THE EFFECTS OF WORKING CAPITAL MANAGEMENT ON PROFITABILITY OF MICROFINANCE INSTITUTIONS IN ZAMBIA: A CASE STUDY OF BAYPORT ZAMBIA LIMITED

BY

FUNGAI JOE

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DECLARATION

I, **FUNGAI JOE**, declare that the work in this proposal has been completed in accordance with the regulations of the University of Zambia, Graduate School of Business and it is original unless otherwise stated in the text by a specific reference. There has been no presentation of this proposal to any other educational institution. Any opinions expressed in the proposal are solely those of the authors and do not represent the School in any way.

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APPROVAL

This Dissertation by Fungai Joe is approved as a partial fulfillment of the requirements for the award of the Degree of **Master of Business Administration in General**.

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.....	.....	.....
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.....	.....	.....
Examiner 3	Signature	Date
.....	.....	.....
Chairperson Board of Examiners	Signature	Date
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Supervisor	Signature	Date
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ABSTRACT

This study investigated the effects of working capital management on the profitability of Bayport Zambia Limited, a microfinance institution in Zambia. The specific objectives were to find out the effect of cash management profitability of Bayport, to assess the effect of non-performing loans (debtors) on Bayport Profitability, to examine the effect of operational expenses on the Profitability of Bayport and to determine the effect of debt recovery effort on the profitability of Bayport. Data were collected through questionnaires and face-to-face interviews with employees and senior management of Bayport Zambia Limited. Descriptive statistics were used to analyze the data, including frequency distribution and percentages.

The study found that effective management of liquid cash is crucial for sustaining and maximizing profits. Weak cash management negatively impacts profitability. Managing and mitigating non-performing loans significantly affects financial performance. Weak management of operational expenses can impact profitability. Timely and efficient debt recovery efforts positively influence profitability. Based on these findings, the study makes several recommendations. Bayport should reassess and strengthen debt recovery strategies, reduce high operational expenses, and utilize technology solutions to effectively monitor customer status. Collaboration with regulatory authorities is necessary to develop and enforce a regulatory framework for responsible lending and efficient working capital management. Financial literacy and education programs should be implemented to promote awareness and responsible borrowing. These recommendations aim to improve working capital management and overall profitability in Bayport Zambia Limited and the microfinance sector in Zambia

Key words: Profitability, working capital management, loan, debt

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DEDICATION

I dedicate this research project to my family and the University of Zambia for instilling in me knowledge during my time at the University and for the support I have received from my project Supervisor during the project period.

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LIST OF ACRONYMS

WCM – Working Capital Management

SME – Small And Medium Enterprise

MFI – Micro - Finance Instutitoins

BOZ – Bank Of Zambia

CHAPTER 1

INTRODUCTION

1.0 Introduction

This study was on the Effects of Working Capital Management on Profitability of Microfinance Institutions in Zambia: A Case Study of Bayport Zambia Limited. Therefore, this introductory chapter outlines the background of the study, the problem statement, the objectives of the study, the research questions, the scope of the study, potential limits for the researcher, and last but not least, the relevance of this study. The background of a study is the first section of the paper and establishes the context underlying the research. A problem statement is an explanation in research that describes the issue that is in need of study, it identifies the specific problem being addressed, and explains why it is important to study this problem. Research objectives described what the research was trying to achieve. Research questions are derived from the research objectives and these are the questions which the study sought to answer. The significance of a study is its importance. It refers to the contribution(s) to and impact of the study on a research field. The significance also signals who benefits from the research findings and how.

1.1 Background of the study

Khrawish (2011) defines working capital management as the process of managing a company's short-term assets and liabilities to ensure it has enough liquidity to meet its short-term obligations and operating expenses. It involves managing inventory, accounts receivable, accounts payable, and cash to optimize the company's working capital position. For MFIs, working capital management (WCM) is one of the most crucial financial choices. The most advantageous and efficient WCM strategy influences performance and liquidity while increasing corporate value. The primary objective of WCM is to achieve optimal balance among its components as part of the overall corporate strategy to increase value for shareholders. WCM, or working capital management, is a crucial component of financial management and comprises choices about the quantity, composition, and financing of current assets. WCM involves making judgments regarding various aspects of cash investment, maintaining a specific amount of inventory, and managing receivables and payables accounts (Falope and Ajilore, 2009).

WCM's major objective is to help businesses maximize their profits while conserving cash flow to pay short-term debt and anticipated operational needs. Due to its impact on profitability and liquidity, WCM is crucial in evaluating a company's success. It makes sure that the company has enough cash flow for operations, making the best use of resources possible so that the company can continue operating and fulfill its commitments when they become due (Afza and Nazir, 2009).

According to Khrawish (2011) WCM is essential to a company's long-term success. In order to effectively manage each component of working capital, firms must create clear policies. To enhance business performance, working capital components like cash, accruals, accounts receivable, accounts payable, marketable securities, and other sources of short-term financing must be efficiently managed. Microfinance institutions are not an exception to the rule that effective WCM is a key component to the success of every business. It allows companies to monitor organizational effectiveness while running regular company operations and balancing liquidity and profitability.

The main areas of focus for WCM are the size, make up, and financing of current assets and liabilities. The goal of working capital management (WCM) is to keep working capital at a level that will allow the company to run profitably and effectively. By doing this, the company makes sure that limited resources are utilised most effectively (Afza and Nazir, 2009).

Furthermore, effective working capital management techniques are crucial for maximizing firm value for a micro finance institution (Pass and Pike 1987). It is the accumulation of enough cash balances from which the microfinance business can lend to the SMEs customer segments who who usually depend on micro finance borrowing for their working capital needs

In Zambia poor internal control measures were a major contributing factor to the collapse of some micro lending institutions. Authorization was found to be weak in most micro lending institutions (Chiumya ,2010). It has been pointed out by the Bank of Zambia that the supervision of lending officers was so weak that some lending officers were engaged in corrupt activities of being micro lenders within micro lending institutions. Internal controls of bank owned micro lending institutions were found to be more effective than those used by MFIs. Number of them had been

closed down by the Bank of Zambia because of such activities. It is also the issue of insider borrowing which lead to the collapse of an MFI according to BOZ.

The lack of expertise for managing micro finance was one of the main reasons why most of them were collapsing. The owners of the NFIs lacked financial discipline. Some of them lived lavish lifestyles after making a sizable profit from the institution. They tended to buy luxury cars and invest in real estate all for their own benefit. They are not prudent managers who appreciate sound financial management. As such they faced operational risk, liquidity risk and credit risk in varying degrees. Some of the owners confessed that they had no experience in microcredit lending and only resorted to it as a result of friend's advice. This inexperience on the part of the owners meant that there were so many short cuts being implemented in credit administration.

According to Bank of Zambia (2018) many microfinance organizations have started along the road to become actual financial intermediaries, providing not only loans but also banking services like savings. The work of managing liquidity is highly complex and necessitates meticulous planning because it must take into account both the irregular variations in deposit amounts as well as the shifting demand for loans. Therefore, liquidity is a key problem for all microfinance institutions, including Bayport. Due to its tight connection to daily business operations, liquidity is very important to both internal and external analysts. A company's profitability and solvency are both threatened by a weak liquidity situation, which also renders the company risky and unsound.Niresh,2012)

In Zambia, where the banking industry is more established than in many other African countries, access to financial services and credit is somewhat greater, according to KPMG(2018). According to KPMG, a sizable segment of the Zambian population, particularly in rural regions, is still unbanked and exposed to dishonest or unregulated loan activities. Services are frequently targeted towards established enterprises and households with greater incomes, even in nations with highly developed financial sectors. In Sub-Saharan Africa, just 16.4% of businesses have access to a bank loan or line of credit, compared to 29.5 percent in developing nations worldwide. Small businesses are also notably underserved. It is only 5.2 percent in Zambia (KPMG,2018).

Zambia is one of the many countries that benefit from microfinance institutions. This can be attributed to the fact that these institutions provide financial assistance to small business owners in their core business. This therefore means that small business owners gain access to credit to enhance their business, subsequently leading to economic growth. The provision of financial services to the poor is widely believed to increase incomes and productivity of the poor (Ledgerwood, 1999). Not only do MFI's offer micro-credit but also deposits, loans, payment services, money transfer and insurance to low income households and microenterprises (Asian Development Bank, 2007) However, of recent some microfinance institutions have been closed due to various reasons. According to ZBT (2016), the institutions that have been closed down include, CETZAM, Genesis Finance Limited and Commercial Leasing Zambia limited.

Largest microlender in Zambia and the market leader in payroll-based lending, Bayport Financial Services Ltd., sought to increase lending to low- and middle-income borrowers and small enterprises in order to open up the credit market to common Zambians while also attracting a sizable new clientele (Bayport, 2021).

Bayport provides credit which is access to many more low and middle-income workers as well as small businesses, which will lead to investments in new business ventures, small scale agriculture, education and home improvement (Bayport,2021). Those investments in turn will generate economic growth and new sources of profits for other private enterprises. In addition to expanding Bayport's lending base, raising its profit potential, and encouraging the firm's efforts to strengthen responsible finance practices, the Bayport bond project helped deepen Zambia's domestic capital market, a critical ingredient to financing the country's economy (Bayport,2021). It also had a positive impact on the private sector by establishing strong financial practices and demonstrating the possibilities for tapping capital markets to fund new business ventures in Africa. Bayport's example is expected to spur other enterprises in the region to issue bonds to broaden their investor base and lower their (KPMG,2018).

Bayport (2018) describes working capital management (WCM) as a very important element of corporate finance because it affects the liquidity, profitability and growth of a business directly. It essential to the financial stability of businesses of all sizes. Investments in working capital are often high in proportion to the total assets employed and therefore can affect the level of profits an

organization realizes. This presupposes a causal relationship between working capital and financial performance of the organization. Low working capital may mean low turnover as the business will lack funds for the operations that leads to low revenues and low profitability at the end of the cycle.

1.2 Statement of the problem

Working capital management is an important element MFIs that can't be ignored. Mishandling working capital can lead to the collapse of these institutions. Poor management of working capital can be either because these companies over invest or under invest in working capital requirements. Over investment in working capital will reduce returns by increasing the amount of funds tied up in non-interest earnings short-term assets. On the other hand, insufficient investment in working capital, that is, overtrading, increases the company's risk of financial distress and may lead to a company being technically insolvent as it may not be able to meet its obligations such as paying their debts on time, paying salaries, electricity bills, tax, water bills, and other expenses that they incur in the course of doing business. According to Dunn (2018), such mismanagement leads to overcapitalization and therefore waste through underutilization of resources and hence poor returns or it can also lead to overtrading (trying to maintain levels of sales which are high than working capital can sustain-for businesses which extend credit terms, more sales means more debtors and higher working capital demands). Overtrading leads to escalating debtors and creditors and if unchecked ultimately, to cash starvation. A study by Vukovic (2018) established that a business with insufficient working capital will be unable to meet obligations as they fall due, leading to late payments to employees, suppliers and other providers of credit. Late payments can result in lost employee loyalty, lost supplier discounts and a damaged credit rating.

Musonda (2020) observes that WCM is essential for any firm to survive because of its effects on a firm's profitability and consequently its value. There is no doubt that the ultimate objective of any firm is to maximize profit. However, the preservation of the liquidity of a firm is an important objective too and it is the efficient management of the various components of working capital that helps to preserve liquidity. However, Bayport (2018) notes that among MFIs such as Bayport, problem lies in the efficient management of these various components that makes up the working capital by managers. This creates a research gap because, Musonda (2020) argues that little focus has been laid on the effect of working capital amanegemnt on profitability of microfinance banks

such as Bayport in Zambia. Lack of knowledge on working capital management puts many firms in poor liquidity position and it consequently affects the profitability of such firms.Therefore, given this position, it is expedient that an investigation of the effect of working capital management on profitability be carried out.

1.3 Research objectives

The research objectives are divided into the main objective and the general objective

1.3.1 The main objective

The main objective of this research is to investigate the effect of working capital management on profitability of microfinance institutions in Zambia with focus on Bayport Zambia.

1.3.2 Specific Objectives

i. To determine the effect of cash management on profitability of Bayport.
ii. To assess the effect of non-performing loans (debtors) on Bayport Profitability.
iii. To examine the effect of operational expenses on the Profitability of Bayport.
iv. To determine the effect of debt recovery effort on the profitability of Bayport.

1.4 Research Questions

The research questions for the study were as follows:

i. What effect of cash management on the profitability of Bayport?.
ii. What is the effect of non-performing loans on Bayport Profitability?
iii. What is the effect of operational expenses on the Profitability of Bayport?
iv. What is the effect of debt recovery effort on the profitability of Bayport?

