified budget, minimize borrowing and maximise the opportunity cost of its company's resources (Bari et al., 2019). Cash flow management as defined by Ward (2020) is the "process of monitoring, analyzing, and optimizing the net amount of cash receipts minus cash expenses. Net cash flow is an important measure of financial health for any business". The purpose of the study was to analyze the selected factors of cash flow management on Financial Performance of commercial banks in Bungoma County, Kenya. Specific objectives of the study was to assess the effect of payables management on Financial Performance of commercial banks in Bungoma County, Kenya. The study was based on Portfolio theory of Cash Management, Cash Management theory, Transaction Cost theory, Free Cash Flow theory and pecking order theory. The study used descriptive research design. The target population of the study was 68 employees in management and supervisory cadres in commercial banks in Bungoma County, Kenya. Census was adopted since the target population was small. Data collection instruments was questionnaires. Data collection methods was both primary and secondary. The data was analyzed using Statistical Program for Social Sciences (SPSS) windows version 23. Multiple linear regression analysis was carried out to analyze the selected factors of cash flow management on Financial Performance of commercial banks in Bungoma County, Kenya. Pilot test was carried out for validity and reliability of research instruments. 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. Based on the findings, payables management was found to a significant influence financial performance of commercial banks in Bungoma County. The study recommends that management of commercial banks should universally considered that cash is most liquid asset because it can most quickly and easily be converted into other assets and that commercial banks profitability is influenced by current ratios, quick ratios and cash ratios. The management should take into considerations that dynamic financial management process and its effectiveness is directly correlated with a firm's ability to realize its mission, goals and objectives. The commercial banks should ensure that accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit and. that creditor's turnover, payables deferral period and cash conversion cycle determines payables determines payables management. They should also be informed that accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities and payables management enhances financial performance of commercial banks. The study was significant to the researchers, banking sector and the government of Kenya in formulation of different financial decisions and in policy making.

***Keywords:* Payables management, financial performance.**

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1. INTRODUCTION

Commercial banks play an intermediary role while at the same time ensuring that body corporates maximize the wealth of their shareholders. Commercial banks generate most revenue by lending credit to customers (Marcucci & Quagliariello, 2016). Cash flows are narrowly interconnected with the concepts of value, interest rate and liquidity (Auerbach, A. J., & Devereux, M. P. (2013). 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 (Devereux, (2016). 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 (Gitman, 2008). 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 (Brown and Moloney, 2002). 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). Lawrence Gitman and Chad J. Zutter (2019) state that maintaining proper cash flow is a short run objective of financial management. It is necessary for operations to pay the day-to-day expenses e.g. raw material, electricity bills, wages, rent etc. A good cash flow ensures the survival of company. The cash component of the current assets of an organization refers to the currency holdings (notes and coins), demand deposits and other money market accounts belonging to the organization. The management of cash is concerned with managing of cash flows into and out of the firm, cash flows within the firm, and cash balances held by the firm at any particular time (Saleem, 2013).

Cash management refers to a broad area of finance involving the collection, handling, and usage of cash. It involves assessing market liquidity, cash flow, and investments (Euromoney Cash Management Survey (2016). Pandey (2013) 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. 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. (Abioro, 2013) documented that once the cash budget has been prepared and appropriate net cash flow established, the finance manager should ensure that there does not exist a significant deviation between projected cash flows and actual cash flows. To achieve this, cash management efficiently will have to be improved through a proper control of cash collection and disbursement. Attom, (2014) declared that the success of enterprises largely depends on a number of factors including cash management practices. (Barret, 1999) 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.

Globally, 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. Further the cash management is very vital for production firms whose assets are mostly composed of current assets (Hornead Wachowity 1998). According Raheman and Nasir (2007) said that cash management directly affects liquidity. According to Nangih et al. (2020) on an investigated the relationship between cash flow management and the financial Financial Performance of quoted oil and gas firms in Nigeria, revealed that cash flows from operating and investing cash flows had a negative and insignificant relationship with profitability while cash flow from financing activities had a positive and significant influence on firm Financial Performance in the oil and gas sector. Egwu et al. (2021) studied on cash flow management for enterprise's business Financial Performance in Nigeria and findings revealed that cash flow management influences the fulfilment of

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financial obligations and that cash flow management strategies influence the Financial Performance of enterprises in Abuja. The study concluded that cash flow is critical to the success of enterprises.