1.5 Research Hypothesis

H1	H_0: Cash management does not affect the profitability of MFIs
	H_1: Cash management affects the profitability of MFIs
H2	H_0: Non-performing loans do not affect the profitability of MFIs
	H_1: Non-performing loans affects the profitability of MFIs
H3	H_0: Operational expenses do not affect the profitability of MFIs
	H_1: Operational expenses affect the profitability of MFIs
H4	H_0: Debt recovery efforts not affect the profitability of MFIs
	H_1: Debt recovery efforts affects the profitability of MFIs

1.6 Scope of study

This study concentrated on how working capital management affects the financial performance of microfinance institutions in Zambia. The Bayport case study, one of the top deposit-taking microfinance organizations in Zambia, served as the basis for the research. Bayport is therefore a better case for this study as a result. The study will gather data from the Bank of Zambia and Bayport Head Office on Independence Avenue in Lusaka, with a focus on the five (5) years period from 2015 to 2019. Data from the bank of Zambia will be used in order to ensure that the data obtained from Bayport tally with Empirical Annual Data provided to the Bank of Zambia. The study period above have been chosen by the researcher because Bayport (2018) stipulates that its one of the periods in which the operations of Bayport were more consistent without many unanticipated changes occurring in the financial markets. As previously noted, Bayport was recently granted a license by the Bank of Zambia, enabling it to operate as a deposit-taking MFI in an effort to strengthen its liquidity position (BoZ). Due to its good impact on its consumers, Bayport went on to become the largest MFI in Zambia in 2013 in terms of clientele and total loan portfolio

1.7 Significance of Study

MFIs have grown in significance for economies all around the world. Small and medium-sized businesses (SMEs) may not have access to or be ineligible for loans or financial services from a commercial bank because they are unable to meet the requirements, which is the only reason they

exist. The WCM policies in place have an impact on MFIs' performance just like they do on other firms. This investigation will be carried out to determine how well WCM can enhance performance and how it affects the profitability of MFIs in Zambia.

Because the study's findings will add to currently held information, MFIs, policy makers, and other stakeholders will also benefit from it. Because the primary goal of business is to create and expand shareholder value, doing this study will surely improve the way MFIs operate in regard to the creation and implementation of WCM policies.

The findings of this study may also help MFIs address the WCM issue, which has started to affect their long-term success. Finally, this research will add to our understanding of working capital management and how it affects microfinance organizations' profitability.

1.8 Thesis outline

The dissertation is divided into six chapters. The first chapter covers the study's background material, problem statement, research objectives and questions, goal and relevance of the inquiry, assumptions, restrictions and delimitations of the study, and definitions of essential terms. In chapter two, a review of the regional and global literature on the impact of working capital management in non-bank financial organizations is covered. A sample of the literature on the conceptual framework, empirical review, literature on the identified factors, and theoretical framework of the study are all included in this chapter as well. The theoretical and conceptual underpinning of the study is presented in Chapter 3..

The research approach that was applied in this study is presented in the fourth chapter. The study design, the intended audience, the sample and sampling techniques, the data collection methods, the research tools, the pilot testing, the validity and reliability of the tools, the operational definition of variables, the data analysis methods, and research ethics are all covered. Chapter 4 discusses the data analysis and research findings. Chapter five examines the results, while Chapter 6 offers conclusions and suggestions.

CHAPTER 2

LITERATURE REVIEW

2.0 Introduction

The research problem, research aims, and the importance of this study were all discussed in the preceding chapter. This looks into information that has already been published by academics and researchers in order to make references from them regarding the subject of study. The chapter provides a brief overview of financial management, discusses the impact of WCM on MFI profitability, describes the different WCM strategies that are available and how they affect an entity's level of WC, and looks in more detail at some working capital factors and working capital management theories. The literature review has been presented according to the study objectives. This is important because it helps the researcher to focus on what the study intends to achieve. The literature review begins with literature reviewed on various themes related to working capital management, thereafter, literature on the effect of cash management, non-performing loans, operational expenses and debt recovery efforts on profitability is presented. This is followed by the empirical review, critique to the literature and lessons learnt and the research gap. Finally the summary is drawn.

2.1 Overview of microfinance institutions

There were a series of developmental policies implemented after the realization of poverty in developing countries, were South and East Asian were not an exception as they also experienced a large portion of poverty reduction. It was from this share of developmental policies where . Economics Professor Muhammad Yunus pioneered the concept of microfinance (Leikem, 2012). In 1970, Yunus, began an organization called Grameen Bank in his hometown Bangladesh, he started up this program because of the poverty he had seen in his country. Prof. Yunus believed that formal institutions “prounced a death sentence to the poor” because they “rejected the poor as unworthy of credit” (Yunus, 1999,)..

Microcredit must be distinguished from microfinance. Micro credit is the provision of small loans to households and SMEs(Sharma,2009) . Microfinance is a bit broader and covers a range of

financial and non-financial activities including savings, insurance and money transfers. Currently the provision of microfinance is done by both commercial banks and other lenders licensed by the authorities to provide finance on either short term or long term basis. In fact the emergence of microcredit finance is attributed to the fact that commercial banks are inflexible to provide credit to the poor arguing that they are highly risky. However commercial banks have realised the need to start providing finance to the poor. For example Ban AB in Zambia is doing exactly that. Lending to householders can be very profitable. Currently in Zambia Bayport is the largest lender to the civil servants in Zambia.

The microfinance industry in Zambia is larger part of the non –bank financial institutions. The sector just like the commercial banks is regulated by the Bank of Zambia. Initially the sector was regulated under the former Banking and Financial Services Act under which leasing companies, pension companies and building societies were regulated. The other player regulated under the BFSA (1994) was the development Bank of Zambia(BoZ,2018). The microfinance sector is essential in the financial market because it provides funding to the SMEs and households which may not be adequately served by the commercial banking sector. In Zambia most of the micro-financial instructions were set up in the last twenty years. Before then there were non-bank financial institutions such as the Credit Union and Savings Association which collapsed. The Zambia Co-operative Federation was another non-bank financial entity that collapsed. This entity was set up by the Government to provide finance to farmers. Al these financial organisations were set up by the Zambian Government and so depended heavily on the government to fund them (Boz,2018)

2.2 Working capital management

Working capital management encompasses all aspects of current assets and liabilities, including cash, inventories, marketable securities, and debtors. Working capital management is a simple and easy notion that refers to a company's ability to fund the difference between its short-term assets and short-term liabilities (Harris, 2005).

Working capital management (WCM) techniques can be strategically managed to boost competitive position and profitability, which is the focus of this study, in addition to protecting Bayport microfinance institution from financial instability(Khrawish ,2011). The retail companies

are anticipated to gain from working capital management methods at the conclusion of this research, according to Narender et al. (2009). First, working capital management procedures are crucial since they have a direct impact on a company's liquidity (Chiou and Cheng 2006)

Working capital may also offer investors an intriguing indicator. It is crucial as a gauge of the liquid assets that give creditors a safety net. It is crucial for calculating the liquid reserve that can be used to deal with emergencies and the uncertainties surrounding a company's cash flow balance. (Subramanyam and Wild,2009)

In order to further highlight the significance of working capital, it can be put it this way: "managing the firm's working capital is a day-to-day job that guarantees the firm has the resources to continue its operations and prevent expensive interruptions. This covers a variety of tasks connected to the cash receipt and distribution processes within the company (Ross, Westerfield and Jordan, 2008,

Additionally, working capital management is crucial for a number of reasons, including the fact that a typical manufacturing company's current assets make up more than half of its overall assets. They contribute considerably more to a distribution business. (Horne and Wachowicz,2008) Moreover, "a corporation may easily realize a poor return on investment if it has large quantities of current assets. However, businesses with insufficient current assets may experience shortages and have trouble running efficiently (Horne and Wachowicz,2009)

A number of studies have been done on the liquidity with various aspects of organizations operations. Graham and Bordeleau (2010) suggest that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes a banks' profitability, all else equal. At the same time, estimation results provided some evidence that the relationship between liquid assets and profitability depends on the bank's business model and the risk of funding market difficulties. Adopting a more traditional (i.e., deposit and loan-based) business model allows a bank to optimize profits with a lower level of liquid assets. Likewise, when the likelihood of funding market difficulties is low (proxied by economic growth), banks need to hold less liquid assets to optimize profits.

2.2.1 Nature of the business

The level of working capital will differ from one firm to the next due to the varying needs of the firm, for instance, a food retailer holding goods for resale may have a high level of inventory of goods readily available for sale and will have a manageably low accounts receivable in comparison to a manufacturing company that will hold large inventories of raw materials, work-in-progress, and finished goods throughout the production process . . According to Padachi (2006), a company's need for working capital is mostly impacted by the nature of its line of operations

The amount of working capital that must be kept on hand to cover the company's ongoing needs will therefore depend on the nature of the business. Financial institutions, on the other hand, must invest significantly in working capital in addition to fixed investments, while they must invest less in fixed assets (Khan,2007). Service businesses have a minimal amount of working capital because they only accept cash payments, provide services rather than products, and have no money invested in inventories or receivables. As a result, trading and financial organizations often invest little in fixed assets but a lot in working capital..

Afza and Nazir (2009) contributed their perspective to the discussion by asserting that MFIs must invest a significant amount in working capital but just a little sum in fixed assets. Therefore, the amount of working capital will differ depending on the type of business, the manufacturing process, and the distribution of the goods and services to the consumer (Salo and Reitz 2007).

2.2.2 Cash Conversion Cycle (CCC)

The time between when money leaves a business and when it receives money is known as the cash conversion cycle, or operating cycle. CCC is described as the period of time during which funds are committed to working capital by Brigham & Houston (2007). They went on to say that the cash conversion cycle measures how rapidly current assets are turned into cash.

Though a manufacturing company's cash conversion cycle is typical, it becomes problematic for finance organizations when loans and certain securities, such as fixed deposits, are kept. Unfortunately, when the funds are needed, some MFIs may not have immediate access to them

because they place fixed deposits with other MFIs. Similar issues arise with loans since borrowers frequently default, which raises the incidence of non-performing loans.

Therefore, the strain on working capital increases with the time it takes for cash to return to the company (longer CCC) (Khan,2007). Liquidity risk is increased when there is less cash on hand. Additionally, it implies that because capital is being held up elsewhere, other business possibilities could be lost, which would hurt profitability.

2.2.3 Cash Management

The significance of cash to every business cannot be downplayed; hence efficient management of it is very critical to the survival of the business. Brealey et al, 2011 indicated that, for a firm to survive and grow, it needs cash which is the blood stream of every business. Siddiqui (2014) also describes Cash as being King. If adequate cash is not available as and when it is needed, the situation increases liquidity risk and payments such as, repayment of bank loans, taxes, wages, and in this case for a deposit taking institution like FINCA, clients' withdrawal may be missed. However, while we advocate for adequate funds to meet short term requirements, firms must be mindful of the opportunity cost of holding cash which could have been invested or put to productive use for a certain amount of good returns (Watson and Head, 2010). Considering the risk-return trade off, managers should ensure that, an optimum cash balance is maintained to ensure survival and profitability of their firms.

2.2.4 Credit Policy

MFIs have receivables, just as any other firm. MFIs mostly rely on interest from client loans to cover costs. These loans are viewed as assets by the MFI. Loans and advances are listed as parts of banks' current assets by Yeboah and Yeboah (2014) to emphasize this. In general, businesses give credit for a variety of reasons, such as to enter a market and establish themselves there, to boost sales and hence enhance profits, and so on (Brealey et al, 2011).

Due to increased market competition, lenders sometimes give out more loans to fulfill some of the aforementioned goals without carefully analyzing their credit standards and instead use the well-known practice of tripling their clients' amounts after a few months of repayment (Owusu-

Nuamah, 2013). As a result, a sizable portion of the loan portfolio defaults, lowering the amount of money available for operations. Customers will offer a variety of justifications for paying later. Working capital can be dragged down by bad loans in especially during hard times, but this can frequently be avoided by conducting more thorough credit checks (Bartram, 2014).

According to Siddiqui(2014) every company must be fast in collecting debts; a lax credit policy might negatively impact working capital. A rigorous credit strategy, however, can decrease the size of trade debtors and increase working capital (Siddiqui, 2014). A greater loan payback rate can increase earnings, which will increase profitability. Working capital is impacted by lower loan volumes and ineffective collections, which can also lower profitability (Cooper et al., 2003 as cited in Yeboah and Yeboah, 2014).

2.2.5 Capital Structure

Every business needs some amount of capital before it can start operating and can subsequently grow. Capital structure of a firm reveals how the firm's operation is financed; whether it is funded by equity or debt(Khan,2007). Though there can be various forms of capital, basically, they all come down to equity or debt (long or short). Whichever of these two is chosen, there will be a consequent impact on the firms operations, profitability and survival. To a large extent, debt is preferred to equity because of its relative lower cost and the ease with which it is accessed (Frimpong, 2013). But in hard times when companies are faced with liquidity challenges for instance, long term funds (which normally come from equity) are preferred, to ensure survival after which profitability can be pursued. There are situations where businesses start operations with little or no capital of their own. The owners mistakenly believe that enough profit will be earned and ploughed back into the business as capital; this is called undercapitalization (Watson and Head, 2010).This can consequently lead to overtrading, where a company tries to support high levels of trading with a small working capital base. Though this can increase profitability, it can also increase liquidity risk because normally cash gets locked up in trading activities

Recent research has been conducted on the connection between WCM and organizational performance. In their 2009 study, Amalendu and Sri came to the conclusion that there is a correlation between WCM and corporate profitability. The trade-off between liquidity and

profitability is crucial because if WCM is not properly taken into account, the enterprises run the risk of failing and going bankrupt.

On the other hand, the main aim of business is to make profit and increase shareholders' value (Panigrahi 2014) and most entities put more emphasis on profitability than liquidity.Hence, some scholars have argued that there is a negative relationship between WCM and a firm's profitability. According to Deloof (2003), it is possible for a firm to remain profitable and still have a negative working capital. This is possible if the firm takes the aggressive approach to WCM. However, this puts the firm's solvency at stake. However, excess investment in working capital may result in high liquidity but with profitability and lower investment may result in poor liquidity. Management need to trade-off between liquidity and profitability to maximize shareholders' value.

2.2.6 Working Capital Management Policies

A WCM policy is an approach or strategy that stipulates the attitude of a firm towards its working capital needs. A firm has to assess what the most important risks are relating to working capital and how they can affect its normal operations and thereafter adopt any of the three approaches, namely; Aggressive, Conservative or Moderate.

An aggressive policy to WCM aims at reducing the financing cost and increase profitability by cutting inventories, speeding up collections from customers, and delaying payments to suppliers (Quayyum, 2011).However, this policy turns out to be very risky in the sense that inventories are kept at minimum or zero hence increasing the risk of stock-outs, meaning that goods will not be available on demand. In addition, speeding up payments from customers and taking longer to pay suppliers will in turn lead to loss of goodwill from customers and suppliers respectively, in other words, this could be an indicator that the firm is having liquidity challenges.

A conservative policy, on the other hand, tries to lower the danger of a systemic breakdown by maintaining large levels of working capital (Asongu,2013). Here, payment terms to clients are flexible to entice them to buy more, stocks are high to prevent stock-outs, and supplies are paid on schedule to foster goodwill. The drawback of this strategy is that the company can have a lot of unproductive assets, which would raise financing costs and reduce profitability.

A moderate policy however, is neither here nor there, it is, as the name suggests moderate, in the middle of the Aggressive and Conservative approaches(Khan,2007).

The cash operating cycle also known as the cash conversion cycle (CCC) of the firm will influence the level of working capital policy of the firm. The CCC is simply defined as the time it takes for inventory purchases to be turned into cash from sales (ZiCA 2011). The longer the CCC thehigher the investment inworking capital. The phenomenon of the CCC can be particularly important to MFIs as a means of WCM, Dash and Ravipati (2009) argues in this same line of thought that the length of CCC determines liquidity needs of a firm. The longer the CCC, the more the firm must invest in working capital, while the shorter the cycle, the fewer funds are tied up in working capital. By shortening CCC, the firm's liquidity and profitability also improve since a longer CCC makes the firm less liquid and less profitable. CCC can thus be shortened by reducing the number of receivablesdays on credit sales and increasing the number of payablesdays. According to Agyeyi and Yeboah (2011) they also argue that management should focus on shortening the CCC and by collecting receivables as soon as possible because it is better to receive inflows sooner than later. In addition a shorter CCC implies more efficient cash flow management in the firm. While on the other hand a longer CCC implies greater investment in working capital which results in higher financing costs. Thus, interest expenses will be higher which leads to higher default risk and lower profitability.

Due to their failure to meet the requirements of commercial banks, MFIs exist to provide financial services, primarily loans, to SMEs that may not have access to or be ineligible for obtaining credit or financial services from those institutions. Since providing loans to SMEs is their primary activity, MFIs working capital policy may prioritize growing their receivables while simultaneously delaying payments to their debtors in order to manage working capital. However, because longer loan terms are associated with higher risk, MFIs must expedite the collection of receivables.(Panigrahi,2014)

.In addition, a working capital management policy must aim to reduce the risk of default to manageable levels as this may be a threat to the liquidity of MFIs.Hence, the need for MFIs to have clear guidelines stipulated on how loans are to be given out, monitored and fully recovered and clearly stipulating measures to be taken in case of default, these guidelines are known as the

credit policy. The credit policy thus affects the level of working capital, according to Bagchi and Khamrui (2012) an effective credit policy increases both liquidity and profitability and reduce the risk default.

It is therefore imperative for firms to critically assess their working capital needs and strike a balance in the tradeoff between risk and return considering the overall impact this would have on the operations(Asongu,2013).

2.3 Working capital management from a global perspective

The management of working capital concerns the company's current assets and liabilities, representing the link between liquidity and profitability. The effective and efficient management of working capital facilitates the continuity of company operations, as it favours the company's ability to have a cash flow to pay short-term obligations (Altaf, 2018).

However, the optimal size of working capital is conditioned by the operational characteristics of the company and by the reference economic context. Therefore, especially in environments characterized by high environmental variability, identifying the optimal size is complex and requires continuous monitoring, to make the necessary adjustments. Over the last few years, as previously mentioned, several studies have analyzed the relationship between working capital management and profitability in developing economies. In Nigeria, Falope and Ajilore (2009) found a negative relationship between profitability and average collection period, inventory turnover, cash conversion cycle and average payment period. Bagchi and Khamrui (2012) analyzed Indian companies, finding a negative relationship between working capital and profitability. In Iran, Abbasi and Bosra (2012) have found that the cash conversion cycle and the number of days of holding stocks have no significant effect, while account receivables and account payables have a significant negative effect on the ratio of gross operating profit to assets. Ahmed (2013) analyzed the balance sheet data of Pakistani companies, suggesting that working capital has a positive impact on the performance of the company.

Tufail and Khan (2013) analyzed textile companies, finding a positive relationship between size and profitability and a negative relationship between working capital and performance. Similar results were highlighted by Rehman and Anjum (2013) in Pakistani cement companies. In Kenya,

Stephen ed Elvis (2011) found that trade receivables and inventory period negatively impact the profitability of manufacturing SMEs. The study by Prempeh and PeprahAmankona (2018) analyzed manufacturing companies listed on the Ghana Stock Exchange, highlighting a positive relationship between working capital management and profitability. Several studies have also been made in the Latin American context. Ribeiro de Almeda and Eid (2014) found that investments in working capital are less profitable than a cash investment and that increasing working capital at the beginning of the year reduces the value of the Brazilian firms.

In the same economic context, Nakamura and Palombini (2010) highlighted that the level of debt, size and growth rate have a significant impact on the management of working capital. Vazquez Carrazana et al. (2017) studied Brazilian agri-food companies, suggesting a positive and significant correlation between profitability and liquidity. Arcos and Benavides (2006) have found that in Colombian companies, the CCC was inversely proportional to the profitability. Mandujano Herrera and Navarro Orihuela (2015) studied manufacturing firms in Peru and Chile, highlighting a negative relationship between the cash conversion cycle and working capital requirement with profitability.

Vélez-Pareja et al. (2009) found that Latin American companies have an excess of liquidity which leads to a destruction of value. In the same context, Payne and Bustos (2008) highlighted that firms have used inadequate working capital management policies, highlighting that companies have excess liquidity. Terrain et al. (2019) studied Argentine companies listed on the Buenos Aires Stock Exchange, noting that companies with higher working capital have higher profitability. Furthermore, empirical findings contradict the literature that supports a negative relationship between liquidity and profitability, highlighting a negative relationship between liquidity and debt, and a positive relationship between changes in current capital and long-term debt. As is evident, the brief examination of the studies conducted in emerging and developing economies has shown conflicting results regarding the relationship between the management of working capital and profitability.

2.3.1 Effect of cash management on profitability

Cash management plays a crucial role in the profitability of microfinance institutions. Effective cash management practices help these institutions optimize their liquidity, minimize costs, and maximize returns on their investments. By efficiently managing their cash flow, microfinance institutions can ensure they have enough funds to meet their operational needs, maintain reserves for unforeseen expenses, and invest in income-generating opportunities.

Wahihenya (2013) examined the effect of working capital management on the profitability of the firms in Kenya from 2010 to 2012. The study sample was 11 firms across all the sectors in Kenya from the population of 67 firms. The study analyzed the working capital indicators which included inventory turnover period and cash conversion cycle. In the analysis, the Linear regression model was employed to establish t eh relationship between working capital and the profitability. He concluded that cash conversion cycle had insignificant effect on the profitability of firms in Kenya.

Maranga (2011) conducted a study to establish the relationship between working capital management and financial performance of the companies listed at the Nairobi Securities Exchange in Kenya from 2007 to 2010. Working capital management strategies among the companies listed at the Nairobi Securities Exchange. He analyzed the cash conversion cycle of the companies. He applied the linear regression model in the establishment of the relationships among the study variables. She concluded that cash conversion cycle had a significant positive relationship with the financial performance of the companies.

Mose (2016) conducted a study to study the effect of cash management practices on the financial performance of insurance firms in Kenya from 2013 to 2015. The population of the study was 37 insurance firms in Kenya, however a sample of 16 insurance firms were selected for the study. He used the primary data which was obtained using the questionnaires. ANOVA and simple regression model was employed in the analysis. From the findings he established that cash budgets were powerful tools in the cash management and it was prudent for firms to do budgeting the control the activities of the firms. He concluded that good cash management practices enhanced accountability hence improved financial performance.

Mutegi (2012) conducted a research to establish the effect of budgetary controls on the financial performance of construction firms in Kenya from the period 2008 to 2010. The population of the study was 47 construction firms however, a sample of 26 construction firms was selected. The research used the secondary data in the analysis.

The study sought to analyze various budgetary controls in improving the financial performance. Linear regression model was employed, he concluded that budgetary controls had a significant effect on the financial performance of the construction firms in Kenya.

Uwalomwa (2013) studied the impact of cash management on the profitability of insurance firms in Nigeria from 2006 to 2011 102 insurance companies were considered for the study however, 27 insurance firms was the sample for the study. The research used secondary data which was obtained from the financial statements for analysis. Cash conversion cycle measured cash management and return on equity the profitability of the insurance firms. He concluded that cash management had a positive impact on the financial performance.

Andy and Johnson (2010) conducted a study to assess the effect of cash management on the financial performance of the firms in the United States of America. The firms were selected from different sectors in the economy which included agriculture, insurance and construction sectors. The population of the study was 789 firms but a sample of 326 firms was selected for the study and they employed the linear regression and they employed the linear regression model in the study. The study involved the determination of cash conversion cycles and the return on assets which were the measures of cash management and financial performance. They concluded that cash management had insignificant effect on the financial performance of the firms in the United States of America.

Bosra (2013) conducted a survey to study the relationship between cash management and financial performance of insurance companies in India between t eh study period 2005 to 2010.Various working capital indicators were determined which included average collection period and cash conversion cycle. The study also carried out the linear regression analysis, from the study findings he concluded that cash management had no significant relationship with the financial performance of insurance companies in India.

Bhunia (2011) conducted a study on the effect of cash management on the financial performance of banks in Pakistan from 2006 to 2008. He used secondary data which was readily available to analyze the working capital management indicators which included inventory turnover ratio debtors' turnover ratio and cash conversion cycle. The researcher also employed a multiple regression model. He concluded that there was no significant relationship between cash management and financial performance of banks in Pakistan.

2.3.2 Effects non-performing loans on profitability

Recent years, non-performing loans have been widely discussed in the literature. Granting credit facilities by commercial banks is the primary function, which exposes them to credit risk. Credit risk presents the main risk faced by commercial banks, and banks' financial performance is dependent directly on the quality of the loan portfolio (Giesecke, 2003; Klein, 2013). According to Kaaya and Pastory (2013), credit risk is by far the most significant risk faced by banks, and the performance, survival, and sustainability of their business depend on accurate measurement, sound, and effective management of the risk relative to any other risks. The globalization process has increased competition in banking sectors which is reflected in reducing profit margins and profitability of banks, and thus banks are under pressure to better manage with credit risk exposure (Aliu & Sahiti, 2016).