In December, the National Bureau of Economic Research, the private group recognized as the official arbiter of such things, determined that a recession had begun in the United States in December 2007, which made this already the third longest recession in U.S. since World War II (Havemann, 2008). (Hillier et el., 2013) explained that in recent years, many companies have found cash very difficult to come by. As most people know, many banks ran out of cash in 2008 and 2009 as bad debts, lack of short term financing, and poor profitable opportunities combined to cause the most severe crisis in the financial sector for decades. Governments stepped into the breach and used taxpayers' money to shore up their financial institutions. According to IMF (2014), 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. Dalayeen, (2017) states that management of cash and the role it plays in advancing financial Financial Performance continues to steer debate among various scholars and researchers globally. Recently, Akpan et al. (2018) examine the cash flow management impact on operating Financial 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 cash flow management on 60 banks in 17 European countries during the period 2005-2013. They posit that cash flow management has a positive effect banks Financial Performance.

Regionally, as Nyabwanga (2011) asserts, cash management is the process of planning and controlling cash flows into and out of the business, cash flows within the business, and cash balances held by a business at a point in time (as cited in Pandey, 2004). As Nyabwanga (2011) asserts, efficient cash management involves the determination of the optimal cash to hold by considering the trade-off between the opportunity cost of holding too much cash and the trading cost of holding too little (as cited in Ross et al., 2008) and as stressed by (as cited in Atrill, 2006), there is need for careful planning and cash flow management very important especially in managing the financial Performance of the firms. There is a realization that firm's survival depends largely on the financial resources is management. Many firms have gone down the reasons of poor management of the financial resources of a firm. A recent study by Global Financial Integrity estimates illicit financial flows out of developing counties at 858 billion U.S. dollars to 1.06 trillion U.S. dollars per year. Amongst developing countries, Africa presents the most analytical difficulties because countries with inadequate data account for nearly 37 per cent of regional GDP. One thing is certain: while African countries have had to shoulder a heavy debt burden, a number of researchers such as (Ndikumana, 2008), have shown that sustained illicit outflows have turned the continent into a net creditor to the rest of the world (IMF,2014). Seminal research at Global Financial Integrity on the absorption of illicit funds show that while some of the private assets held outside their countries by developing country nationals may be legitimate, the bulk of such funds are certainly not. This is because an estimate of illicit capital outflows provided by economic models such as the world Bank residual model and the trade misinvoicing model account for the bulk of deposits reported by banks to the Bank for International Settlements and by offshore financial centers (IMF, 2014).

Ebimobowei et al. (2021) studied on the effect of cash flow accounting on the corporate financial Performance of listed consumer goods companies in Nigeria for the period 2015 to 2019. The study revealed a positive and significant relationship between operating cash flow, financing cash flow and firm size to profit after tax of listed consumer goods manufacturing companies while investing activities and financial leverage revealed a negative and significant relationship. Yeko (2019) examined the relationship between cash flow management and financial Performance and findings revealed that accounts payables management affect organizational Financial Performance and that the organization experiences cash deficits in its operations hinder financial Performance. Similarly, Eton et al. (2019) examined the relationship between cash management and financial Performance of business firms in Northern Uganda. The study revealed that cash management has an insignificant effect on financial Performance. Erkkieya (2015) defined cash management as a part of treasury management, which is defined as a part of the main responsibilities of the central finance management team (as cited in Tiegen, 2001) Huseyin (2011) asserts, the specific task of atypical treasury function include cash management, risk management, hedging