According to Basel Committee (2000), credit risk is the risk of loss due to a non-payment of an obligation in terms of a loan of other lines of credit. Chen and Pan (2012) define credit risk as the degree of value fluctuation in debt instruments and derivatives due to changes in the underlying credit quality of borrowers and counterparties. Loans and other lines of credits that are at risk for default are usually categorized according to collection expectations into categories such as: "standard", "doubtful" and "loss" (Kalapo et al., 2012; CBK, 2019). Banks are obliged to use nonperforming loans to allocate allowances for credit losses that are collective, impersonal (not related to the specific borrower), and expected (Voloshy, 2020). Loan loss allowances present a safeguarding instrument for banks that amortize the shocks that banks' financial performance faces when a loan is not paid.

Credit risk, measured by non-performing loans, is used as a determinant for bank profitability. The high level of non-performing loans adversely affects provisioning for doubtful debts and written-off loans, which normally affects profitability and capital levels. The NPL ratio serves as a standard measure for quality assets because the risk level is a key factor driving banks' overall performance (Elekdag et al., 2019). We have several papers that study factors that contribute to increasing the level of non-performing loans (Klein, 2013; Ozil, 2019; Kingu et al., 2018) and all came to the same conclusions that there are two categories of determinants of NPL: first, banks specific (size, capitalism, liquidity, and efficiency), and secondly macroeconomic factors (GDP, inflation rate, unemployment rate, and investment rate). Kithnji (2010) emphasized more specific factors that are a source of credit risks such as inappropriate laws, low capital, liquidity levels, direct lending, massive licensing of banks, poor loan underwriting, laxity in credit assessment, poor lending practice, government interference, and inadequate supervision by the central bank.

Whereas, Arko (2012) state that institutions with an aggressive approach, report a large proportion of the loan disbursement to become non-performing loans and finally result in the bad debts, with negative consequences on their overall financial performance. The level of non-performing loans depends on the interest rate and business cycles. It is proved that the level of non-performing loans increases when the economy is in recession; and when the economy has a positive trend, the quality of the portfolio record improvements (Beck et al., 2013; Espinoza & Prasad, 2010). Identification of determinants that influence non-performing loans is important for efficient credit risk management and supervisory bodies to ensure the financial stability of the banking sector (Ozil, 2019).

The immediate consequence of large amount of NPLs in the banking system is bank failure as well as economic slowdown. The causes of nonperforming loans are usually attributed to the lack of effective monitoring and supervision on the part of banks, lack of effective lenders' recourse, weaknesses of legal infrastructure, and lack of effective debt recovery strategies (Adhikary, 2006). There is no global standard to define non-performing loans at the practical level. Variations exist in terms of the classification system, the scope, and contents. Such problem potentially adds to disorder and uncertainty in the NPL issues. Non-performing loans have non-linear negative effect on banks' lending behavior (Hou, 2001).

Non-Performing Loans (NPLs) are regressed on three sets of factors in terms of credit, banks size induced risk preference and macroeconomic shocks. The panel regression models show the terms of credit variables to be significant. The estimated coefficient on changes in cost of credit because of expectation of higher interest rate is positive. On the contrary, horizon of maturity of credit, better credit culture, and favorable macroeconomic and business conditions decrease the NPLs (Ranjan & Dhal, 2003).

Profit efficiency of large commercial banks is by accounting for non-performing loans. Although non-performing loans are negatively related to banks' profit efficiency, it is not statistically significant (Fan & Shaffer, 2004). An empirical result of econometric model based on a study on Guyana show that GDP growth is inversely related to non-performing loans, suggesting that an improvement in the real economy translates into lower non-performing loans. We also find that banks which charge relatively higher interest rates and lend excessively are likely to incur higher levels of non-performing loans (Khemraj & Pasha, 2006).

The presence of an alarming amount of NPLs both in the Nationalized Commercial Banks (NCBs) and in the Development Financial Institutions (DFIs), along with maintenance of inadequate loan loss provisions, diminishes the overall credit quality of Bangladesh. Poor enforcement of laws relating to settlement of NPLs, followed by insufficient debt recovery measures on the part of the banks, has also aggravated the financial malaise (Adhikary, 2007).

2.3.3 Effects of operating expenses on profitability

A study by Kiaritha, Gekara and Mung'atu (2014) focused on how operating costs had an effect on the SACCO's financial performance. Adoption of descriptive research design was done. The SACCOs formed the target population which were sampled through stratified method and the respondents selected using simple random sampling techniques. It was observed that the SACCO's policies were very effective in the management of the operating costs. Particularly, the outcome from the study was that employees were in correspondence that the major costs incurred were from the salaries, rent and interest rates placed on deposits made by the members to their SACCO.

Kinyugo (2014) researched on cost efficiency effect on the financial performance of listed firms in Nairobi securities exchange. The study population constituted of all banks that were listed at

NSE and a census of these banks was done. The study relied on secondary data. The results were that the management of the assets demonstrated the way management efficiency utilized the assets of the firm in generating sales within a particular timeframe. The outcome also was that return on asset had related positively on efficiency.

Muriithi (2017) conducted research on the connection between operational expenses and the financial performance of occupational pension schemes in Kenya. The study focused on secondary data based on 164 pension schemes from the year 2007 to the year 2009. A sample of 329 pension schemes was obtained through stratified technique. It was observed that the investment management costs as well as administrative cost exhibited a negative correlation with financial performance. Sinta, Kembaren and Fadli (2021) study examined the relationship between operational cost and the financial performance of Pt. Gotong Royong Jaya. Quantitative data was used as the research methodology. Although the information used was secondary. Simple linear regression analysis was employed in this study's data analysis to create a thorough picture of the impact of variable operating costs on financial performance. A simple linear regression model is used to determine whether the independent variable has a substantial impact on the dependent variable. The study found that operating costs have a big impact on PT. Gotong Royong Jaya's financial performance.

A study by Uddin and Hossain (2020) sought to examine impact of operating expenditures on firms' profitability. Specifically the study examined the impact of operating expense such as salaries and wages, rent and repairs and maintenance, advertising and depreciation, etc. on the profitability of business

The study revealed that operating expenses have a significant impact on profitability and are a key factor in maintaining the company's long-term value. The study revealed that when salaries& wages increases by 10 % operating margin decreases by 8%.

The result also showed that there exist both positive and negative relationships between firms' profitability and operating expenditures. The study found that operating expenses have an inverse effect on a firm's profitability. The study advised that firms that need high levels of cash such as financial institutions need to closely control their operating expenses so as not be starved of cash

Working capital is a term used to describe the resources (capital) used in a company's daily operations. To maintain a healthy cash flow and be able to pay its short-term commitments as they become due, every business needs sufficient liquid resources. WCM is essential to the organization's long-term success; as a result, a company must establish specific WCM rules for each working capital component (ZiCA 2011).

Olagunju et al., (2011) concluded that for the success of operations and survival, commercial banks should not compromise efficient and effective liquidity management and that both illiquidity and excess liquidity are "financial diseases" that can easily erode the profit base of a bank as they affect bank's attempt to attain high profitability level.

2.3.4 Effects of debt recovery efforts on profitability

Globally, debt recovery policies apply equally to all members regardless of their professional or social standing. It is an object of the bank to be in compliance with applicable national and regional regulations, to follow Board approved procedures and guidelines, to adequately train staff to perform their duties, and to properly document loan files. Under special and pre-authorised circumstances, loan officers may collect loan payments from the field. Under such circumstances, when outside the office, the loan officer should use common sense in accepting payments for delinquent loan. If a decision is made to accept a payment, always provide a receipt for the borrower and get here/his signature verifying the amount (Makori & Sile, 2017).In Australia, there exist systems debt recovery policy and procedures that banks have in places so as to secure payment from their customers once payment becomes due. Systems begin, the follow up and late payment chasing procedures similar to letter and telephone calls. They are available in to operations once customers account becomes delinquent. Its only payment has been obtained from a client that the sale is complete (Mercylynne & Omagwa, 2017). Debt recovery policy is a very important part of the general credit risk management method among commercial banks. A good assortment policy is essential in dominant the investments in debtors and additionally reducing the danger of monetary loss and illiquidity through slow payment. If the collection policy is incredibly demanding, it's going to create customers get different suppliers and this could need putting a balance thus on guarantee business continuity. It‟s a reality that there'll be late payers in client base. Once payments square measure thought to be late varying of procedures and ways is also

adopted to get payments (Johnson, 2018).In Canada, Commercial banks performance is measured by different parameters such as market share, branch network, asset base, profitability and the quality of the loan book. Debt recovery policy is essential to manage and control the risks associated with credit sales (Mercylynne & Omagwa, 2017). The purpose of credit management is to manage both the financial and political risks associated with credit sales. The policy on credit management comprises systems, guidelines and principles that serve as a blueprint for employees in the credit department in awarding loans and steering the total collection of credit facilities. Credit means trust and trust has to be based on knowledge for it to have any real meaning (Borroni & Rossi, 2019).

In Africa, many banks have suffered financial distress and failure due to poor use of debt recovery techniques and nonperforming loans. Commercial banks debt recovery policy determines who the target customer is. The business sector is important to banks in its contribution to profitability. Although there are high risks associated with business lending, banks are compensated in terms of fees, interest margins and deposit balances held in the banks. Lending policies that are unfavorable to business customers are therefore likely to lower profitability for commercial banks. For instance, in Kenya many of these banks have been closed by regulatory authorities having some of them restructured. In Kenya the rise of consolidated bank is attributed to failure of a number of local financial institutions as they are positioned under consolidation (Offiong & Egbuka, 2017).Debt recovery policy is an activity of making individuals and business pay debts, usually one that they have not paid on time or that they are refusing to pay (Ehrhardt & Brigham, 2016). Also, Ohanka (2016) defines debt recovery as the job of collecting payments from people who have failed to repay the money they owe for goods, services that they have already received with many people owing billions and billions of dollars in debt, both creditors and collecting agencies are feeling the pressure. Debt collectors must employ techniques that will encourage debtors to pay. Successful debt recovery techniques will help the collectors get the account settled immediately. On top of the pressure to collect debt, debt collectors still have to be mindful of the laws that protect debtors (Roodman, 2012).

In Ghana, commercial banks have engaged the use of debt recovery policy management which involves the setting up of legal and formal systems and policies that will guarantee that the appropriately designated staff are well-positioned to grant credit, the facility goes to the people

with the right credit history, the loan is given out for profitable activities or for businesses which have a strong financial and technical viability, the correct amount of credit is disbursed, the credit can be recovered and the flow of management information is sufficient within the organization to allow for effective monitoring of credit activity. It is recommended to put in place of systems that act as a check right from the credit granting process to the point of collection (Apanga, Appiah & Arthur, 2016).In South Africa, debt recovery policy helps to avoid extending credit to customers who are unable to pay their accounts. Credit policy for some larger businesses can be quite formal; involving specific documented guide lines, credit checks and customer credit applications, the policy for small businesses tends to be quite informal and lacks the items found in the formal credit policy of larger businesses. Many small business owners rely on their business instinct as their credit policy (Otto, 2018). Credit policy has direct effects on the cash flow of any business. Hence, a credit policy that is too strict will turn away potential customers, reduce sales and finally lead to a decrease in the amount of cash inflows to the business. On the other hand, a credit policy that is too liberal will attract slow paying (even non-paying) customers, increase in the business average collection period for accounts receivables, and eventually lead to cash inflow problems. A good credit policy should help management to attract and retain customers, without having negative impact on cash flow (Karanja, Bichanga, & Kingoriah, 2018).