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and insurance management, account receivable management, account payable management, bank relations and investor relations (as cited in Kytönen, 2004).(Huseyin, 2011) thinks that this definition is consistent with the(as cited in Srinvasan & Kim, 1986) classification of cash management areas as cash balance management, cash gathering, cash mobilization and concentration, cash disbursement, and banking system design. Cash balance management includes management of cash position, short-term borrowing, short term investing, cash forecasting. (Huseyin, 2011) opinion is that the classifications of Tiegen's cash management and Srinvasan and Kim's cash balance management are closely related concepts. (Huseyin, 2011) classifies cash management as operating transactions and financial transactions. The operating transactions include accounting ledgers, invoicing, terms of sales - cash collection, cash control and processing, cash forecasting. The financial transactions include optimization of cash, short-term investments, short term borrowing, interest rate risk management, exchange rate risk management, payment systems, information systems and banking investor relations (as cited in Kytönen, 2004).

Chibuike et al (2022) studied on effect of cash flow management on financial Performance: evidence from the pharmaceutical industry in Nigeria and the findings revealed that a positive and insignificant effect of operating activities on liquidity. Also, it revealed a positive and insignificant effect of investing activities on liquidity. And finally, it revealed a negative but significant effect of financing activities on the liquidity of listed pharmaceutical companies in Nigeria. Therefore, it was recommended that listed pharmaceutical companies in Nigeria should be encouraged to build a reasonable cash flow control strategy that will bring efficiency to the firm, thereby enhancing the firm financial Performance. Also, pharmaceutical companies should re-evaluate their cash flow management strategies in order to enable them to generate enough cash sufficient to meet their investing activities. Donnelly, (2015) confirmed that these unlawful money flows involve practices such as tax evasion-through trade misinvoicing 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%).

Firms on a local perspective have had problems of managing cash flows. (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. World Bank, 2012) observed that coupled with its recent development of an attractive industry, Kenya has in the recent past maintained steady economic growth with a current GDP of 79.66 billion dollars, per capita of 1,796 dollars, and an average GDP growth rate of 4.8 per cent. Nationally Kenya's financial stability has grown in terms of its contribution to overall Domestic Product (GDP). However, there are downside risks to Kenya's macro- financial conditions.

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. If the wage doubles for any reason, the transactions balances held by firms and households for this purpose will also double, on average. As it is with wages, so it is with all other transactions: the size of the balances held is positively related to the value of the transactions (Lipsey and Chrystal 2014). (Ross, et al., 2009) documented that transactions- related needs come from normal disbursement and collection activities of the firm. Another reason for holding cash is for compensating balances. Cash balances are kept at commercial banks to compensate for banking services rendered to the firm. Thuita J. M(2021) studied on effect of Cash management on financial Performance of deposit taking SACCOs in Kenya. The study concluded that deposit taking SACCOs should increase their cash levels since it impacted positively on financial Performance. Kosgey and Njiru (2016) carried out a study on influence of cash

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management on the financial Performance of SMEs in Nakuru County. The examination on whether cash management had statistically significant impact on financial Performance of SMEs was done using linear correlation tests. The study findings revealed that Cash management had statistically significant positive effect on financial Performance. The study by Njeru (2016) sought to find out the effect of cash management on financial Performance of deposit taking SACCOs in Mt. Kenya region. The findings indicated a statistically significant positive relationship between cash management and financial Performance of deposit taking SACCOs in Mt. Kenya region.

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).