Commercial banks in Kenya have suffered significant loan repayment default problems resulting into decreased employment levels and liquidity problems. Interest rate changes have also contributed to non-performing loans. Data collected from the Central bank supervision report for 2018 first quarter show that the total assets held by the commercial banks in Kenya amounted to KES 3.5 trillion with loans and advances of about KES 2 trillion. The deposit base stood at KES 2.5 trillion and the profit before tax of the sector in general stood at KES 30 billion (Mokaya, Jagongo, James & Ouma, 2018).Kenyan banks are inevitably exposed to credit risk because they grant credit facilities as they accept the deposits. Credit risk is the possibility of losing the outstanding loan partially or totally, due to credit events (default risk) (Juma, & Atheru, 2018). Credit risk is the exposure faced by banks when a borrower (customer) defaults in honouring debt obligations on due date or at maturity (Wachira, 2017). Anthony and Othieno (2016) indicated that credit creation is the main income generating activity for the banks. As a result adequate management on loan processing is critical for the growth and survival of the banks otherwise the

credit activity may lead to financial distress.CBK supervision annual report 2019 indicated that the ratio of non-performing loans to gross loans increased from 12.03 percent in December 2018 to 12.78 percent in March 2019.Non-performing loans are associated with bank failures because borrowers do not pay their loans in time which leads to financial crises for commercial banks in Kenya. Due to the nature of their business, commercial banks expose themselves to the risks of default from borrowers and this risk is known as credit risk. If the non-performing loans are kept existing and continuously rolled over the resources are locked up in unprofitable sector thus hindering the economic growth and impairing the economic efficiency.

2.4 Empirical review of working capital management and profitability

Working capital has been utilized by various persons in a variety of ways, as with many other financial and accounting words. There are various ways of thinking about working capital. According to some academics, all capital resources provided by bondholders, shareholders, and creditors are used by a company's operations to produce revenue and support future expansion and growth, hence they should all be regarded as working capital.

A different school of thought, however, connects working capital to current assets and current liabilities. These academics contend that the working capital of the company should properly be defined as the difference between current assets and current liabilities. Therefore, working capital refers to the portion of a company's assets that are used for current (day-to-day) activities).

According to Ward (2010) working capital is the net investment as a result of a business in commissioning current assets (such as cash and bank, inventories, and trade receivable) and commissioning current liabilities (such as overdraft and trade payables). More over Working capital management is the managing of current resources as well as current liabilities (Creswell, 2003).The management of working capital is very crucial element in firm performance(Paul and Boden, 2008). Traditionally, the study of finance looks at funds management in a direction which will ensure the achievement of a particular objective such as the maximization of returns on capital investment, (Finau, 2011). How such capital will be effectively utilized in financial management is key, in so doing the identifying of the business objective and its financial functions of working capital management is one determinant (Brigham and Ehrhardt, 2010)

Financial needs are mainly classified into two types of needs: working capital needs and fixed capital needs(Khan,2007). That part of finance which enables an enterprise to perform its day-to-day operations is called working capital. Banks need to analyze short term assets and liabilities carefully in order to manage the firm's liquidity, management of working capital helps managers to manage their operation of the firm through making available cash to pay for short-term debt and the maturity of long term debt as well as expenses resulting for daily operations. So, an optimal level of working capital must be kept to trade off between return and risk (Ranjith, 2008).One of the integral components of the overall corporate strategy is to manage working capital efficiency. This needs to control short term obligation as well as decrease investment in liquid assets as much as possible in order to create shareholder value (Eljelly 2004). In practice, Narender, Menon and Shewtha, (2009) show that a firm may lose several profitable investment opportunities or suffer a liquidity problem if the working capital is too low or it is improperly managed

The relationship between working capital management and profitability of listed companies on the Tehran Stock Exchange was examined by Yaghobnezhad et al. in 2010. In the study 86 companies were chosen between the years of 2002 and 2007 for this purpose. The average collection period, inventory turnover, average payment period, and cash conversion cycle were among the working capital management factors whose effects on a company's net operating income were examined in this study. The findings indicate that working capital management and profitability are inversely related.

A Nigerian study by Padachi (2006) on the relationship between liquidity and profitability on a firm's performance revealed that a firm's enhanced financial performance depends on maintenance of a health balance between liquidity and profitability.. To enhance a firm's value, the management of a corporate entity must strike the right balance between liquidity and profitability. Padachi(2009) used a sample of 25 non-financial firms in Nigeria to investigate the relationship between the working capital components and profitability as measured by return on assets. The study revealed that efficiency in debt collection had a positive impact on a firms' profitability ..

A substantial inverse relationship between working capital management and profitability among Nigerian businesses was also discovered by Falope & Ajilore (2009). In their study, Shah and Sana

(2006) used gross operating income as the dependent variable and the following independent variables: receivable days, payable days, inventory days, current ratio, and quick ratio. They evaluated their data using correlation analysis and the ordinary least squares method. They came to the conclusion that there is a bad correlation between working capital components and gross operating income.

For the 88 American companies that were listed on the New York Stock Exchange between 2005 and 2007, Gill (2010) conducted research on the correlation between working capital management and profitability. According to the findings, there is a statistically significant correlation between the cash conversion cycle, a working capital management evaluation criterion, and gross operating profit, a company profitability indicator. Management can use the cash conversion cycle and maintain an appropriate level of accounts receivable to increase profits for their organizations.

Using a sample of 30 companies listed on the Nairobi Stock Exchange (NSE) between 1993 and 2008, Mathuva (2010) investigated the impact of working capital management elements on corporate profitability. To analyze the data, he employed fixed effects regression models, pooled ordinary least square (OLS), and Pearson and Spearman's correlations. His research revealed an extremely substantial inverse relationship between profitability and the time it takes to collect accounts. The results showed a positive and significant correlation between profitability and either the average payment period or the inventory conversion period.

In order to investigate the factors impacting the practices of liquidity risk management in such institutions, Kimathi et al. (2015) undertook a study in Kenya. The study used a survey-based research design. The 128 employees from the six Kenyan MFIs that were selected made up the target demographic. For the study, 96 workers were chosen as a sample. Questionnaires were used to collect data from the field. The acquired raw data was examined using SPSS Version 21.0, Statistical Program for Social Sciences. The hypotheses were examined using multiple regression analysis. The results of the investigation show (Kimathi et al., 2015),The procedures Micro Finance Institutions use to manage their liquidity risk are significantly influenced by their internal control systems, policies, board oversight, and risk monitoring.

The study recommended that established MFIs document their local strategies used in liquidity risk management, introduce effective internal control processes through the use of computerized financial management systems, employ effective policies that have a positive impact on the overall functions of liquidity risk management, and develop initiatives to facilitate review of the liquidity management framework and also provide strategic advice (Asongu,2013).

A study was conducted by Ismal, Rifki (2010) to examine the methods used to manage liquidity in Islamic banks and to learn more about how depositors and Islamic bankers actually perceive these methods. To assess and compile all pertinent data on liquidity risk management and to create the research's major result, a quantitative research approach was applied. An internet technology was used to administer the survey to depositors and Islamic bankers. The study discovered that conventional banks and Islamic banks both confront a number of risk factors that have an impact on their operations and performance and profitability . Liquidity risk was one of these risk factors, and it manifested special characteristics in the case of Islamic institutions. In order to manage liquidity risk, banks were advised to have strong liquidity risk management policies, a responsive asset and liability committee, efficient information and internal control systems, and techniques for managing deposits to reduce on-demand liquidity.

Alshatti (2015) considered how profitability in Jordanian commercial banks throughout the time period was affected by liquidity management between the period 2005–2012. To represent the entirety of the Jordanian commercial banks, 13 banks were selected. Investment ratio, quick ratio, capital ratio, net credit facilities/total assets, and liquid assets ratio were the indicators of liquidity, whereas return on equity (ROE) and return on assets (ROA) were indicators for profitability, the dependent variable. The findings of the study revealed that while there was a negative impact of the capital ratio and the liquid assets ratio on the profitability of the Jordanian commercial banks, there was a positive impact of an increase in the quick ratio and the investment ratio of the available funds.

In order to determine the impact of liquidity on the profitability of microfinance banks in Kenya, Buserese (2016) performed a study there. Buserese (2016) came to the conclusion that a formal and appropriate financial policy on the administration and management of liquidity is lacking in many institutions all over the world. The adoption of standards and policies to manage cash and

liquidity is still essential for the institutional viability for financial institutions undergoing fast-paced expansion, such as microfinance banks, both in the short and long terms. The study's participants included each of Kenya's nine microfinance institutions that were active between 2011 and 2014.

For this particular study secondary data were gathered on the return on assets (ROA) to gauge profitability and the loan-to-deposit ratio to gauge liquidity during a given year. The study made use of secondary data from the Association of Microfinance Institutions' annual publications and the Central Bank of Kenya's annual supervisory reports. Regression analysis and descriptive statistics were employed in the study to determine the association between the variables..

The study revealed that one of the factors affecting the profitability of Kenyan microfinance banks was poor liquidity position of the institutions due to high portfolio of bad loans. The study recommended that in order for microfinance banks to continue being profitable, their financial managers should maintain ideal levels of liquidity. (Buserese,2016)

Bordeleau, Crawford and Graham (2009) reviewed the impact of liquidity on bank profitability for 55 United States banks and 10 Canadian banks between the period of 1997 and 2009. The study employed quantitative measures to assess the impact of liquidity on bank profitability. Results from the study suggested that a nonlinear relationship exists, whereby profitability is improved for banks that hold some liquid assets, however, there is a point beyond which holding further liquid assets diminishes banks' profitability, all else equal. Conceptually, this result is consistent with the idea that funding markets reward a bank, to some extent, for holding liquid assets, thereby reducing its liquidity.

2.5 Critique of existing literature

For microfinance organizations operating in Zambia, changes in the external environment, such as inflation rates and central bank monetary policies, as well as internal organizational actions also have an impact on their liquidity. Listing on the stock exchange helps commercial banks create more short to medium term finance for both large and small businesses, and since micro finance institutions are a source of long-term capital on a large scale, this is a fantastic opportunity to increase working capital and grow business operations... Numerous research on liquidity and the variables influencing

commercial banks' liquidity have been conducted up to this point(Buserese,2016; Alshatti, 2015; Kimathi et al. 2015; Rifki 2010; Mathuva,2010; Bordeleau, Crawford and Graham ,2009; Padachi ,2006)

However, the majority of research were conducted on behalf of commercial banks, with only a small number concentrating on how working capital management impacted microfinance profitability. Furthermore, prior research on the factors impacting liquidity primarily looked at the effects of liquidity, not the interplay between receivables and payables and liquidity in financial institutions but not not necessarily non-ban financial intuitions . In order to fill the theoretical and empirical research gaps regarding the impact of working capital management on Bayport's profitability, this study is required.

Many of the studies conducted, little has been done on the effect of liquidity on profitability of Microfinance Banks in Zambia. Much of the work done in this area of research has concentrated on commercial banks(Buserese,2016). Motivated by this gap in literature, the study seeks to determine the effect of liquidity on profitability of Microfinance Banks in Zambia, taking the case of Bayport, Zambia.

2.6 Lessons learnt and Research gap

From the above literature it is evident that liquidity has a significant relationship with profitability. Review indicated that there was a trade-off between profitability and liquidity in the financial sector but the two variables are positively correlated and also reinforced each other Crawford and Graham ,2009; Padachi ,2006). There was also observed varying results depending on the industry in which the research was conducted. Holding of liquid assets in the financial sector was beneficial up to a certain extent beyond which an increase in holding liquid assets can eventually be outweighed by the opportunity cost of holding such comparatively low-yielding liquid assets on the balance sheet. Little focus has been laid on the effect of liquidity on profitability of microfinance banks in Zambia . This study therefore seeks to establish the effect of liquidity on the profitability of microfinance banks in the context of Zambia .

2.7 chapter summary

This chapter has presented the empirical review of the study together with the overview of the micro finance institutions in Zambia. The next chapter presents the theoretical and conceptual framework of the study. The hypothesis of the study are also presented in the next chapter.

CHAPTER 3

THEORETICAL AND CONCEPTUAL FRAMEWORK

3.0 Introduction

The previous chapter presented the empirical review of the study. This chapter presents the theoretical and conceptual framework of the study.

3.1 Theoretical framework

This study focuses on theories namely Liquidity theory Walker's theory the cash conversion cycle theory, stakeholder theory, liquidity preference theory and operational efficiency theory . These theories provide theoretical evidence on the relationship between liquidity and profitability of firm

3.1.1 Walker's Theory

According to this hypothesis, a company's profitability and growth are influenced in part by how its working capital is managed (Asongu, 2013). According to a claim, the turnover of working capital and the rate of return on investment both fall when the flow of cash generated by the movement of working capital is halted for a variety of reasons. According to Walker's thesis, each component of working capital should get capital investment so long as the organization's equity position improves. This is consistent with the idea that every Kwacha invested in working capital or fixed assets should effectively increase the firm's net worth.