Commercial banks play an intermediary role while at the same time ensuring that body corporates maximize the wealth of their shareholders. Commercial banks generate most revenue by lending credit to customers (Marcucci & Quagliariello, 2016). 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 (Devereux, (2016). 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). Banking Fraud Investigation Department report (CBK, 2014) reveals that there was rampant fraud of cash in commercial banks in Kenya in May 2014 alone thus affecting cash flow in these banks. This scenario precipitated this study to establish the actual situation on the ground. Cash flow problems for example, mismanagement, cash short falls, can lead to business failure. Even if the annual budget is balanced, with realistic revenue and expenditure estimates, in-year budget execution will not be smooth, since both the timing and seasonality of cash inflows and of expenditures can result in conditions of temporary cash surpluses or temporary cash shortfalls (Lienert, 2013). Cash shortage is a chronic challenge to most firms, and yet cash management is very crucial to the survival and growth of commercial banks (Attom, 2014). (Lobel, 2013) found out that improper accounts preparation and inadequate cash management procedures are some of the major challenges facing organizations leading to close up of the enterprises. (Schoubben and Van Hulle, 2008) documented that firms making profits and is unable to turn the debtors into liquid cash runs a risk of becoming insolvent despite having high sales. Banks need to safeguard gains made so far and build confidence since bankruptcy of Banks was a manifestation of instability in the sector. Crisis such as the global financial markets faced since 2007 have grave implications for economic growth in developed and developing countries. Kenya's economy and financial system stability still face vulnerabilities with global risks. Therefore, the study sought to assess the effect of Payables management on Financial Performance of commercial banks in Bungoma County, Kenya.

2. PAYABLES MANAGEMENT

Accounts payable are the clients who are willing or have supplied materials and services to the institution on credit terms (Pandey, 2010). Grounded on the idea of accounts payables, strategies are adopted in the organizations to ensure that they maintain an effective level of credit and supervision of the accounts payable (Kavale & Mwikali, 2012).. This involves day to day obligation of credit analysis, credit classification, ratings and reporting to the decision making arm in the organization.

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Increasing reliance on suppliers may present buying institutions with problems such as delays in delivery, inferior quality levels and hence liquidity problem. This will improve on the liquidity capability of the buying institution (Grifith, 2012).

Duru and Okpe (2016) studied on management of accounts payable on the financial Performance of industrial/ domestic manufacturing companies in Nigeria. The data for this research included, accounts payable, Sales /Turnover, long term debt, and profit before tax. The research showed that association between accounts payable ratio and profitability was positive and statistically significant. The research also showed that equally debt ratio and sales growth rate had positive and significant consequence on profitability of the companies under research. Sharma (2017) examined account payables management in selected companies of fast moving consumable goods sector in India. A bigger value of account payable turnover revealed that the firm is skillful in paying its short term liability quickly, if larger volume of accounts payable turnover ratio is satisfactory for business organization. The study did not focus on issues affecting the necessity of liquidity like nature of business, production policies which must be considered while estimating the need of liquidity. Achode and Rotich (2016) studied on effect of accounts payable as source of financing on Financial Performance of listed manufacturing firms at the Nairobi Securities Exchange. The outcomes from research showed that majority of the firms quoted at the NSE had a direct positive relationship between accounts payable and the dependent variable, Profitability and Liquidity. The research did not factor in discount offered and the consequence on liquidity

In today's business climate, organizations in every sector are under pressure to do more with less. That means businesses cannot afford to squander opportunities to free up their working capital. By giving you greater availability to the cash trapped on your balance sheet, a formal working capital strategy can deliver the added liquidity you need to fund growth, streamline processes, reduce costs, enhance service levels and seize new investment opportunities as they arise (Ross, 2009). While there are numerous ways to free up working capital, this series focuses on four core strategies: accounts receivable, accounts payable, cash management and inventory. This second installment looks at accounts payable. A firm will always wish to tie up as little cash as possible in disbursement. The idea in these systems is to have no more than the minimum amount necessary to pay bills on deposit in the Bank. The most significant source of short-term finance is the trade credit and that it is relatively easy to obtain; that it varies with the amount granted; and that trade credit is an informal, spontaneous source of finance. It does not require any negotiations and formal agreement. It does not have the restrictions which are usually part of negotiated sources of finance (Ross, 2009). Accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit. For businesses, this is often the largest current liability (Warren et al, 2007). Payables management refers to the deferral of creditors payments for a short period of time to meet the immediate cash requirements of the firm. By delaying payments as much as possible, the firm makes maximum use of credit as a source of funds. In practice, a firm may acquire resources on credit and temporarily postpone payment of certain expenses. Payables, which the firm can defer, are spontaneous sources of capital to finance current assets Pandey (2013). (Brigham and Houston, 2012) documented that firms generally make purchases on credit and record the debt as an account payable. Accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities. This credit is a spontaneous source of financing in the sense that it arises spontaneously from ordinary business transactions.

The methods used in payables management are creditors' deferral period, creditors' turnover and cash conversion cycle (Hussain, 2014). The creditors' deferral period refers to the length of time the firm is able to defer payments on various resource purchases. The effective control of disbursements can also help the firm in conserving cash and reducing the financial requirements. Disbursements arise due to trade credit which is a spontaneous source of funds (Lumbay and Jones, 2011). Brealey and Myers (2009) documented that payables or deferral period is the average time taken by the firm in paying its suppliers (creditors). Creditors' deferral period is ascertained by multiplying creditors by three hundred and sixty days divided credit sales. Hussain (2014) declared that there is no advantage in paying sooner than agreed. If the firm delays in paying its creditors it creates interest free short term sources of funds. Hussain (2014) documented that by delaying payments as much as possible, the firm makes maximum use of credit as a source of funds. In practice, a firm may acquire resources on credit and temporarily postpone payment of certain expenses. Payables, which the firm can defer, are spontaneous sources of capital to finance current assets). Cash flow policy is the practice of the firm to monitor, control and manage the movement of cash.

Creditors turnover refers to the number of times creditors are paid in a given finance period. Creditors' turnover is ascertained by dividing cost of goods sold by average payables (Pandey, 2013). Manasseh (2010) documented that for

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proper cash flow management, the number of times creditors are paid should be as fewer as possible in order to invest short term cash balances created in marketable securities. Operating cycle is the time period taken between the receipt of inventory from individuals, firms, and other entities and the collection of cash from debtors. The operating cycle is therefore the length of time it takes to receive inventory from suppliers, sell inventory to customers in need of it and collect cash from them. Net operating cycle is the difference between gross operating cycle and payables deferral period. Net operating cycle is also referred to as cash conversion cycle. The cash cycle is the time between cash disbursement and cash collection. This period is called the cash period. The cash cycle is, therefore, the number of days that pass until cash is collected from a debtor, measured when cash is paid to a creditor. Cash cycle= Operating Cycle-Accounts Payable Period (Horne and Wachowictz, 2010).

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 Performance as a subjective measure of how well a firm can use assets from its primary modeof 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; McMahon, 2011). The typical financial indicators that have been commonly used are Return on Assets (ROA) and Return on Equity (ROE) (Cohen, 2009: Meredith, 2010; McMahon, 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

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market driven. (Myers, 1984) stated that companies prioritize their sources of financing (from internal financing to equity) according to the law of least effort, or of least resistance, preferring to raise equity as the last financing means. Hence, internal financing is used first; when that is depleted, then debt is issued; and when it is no longer sensible to issue any more debt, equity is issued. (Pandey, 2013) affirmed that there is a close relationship between cash and money market securities or other short term investment alternatives. Investment in these alternatives should be properly managed. Excess cash should normally be invested in those alternatives that can be conveniently and promptly converted into cash. Cash in excess of the requirement of operating cash balance may be held for two reasons. First, the working capital requirement of the firm fluctuates because of the elements of seasonality and business cycles. The excess cash may build up during slack seasons but it would be needed when the demand picks up.

According to Horne and Wachowictz, (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 (Horngren 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