More specifically, it is asserted that the kind of capital used to finance working capital has a direct bearing on the level of risk the organization accepts, the possibility of profit or loss, and the cost of capital. The working capital management process is more easily understood according to Walker's idea. The researcher asserts that financial institutions recognize that a company's capacity to pay back short-term loans is directly tied to cash flow rather than earning. Therefore, it goes without saying that every company must make every effort to ensure the maturity of its flow of domestically generated money. In the current study, Walker's theory can be used to describe how MFIs might manage their cash flows to increase their profitability and eventual. Walker's Theory will be used to understand the relationship between working capital management and firm

profitability. In the context of microfinance institutions, effective working capital management is crucial for maintaining liquidity and ensuring sustainable growth.

This is supported by Altaf (2018) who explains that one possible application of Walker's Theory in a study on the effect of working capital management on the profitability of microfinance institutions could involve analyzing the impact of various working capital management practices, such as cash management, inventory management, and accounts receivable management, on the financial performance of these institutions.

3.1.2 Cash Conversion Cycle Theory.

The working capital management theory is said to be based on conventional models of the cash conversion cycle (CCC). Nobanee, H., Abdullatif, & AlHajjar, (2011) pointed out that it is important to comprehend how well a corporation is arranging its working capital. The delay between making a cash payment for raw materials and then getting them from accounts receivable is said to be dynamically measured by CCC. In the same vein, it is hypothesized that CCC combines data from the income and balance sheets to quantify liquidity over time in relation to the dynamics of ongoing liquidity management. In fact, it may be concluded that the most significant part of working capital management is CCC (WCM).

CCC illustrate the investment and credit decisions in the customer, inventory and suppliers, which in turn, shows the average number of days from the date when a firm starts payment to its suppliers and date when it begins to receive payments from its debtors. CCC is employed as the overall measure of working capital since it illustrates the gap between expenditure for purchases and collection of sales (Padachi, 2006). In fact, Jordan defined cash cycle as the time between cash disbursement and cash collection. Cash cycle can be illustrated in an equation where: Cash cycle = operating cycle – accounts payable period. On the other hand, Operating cycle = inventory period + accounts receivable period. In the context of the current study, the cash conversion cycle was employed to illustrate the interaction between cash management which is the independent variable of the study and profitability of MFIs in Zambia.

In relation to applicati of the CCC theory in this study, Muriithi (2017) states that the Cash Conversion Cycle (CCC) theory can be applied to study the effect of working capital management

on the profitability of microfinance institutions by analyzing how efficiently these institutions manage their cash flows, accounts receivable, and accounts payable. A shorter CCC generally indicates better working capital management and can lead to improved profitability.

3.1.3 Stakeholder theory

According to Miles (2011) the idea defines and models the stakeholder groups in an organization, describes and suggests ways management might take into account those groups' interests. (Freeman, 2008) According to the traditional perspective on a corporation, known as the shareholder view, the shareholders or stockholders are the actual owners of the business, and the company has a legal obligation to prioritize their demands and maximize profit for them. Stakeholder theory contends that additional parties are involved, such as governmental organizations, political parties, business associations, labor unions, local communities, financiers, suppliers, employees, and clients. The firm's cash levels may be important to several stakeholders.

Because cash holdings are seen as a sign that the company is in excellent health and will be around in the future, suppliers and customers may prefer to do business with cash-rich organizations. Similarly, when a company has more money in the bank, employees may feel more confidence that they will be paid (Miles et al,2011)

The administration of banking institutions, and more specifically MFIs, must make sure that all stakeholders' interests are taken into account when carrying out their supervision duty. To ensure that the institution's ability to continue operating unhindered, managers at Bayport must develop ways for managing liquidity risk. As a result, all parties involved will have faith in the Bank's management. Customers will be confident in the security of their funds, creditors and suppliers will know that the institution will be able to pay its bills, regulators will know that Bayport is abiding by the rules set forth, and shareholders will be confident in the safety of their investments.

The application of Stakeholder theory in this study involved identifying and analyzing the various stakeholders involved in the operations of these institutions, such as investors, customers, employees, regulators, and the community. The study aimed to understand how the management of working capital impacts the interests and expectations of these stakeholders, and how it ultimately affects the profitability of the micro finance institution. According to Muriithi (2017),

by considering the needs and concerns of all stakeholders, the study can provide valuable insights into how working capital management practices can be optimized to achieve sustainable financial performance while also meeting the social and environmental responsibilities of the institution.

3.1.4 Liquidity preference theory

The Liquidity Preference Theory, which claims that short-term bonds are preferable over long-term bonds for two reasons, is the second theory (Kregel, 1997)... Short-term bonds are typically preferred by investors over long-term securities because they are more liquid in that there is less chance of principal loss when the securities are converted to cash. At the same time, borrowers take the complete opposite action. In general, borrowers favor long-term debt since short-term debt puts them at danger of having to make payments under difficult circumstances. As a result, borrowers are more likely to pay a higher rate for long-term processes than for short-term ones, other things being equal.

Combining these two sets of preferences suggests that the yield curve should be upward sloping since under normal circumstances there exists a positive maturity risk premium that rises with maturity. Liquidity preference theory, as a theory of balance sheet determination, enables us to more precisely depict banks' decision-making challenges as well as comprehend the nature of the changes happening in this sector. Its premise is that, in contrast to the conventional approach, where one asset provides only monetary returns and the other simply liquidity, every asset offers a mix of predicted financial returns and a liquidity premium.

However, each mix of obligations entails a unique combination of risks associated with being unable to roll over debts if necessary, as well as costs associated with doing so. Which combination of assets and liabilities is acceptable to any individual agent, whether they be a person or an organization like a bank, depends on their liquidity preference. Therefore, an agent's selection of assets, their market valuations, and his or her collection of liabilities will reflect his or her desire for liquidity.

Therefore, rather than simply choosing between reserves and loans or passively providing whatever amount of credit is required, a bank's decision problem is how to distribute the resources they create or collect among these different items that offer specific combinations of expected

monetary returns and liquidity priority. Banks' liquidity preferences, not their demand for money or even their want for outside money, characterize their balance sheet strategy. On the other side, financial institutions that prioritize liquidity will compare the projected returns and liquidity of all tradable assets rather than passively accommodating the demand for loans (Kregel, 1997).

By applying the Liquidity Preference Theory, researcher was able to analyze how the level of liquidity held by microfinance institutions affects their ability to meet short-term obligations, invest in growth opportunities, and ultimately generate profits. This theory was also applicable in a study by Mandujano and Navarro (2015) who argued that microfinance institutions typically deal with small-scale borrowers who may have limited access to traditional banking services. Effective working capital management, which involves managing current assets and liabilities to ensure smooth operations, is crucial for the sustainability and profitability of these institutions.

3.1.5 Operational efficiency theory

One of the most important internal elements that affects a company's profitability is operational efficiency. Different financial measures, such as total asset growth, loan growth rate, and earnings growth rate, serve as indicators of it. It is a challenging subject to analyze using financial ratios. Furthermore, another aspect of management quality is operational effectiveness in controlling operating expenses (Halling and Hayden, 2006)..

The effectiveness of management is frequently stated qualitatively through the subjective assessment of organizational discipline, control systems, management systems, staff quality, and other factors. Operational efficiency is proxied by some financial ratios included in the financial statements. Financial ratios can be used to assess a management team's capacity for resource deployment, income maximization, and operating cost reduction. Operating profit to income ratio is one of these measures that is used to assess management quality (Halling and Hayden, 2006).

Operational efficiency theory was applied to this study by examining how efficiently these institutions are utilizing their resources to generate profits. This theory focuses on improving processes, reducing waste, and optimizing operations to achieve maximum efficiency and effectiveness. Tufail (2013) states that one way to apply operational efficiency theory in this context is to analyze the working capital management practices of microfinance institutions and

identify areas where improvements can be made to enhance profitability. This could include evaluating the efficiency of inventory management, accounts receivable and payable management, and cash flow management.

3.2 Conceptual Framework

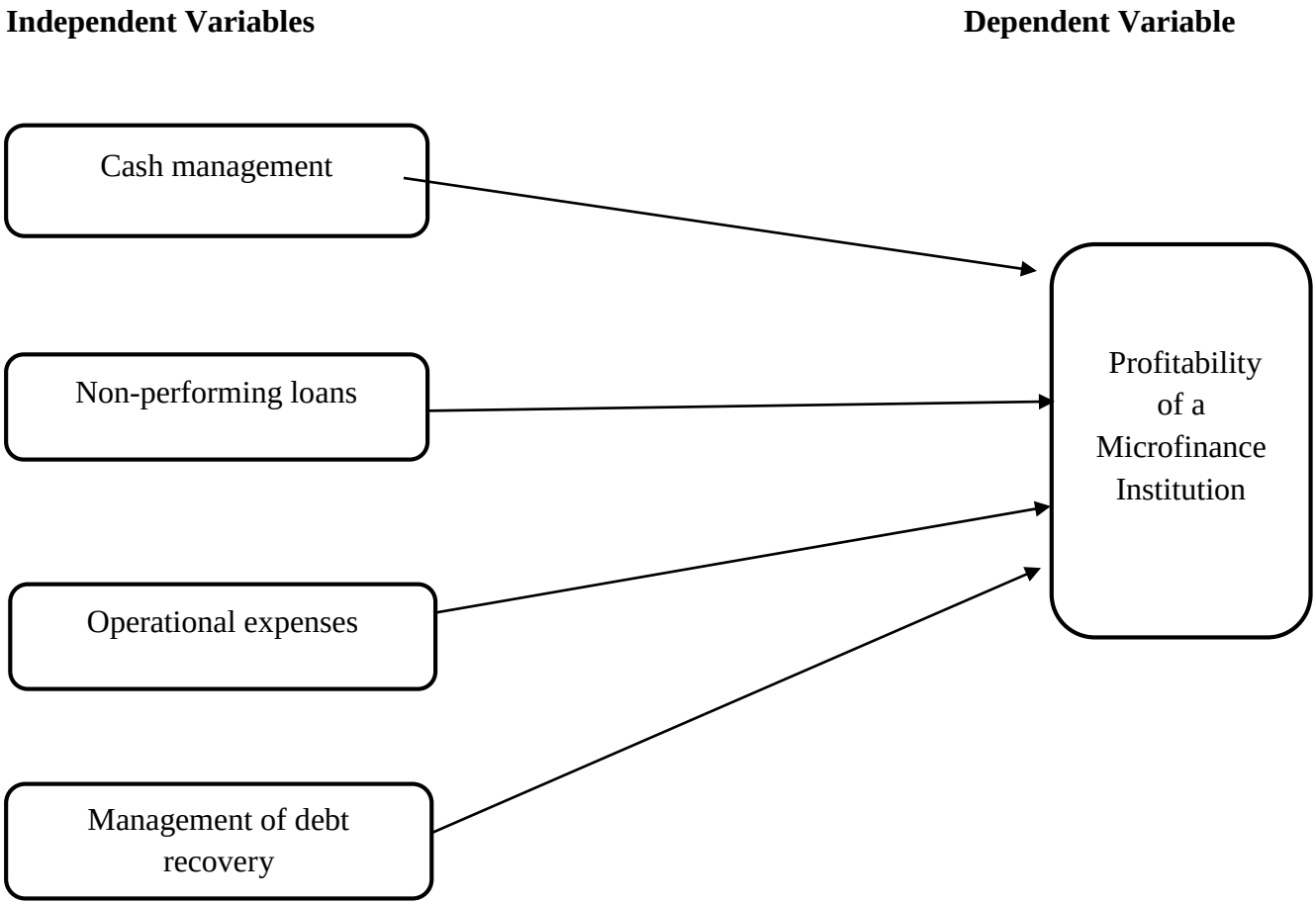
The study's conceptual framework is predicated on Growth in Profitability of a Microfinance Institution (MFI) as a dependent variable , and three independent variables (management of liquid cash , Influence of non-performing loans and Management of the cash conversion cycle) as depicted in the diagram below).

The conceptual framework was developed from the literature reviewed by identifying key concepts, theories, and relationships among variables that are relevant to the research topic. This involved synthesizing existing knowledge and identifying gaps in the literature, which helps to guide the development of the conceptual framework.

To develop a conceptual framework from the literature reviewed, the researcher typically followed the steps below:

1. Identify key concepts and variables from the literature that are relevant to the research topic.
2. Determine the relationships among these concepts and variables based on existing theories and empirical evidence.
3. Organize these relationships into a coherent framework that provides a theoretical basis for the research.

Figure 3.1: conceptual framework



3.3 Chapter summary

This chapter has presented the key theories related to this study. The conceptual framework depicting the depended and independent variables has also been presented. The next chapter will present the research methodology

CHAPTER 4

RESEARCH METHODOLOGY

4.1 Introduction

The study design, study population, sampling methods, data collection tools, data collection source, and data analysis are all covered in this area of the study . It also outlines the data analysis and ethical considerations used in this study.

4.2 Research Design

A descriptive survey design which combines quantitative and qualitative approach was used in this study (Collins (2010) This method of data collection was selected for this study since it made it possible to get the data quickly. However, it may take a day to several weeks or more to gather all the required data (Gall et al., 1996). The researcher opted to use a descriptive research design because a descriptive research design in a mixed methods research approach include the ability to provide a comprehensive understanding of the research topic, the opportunity to gather both quantitative and qualitative data, and the potential to validate and complement findings from different data sources. Furthermore, descriptive research designs can also help researchers to develop a detailed picture of a phenomenon or population, which can be valuable for informing further.

The type of mixed method approach used in this study was the sequential explanatory design. In this approach, quantitative data was collected and analyzed first, followed by qualitative data collection and analysis to help explain the quantitative results. The researcher sought to use this approach due to its straightforwardness and provision of opportunities for the exploration of the quantitative results in more detail.

4.3 Research approaches

Both quantitative and qualitative research approaches were used in this study . This was so because the study sought to measure relationships among variables as well as collect qualitative data from managers at Bayport on how the could improve liquidity management to enhance profitability . A

deductive approach is concerned with “developing a hypothesis (or hypotheses) based on existing theory, and then designing a research strategy to test the hypothesis”. It has been stated that deductive means reasoning from the particular to the general. If a causal relationship or link seems to be implied by a particular theory or case example, it might be true in many cases(Saunders et al,2016) . A deductive design might test to see if this relationship or link did obtain on more general circumstances. Deductive approach offers the following advantages: explain causal relationships between concepts and variables, measure concepts quantitatively and generalize research findings to a certain extent.

4.4 Population of the Study

According to Saunders et al(2016) the research population ‘consists of individuals or elements, and these could be persons or events of research interest. The target population of Bayport employees at Head office where the study was conducted was 135.

4.5 Sample Size Determination

Yamene (1967) provides a simplified approach for estimating sample sizes which is especially useful in computing sample sizes for small target populations. To be considered in the sample size are heads of business units, post masters and management.

The researcher had a target population of population 135 which was used to determine the sample size.

n= N/ (1+N (e)2)

Where: n signifies the sample size

N signifies the population under study

e signifies the margin error

n= 135/ (1+135(0.05)2)

n= 135/ (1+ 135(0.0025)

n= 135/ (1+0.3375)

n= 135/1.3375

n= 100.345794

Therefore, the study sample was 100 respondents.The research was carried out at the Head Office of Bayport in Lusaka and the sample size is as detailed below detailed hereunder:

Table 4.1: Study population

Group	Target population	Sample size
Senior management employees	**15**	**10**
Middle management	**40**	**35**
Lower management	**80**	**55**
Total	**135**	**100**

Source: Author , 2020

4.6 Sampling Techniques

Since the intention was to obtain information from respondents knowledgeable about the issue, simple random sampling technique was used in this study (Sekaran, 2009). Simple random sampling involved selecting respondents at random from the population, ensuring that each individual had an equal chance of being chosen. Simple random sampling involved dividing the population into subgroups based on certain characteristics and then selecting a random sample from each subgroup. Simple random sampling was used because it provides an unbiased representation of the population.

4.7 Source of Data Collection

It is important to remember that the study's questionnaire was piloted before being used on a larger scale. The data were collected from employees using questionnaires and from senior management

using face to face interviews (Sekaran, 2009). Additionally, its internal validity and dependability are provided. The study questions formed the basis for the last set of data that was gathered.

4.8 Primary Sources of Data

Face-to-face interviews were used by the researcher to gather qualitative data. The interview is one of the most popular qualitative techniques used in small-scale research projects examining a problem affecting a certain group of people. These individuals can be interviewed in-depth to learn how they have personally encountered the problem under examination (Creswell,2009). The interviews were used in order to enable in-depth exploration, fostering rich and detailed data collection.

Due of its widespread use as a data collection tool, a questionnaire was employed to gather quantitative data. It allows for data collection in real-world circumstances, and the data itself lends itself to quantification more readily than discursive data does (Bryman and Bell,2011). Three randomly selected Bayport employees were sent the survey as part of a pilot study. Some survey items will be changed in response to the findings of the pilot test. Respondents were informed that participation in the study was voluntary and that their opinion would be valuable two days before mailing the final version of the major instrument (Kothari,2014). The questtionnaires were used in this study because they are easy to administer, quick, efficient and allow for standardized data collection, ensuring that all respondents are asked the same questions in the same format.

4.9 Secondary Sources of Data

In this study, secondary data were obtained from archival sources, including articles, journals, reports, books, newspapers, the internet, and other related research. These sources provided the theoretical and empirical framework for the study's analysis of the secondary data, which were then collected.

4.10 Data Processing and Analysis

Descriptive statistics were utilized to analyze the data obtained for this study, mostly using frequency distribution and percentages to ensure that the analysis is simple to grasp. Data interpretations were based

on statistical generalization and the analysis will be carried out using statistical tools like Statistical Package for Social Science (SPSS) version 20 and MS Excel.

4.11 Ethical Considerations

According to Saunders et al. (2016), research ethics are focused with making sure that data is gathered in a way that fosters trust. The researcher ensured that no participant rights was compelled to provide information.

a) **Confidentiality**

In line with research ethics the researcher assured respondents that the information they would volunteer to provide would be treated with high confidentiality (Sekaran, 2009). The respondents were also informed that the material they supplied was for purposes of academic research only and no other use. The anonymity of respondents was assured throughout this study. This was done so as to increase participation the respondents in the study**.**

b) **Respondent Participation**

The researcher informed the participants that there would be no coercion or forced participation in the study and that their participation would be entirely voluntary. Additionally, no one was offered any material or financial incentives to induce them to participate in the study.(Saunders et al,2016)

c) **Research Clearance**

Prior approval and consent from Bayport management and the Graduate Studies Department of the University of Zambia. because a lack of such permission could harm the validity of the research and findings.

4.12 Chapter summary

This chapter described the methodological framework employed in the study, encompassing the study design, target population, sampling techniques, data collection instruments, data sources, and the approach to data analysis. It provided a comprehensive overview of how the research was structured and executed. Additionally, the chapter delved into the ethical considerations that

guided the study, ensuring the responsible and respectful treatment of participants and data. The methodological approach adopted ensured rigor and validity in the research process, laying the foundation for credible and meaningful findings. This chapter served as a roadmap for readers, elucidating the systematic and ethical processes undertaken to gather and analyze data in addressing the research objectives. The next chapter pesens the findings and discussion of the same.

CHAPTER 5

DATA ANALYSIS AND DICUSSION OF THE FINDINGS

5.0 Introduction

In contrast to the methodology outlined in the preceding chapter, this chapter explores the study's outcomes using a comprehensive method. Employing a diverse approach to both analyze and present the data, the findings are systematically structured and visually depicted through figures and tables. This strategy provides a well-organized summary of the results, facilitating a thorough comprehension of the recognized patterns, trends, and relationships during the research. Moreover, for the qualitative segment, content and narrative analysis methods are employed. A detailed scrutiny of textual data reveals key themes, patterns, and insights, adding qualitative depth to the overall analysis. By combining quantitative representation with qualitative exploration, a well-rounded interpretation of the research findings is ensured. The use of figures and tables enhances the lucidity of quantitative results, while content and narrative analysis contribute richness and context to the qualitative dimensions of the study.

5.1 Demographic data

Demographic analysis is important because it gives valuable information that can be used to make good decisions in business, government, and social services, among other places. Therefore, this section presents an analis of the respondents biological data in terms off gender , age, educational qualifications and duration of service at Bayport.

5.1.1 Gender

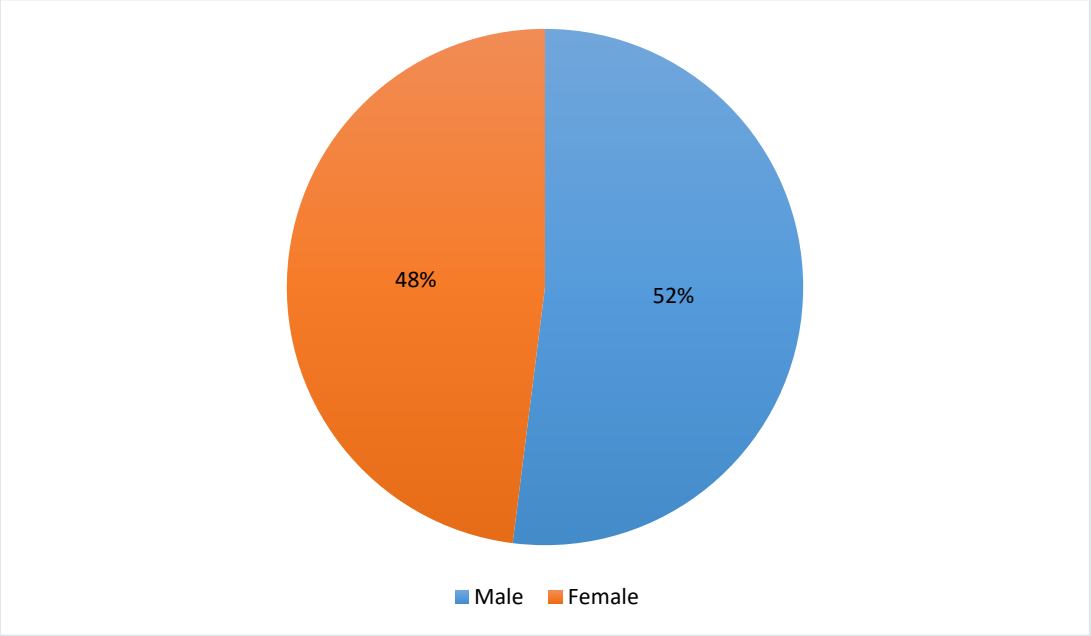


Figure 5.1: Respondent's gender

Figure 5.1 above presents the gender distribution of respondents in the study. The respondents consist of 52% males and 48% females, reflecting a relatively balanced representation of both genders in the sample. This gender-diverse composition strengthens the inclusivity of perspectives and experiences captured in the research. The near-equal distribution suggests that findings and conclusions drawn from the study are likely to be reflective of the broader population, considering the proportional representation of both male and female participants. Analyzing gender-specific responses may offer insights into potential variations in perspectives, contributing to a comprehensive understanding of the research outcomes.

5.1.2 Age

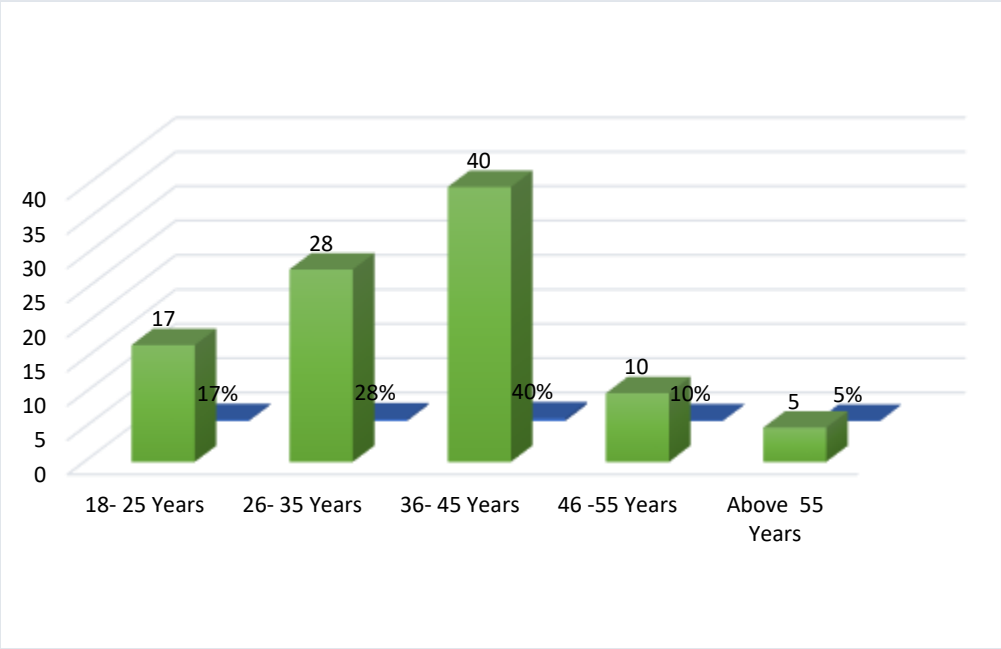


Figure 5.2: Respondent's Age distribution

Figure 5.2 above outlines the age distribution of the respondents in the study. The respondents are categorized into different age groups, providing insight into the demographic composition of the sample.