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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. The target population for the study was 68 respondent comprising of management cadre within commercial banks in Bungoma County, Kenya. Since the study population is small, the study worked with entire population which is census. A structured questionnaire was administered to the respondents. The questionnaire had five sections consisting of questions on demographic characteristics, payables management and Financial Performance of commercial banks. The Primary data collection instruments was mainly research questionnaires. The questionnaires was structured questions. The Secondary data collection instruments was bank journals, commercial banks budgeted statements and financial statements. The research instrument was pretested at Uasin Gishu County so as not to interfere with the study sample. A pilot group of seven (7) respondents was targeted. The findings of the pilot study was used to improve the data collection instruments. The study ensured validity by using the experts' opinion on the piloted questionnaires. To ensure reliability the study used Cronbach's Alpha. A coefficient of 0.7 or above implies that there is a high degree of reliability of the data Mugenda and Mugenda (2011). 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 is collected, it was crosschecked and verified for errors, completeness and consistency. It was then be coded, entered and analyzed descriptively using IBM Statistical Package for Social Sciences (SSPS 23). Pearson correlation analysis was used to test the relationship between variables in the study hypotheses. ANOVA multiple linear regression analysis was adopted computed to determine the statistical relationship between the independent variable and the dependent.

4. DISCUSSION

The study sought to identify the effect of Payables management on Financial Performance of commercial banks in Bungoma County, Kenya. The findings are presented in a five point Likerts scale where SA=strongly agree, A=agree, N=neutral, D=disagree, SD=strongly disagree and T=total. From table 4.1 below, the respondents were asked whether accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit. The distribution of findings showed that 37.0 percent of the respondents strongly agreed, 31.0 percent of them agreed, 28.0 percent of the respondents were neutral, 3.0 percent disagreed while 1.0 percent of them strongly disagreed. These findings implied that accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit. The respondents were also asked whether creditor's turnover, payables deferral period and cash conversion cycle determines payables determines payables management. The distribution of the responses indicated that 31.3 percent strongly agreed to the statement, 51.5 percent of them agreed, and 15.2 percent of them were neutral, 1.0 percent of them disagreed while 1.0 percent of them strongly disagreed to the statement. These findings implied that creditor's turnover, payables deferral period and cash conversion cycle determines payables determines payables management.

The respondents were also asked whether accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities. The distribution of the responses indicated that 29.0 percent strongly agreed to the statement, 53.0 percent of them agreed, 15.0 percent of them were neutral, 2.0 percent of them disagreed while 1.0 percent of them strongly disagreed to the statement. These findings implied that accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities. The respondents were further asked whether payables management enhances financial performance of commercial banks. The distribution of the responses indicated that 26.0 percent strongly agreed to the statement, 53.0 percent of them agreed, 16.0 percent of them were neutral while 3.0 percent and 2.0 percent of them disagreed strongly and disagreed to the statement respectively. These findings implied that payables management enhances financial performance of commercial banks.

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Finally, the respondents were asked whether payables management plays a very important role in every financial institutions.The distribution of the responses indicated that 36.0 percent strongly agreed to the statement, 39.0 percent of them agreed, 24.0 percent of them were neutral, 1.0 percent of them disagreed while 0.0 percent of them strongly disagreed to the statement respectively. These findings implied that payables management plays a very important role in every financial institutions.

Table 4.1: Effect of Payables Management on Financial Performance of Commercial Banks in Bungoma County, Kenya

Statements on Payables management		SA	A	N	D	SD
Accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit	%	37.0	31.0	28.0	3.0	1.0
Creditors turnover, payables deferral period and cash conversion cycle determines payables determines payables management	%	31.3	53.5	15.2	1.0	1.0
Accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities	%	29.0	53.0	15.0	2.0	1.0
Payables management enhances financial performance of commercial banks	%	26.0	53.0	16.0	3.0	2.0
Payables management plays a very important role in every financial institutions	%	36.0	39.0	24.0	1.0	0.0

4.1. Inferential Statistics

4.1.1 Pearson Correlation

The study sought to establish the strength of the relationship between independent and dependent variables of the study. Pearson correlation coefficient was computed at 95 percent confidence interval (error margin of 0.05). Table 4.2 illustrates the findings of the study.

Table 4.2: Correlation Matrix

		Financial Performance of Commercial Banks
Payable management	Pearson Correlation	.895**
	Sig. (2-tailed)	.000
	N	60

As shown on Table 4.2 above, the p-value for payable management was found to be 0.000 which is less than the significant level of 0.05, ($p<0.05$). The result indicated that Pearson Correlation coefficient (r-value) of 0.895, which represented a strong, positive relationship between payables management on financial performance of commercial banks in Bungoma County, Kenya.

4.1.2 Multiple Linear Regression

Multiple linear regressions were computed at 95 percent confidence interval (0.05 margin error) to show the multiple linear relationship between the independent and dependent variables of the study.

4.1.2.1 Coefficient of Determination (R^2)

Table 4.3 shows that the coefficient of correlation (R) is positive 0.633. This means that there is a positive correlation between selected cash flow management factors on Financial Performance of commercial banks in Bungoma County, Kenya. The coefficient of determination (R Square) indicates that 38.1% of Financial Performance of commercial banks in Bungoma County, Kenya is influenced by the selected cash flow management factors. The adjusted R^2 however, indicates that 32.3% of Financial Performance of commercial banks in Bungoma County, Kenya is influenced by the selected cash flow management factors leaving 67.7% to be influenced by other factors that were not captured in this study.

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Table 4.3: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.633[a]	.381	.323	.42985

a. Predictors: (Constant), Payables Management

4.1.2.2 Analysis of Variance

Table 4.4 shows the Analysis of Variance (ANOVA). The p-value is 0.000 which is < 0.05 indicates that the model is statistically significant in predicting how selected cash flow management factors affects financial performance of commercial banks in Bungoma County, Kenya. The results also indicate that the independent variables are predictors of the dependent variable with an F test value 23.415.

Table 4.4: ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.143	1	1.245	23.415	.461[b]
	Residual	24.111	59	.321		
	Total	**26.254**	**60**			

A. Dependent Variable: Financial Performance of Commercial Banks

B. Predictors: (Constant), Payables Management

4.1.2.3 Regression Coefficients

From the Coefficients table (Table 4.6) the regression model can be derived as follows:

$$\mathbf{Y = 57.323 + 0.684X_3}$$

The results in table 4.5 indicate that all the independent variables have a significant positive effect on Financial Performance of commercial banks in Bungoma County, Kenya. The variable payables management had a coefficient of 0.684 (p-value = 0.000). According to this model when all the independent variables values are zero, Financial Performance of commercial banks in Bungoma County, Kenya will have a score of 57.323

Table 4.5: Regression Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	57.323	3.005		44.992	.000
	Payables management	.684	.194	.353	4.124	.000

4.1.3 Hypotheses Testing

Ho_1: Payables management does not have a significant effect on financial performance of Commercial banks in Bungoma County, Kenya.

From Table 4.5 above, payables management (β = 0.684) was found to be positively related to financial performance of Commercial banks in Bungoma County, Kenya. From t-test analysis, the t -value was found to be 4.124 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the alternative hypothesis and it concluded that payables management affects financial performance of Commercial banks in Bungoma County, Kenya.

5. CONCLUSION AND RECOMMENDATION

In conclusion basing on the findings payables management (β = 0.684) was found to be positively related to Financial Performance of Commercial banks in Bungoma County, Kenya. From t-test analysis, the t -value was found to be 4.124 and the ρ -value 0.000. Statistically, this null hypothesis was rejected because $\rho<0.05$. Thus, the study accepted the

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alternative hypothesis and it concluded that payables management affects Financial Performance of Commercial banks in Bungoma County, Kenya. The study recommends that management of commercial banks should universally considered that cash is most liquid asset because it can most quickly and easily be converted into other assets and that commercial banks profitability is influenced by current ratios, quick ratios and cash ratios. The management should take into considerations that dynamic financial management process and its effectiveness is directly correlated with a firm's ability to realize its mission, goals and objectives. The commercial banks should ensure that accounts payables arise from purchasing goods or services for use in a company's operations or purchasing merchandise for sale on credit and. that creditor's turnover, payables deferral period and cash conversion cycle determines payables determines payables management. They should also be informed that accounts payable is the largest single category of short term debt, representing about forty percent of the average corporation's current liabilities and payables management enhances financial performance of commercial banks.

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