17% (18-25 Years): This segment represents the younger participants in the study, offering perspectives from individuals in the early stages of their professional and personal lives.

28% (26-35 Years): The bulk of respondents fall into this age range, comprising individuals in the midst of their careers and potentially with diverse experiences and perspectives.

40% (36-45 Years): This is the largest age group, indicating a significant representation of individuals in their prime working years. Their responses may reflect a combination of experience and contemporary viewpoints.

10% (46-55 Years): A smaller but notable segment representing respondents in the later stages of their careers, potentially offering insights into long-term experiences and perspectives.

5% (Above 55 Years): This category includes the oldest participants, likely providing perspectives shaped by extensive life and professional experiences.

The age distribution reveals a diverse sample, encompassing different life stages and career phases. Analyzing responses across these age groups can contribute to a nuanced understanding of how perspectives might vary based on the participants' life experiences and career trajectories.

5.1.3 Education level

Table 5.1: Respondent's Educational Qualification

	Response	[ercentage
School Certificate GCE	20	20%
Diploma	41	41%
Degree	18	18%
Masters	11	11%
PHD	0	0
TOTAL	100	100%

The data presented in Table 5.1 provides an overview of the educational qualifications of the respondents, offering insights into the academic background of the study participants.

20% (School Certificate GCE): This category represents individuals with a school certificate, indicating a baseline education level. Their perspectives may reflect a diverse range of experiences.

41% (Diploma): The largest segment holds a diploma, suggesting a significant proportion of respondents with specialized vocational or technical education. Their responses may offer practical insights shaped by their specific training.

18% (Degree): This group comprises individuals with a bachelor's degree, indicating a higher level of formal education. Their responses may reflect a more comprehensive understanding of the subject matter.

11% (Masters): Respondents with a master's degree form a smaller but notable segment. Their advanced education level may contribute to nuanced and well-informed perspectives.

0% (PhD): It's noteworthy that there are no respondents with a Ph.D. in the sample. While this could be due to the specific nature of the study or the demographic characteristics of the target population, it's essential to acknowledge the absence of this highest academic qualification.

The educational distribution underscores the diversity in academic backgrounds among the respondents. Analyzing responses across these educational categories can provide a comprehensive understanding of how perspectives may vary based on different levels of educational attainment.

5.1.4 Duration of service with Bayport

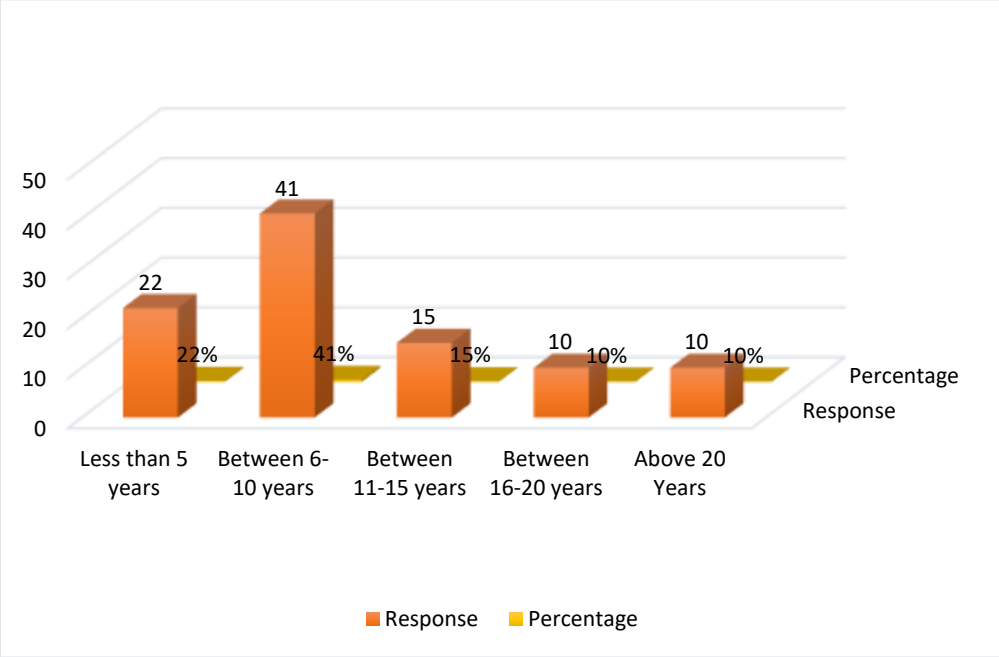


Figure 5. 3: Respondents duaration of service with Bayport

The information presented in Table 4.3 outlines the distribution of respondents based on their duration of service with Bayport. This data provides insights into the tenure of employees within the organization.

22% (Less than 5 years): This category represents employees who have recently joined Bayport, reflecting a segment of relatively new staff. Their perspectives may be influenced by recent experiences and may offer insights into the onboarding and initial impressions of the organization.

41% (Between 6-10 years): The largest segment falls within the 6-10 years' service duration, indicating a substantial portion of mid-career employees. This group's responses may reflect a combination of institutional knowledge and a more established understanding of Bayport's operations.

15% (Between 11-15 years): A smaller but notable segment comprises individuals who have served for an extended period, suggesting a group of experienced employees. Their responses may provide insights into long-term organizational dynamics and changes over the years.

10% (Between 16-20 years): This category represents employees with a significant history of service, potentially holding key insights into the organization's evolution. Their perspectives may be valuable in understanding the historical context of Bayport.

10% (Above 20 years): The respondents who have served for over 20 years form a distinct group. Their prolonged experience positions them as seasoned employees, and their responses may offer deep insights into the organization's history, culture, and changes over the long term.

5.2 Influence of cash management on Profitability

The respondents were asked to state their level of agreement with the statement and their responses are indicated in figure 5. 4 below :

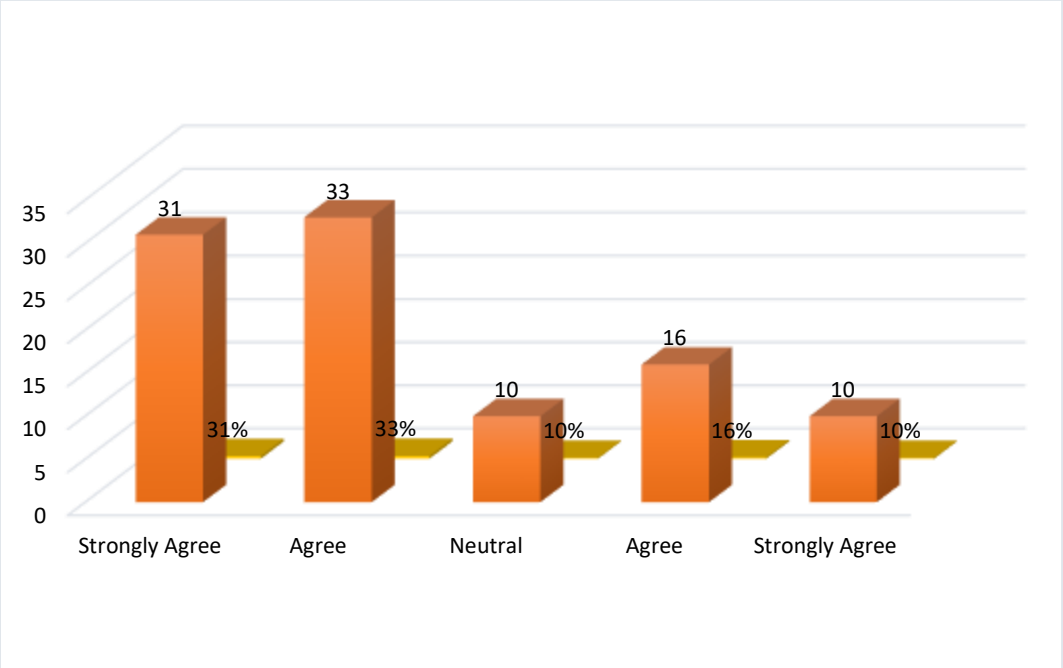


Figure 5. 4: Weak cash management results in reduced profits

Figure 5.4 indicates respondents' perceptions regarding the impact of weak cash management on reduced profits.

Strongly Agree (31%): A significant portion of respondents strongly agrees that weak cash management has a substantial negative effect on profits. This group likely perceives a direct and critical relationship between efficient cash management practices and overall profitability.

Agree (33%): Another substantial portion agrees, albeit not as strongly. These respondents acknowledge the correlation between weak cash management and reduced profits, aligning with the majority sentiment.

Neutral (10%): A smaller segment remains neutral, suggesting a group that neither strongly agrees nor disagrees with the statement. This group might require further exploration to understand the nuances of their perspectives on the interplay between cash management and profitability.

Disagree (16%): A notable percentage disagrees with the statement. This group likely holds the view that weak cash management may not have a significant impact on profits or that other factors play a more dominant role.

Strongly Disagree (10%): The smallest segment strongly disagrees with the assertion that weak cash management leads to reduced profits. These respondents may believe that cash management has minimal influence on overall profitability.

On the above theme, one of the respondents noted that:

"*Poor cash flow management can lead to delayed vendor payments, missed growth opportunities, increased debt, and reduced employee morale*".

Another one argued that:

"*When a company like bayport does not effectively manage its cash flow, it may struggle to meet financial obligations, miss out on potential growth opportunities, and incur unnecessary expenses*".

Furthermore, another respondent noted that:

"*Weak cash management can result in reduced profits for a business because it can lead to missed investment opportunities, increased borrowing costs, and a lack of liquidity to cover expenses… typically, a poor understanding of the cash flow cycle, profit versus cash, lack of cash management skills, and bad capital investments are the reasons for failing at cash management*".

Overall, the majority of respondents, comprising both those who strongly agree and agree, indicate a consensus on the negative repercussions of weak cash management on profits. This aligns with the conventional understanding in business literature that effective cash management is crucial for sustaining and maximizing profits (Kimathi et al. 2015) The diversity of opinions, particularly among those who are neutral or disagree, presents an opportunity for further investigation into varying perspectives within the workforce.

5.3 Impact of Non-performing Loans on Profitability

The respondents were asked to indicate the extent to which non-performing loans had negatively impacted on Bayport profitability and their responses are indicated in figure 5. 5 below :

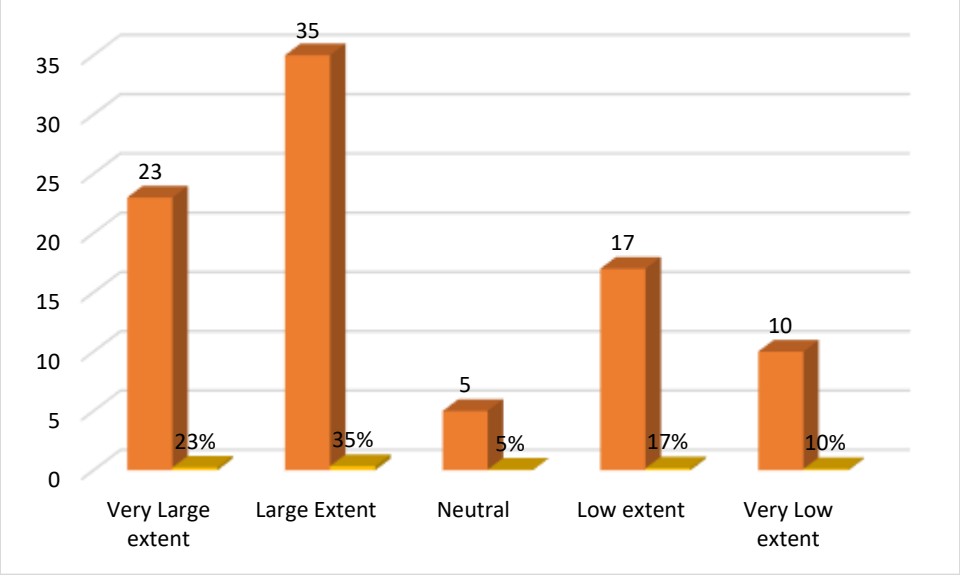


Figure 5. 5: Exent to which NPLs had negatively impacted on Bayport profitability

Figure 5.5 illustrates respondents' perceptions regarding the extent to which Non-Performing Loans (NPLs) have negatively impacted Bayport's profitability:

Very Large Extent (23%): A notable portion of respondents believes that NPLs have had a very significant negative impact on Bayport's profitability. This group likely perceives NPLs as a substantial risk factor that significantly affects the company's financial performance.

Large Extent (35%): The largest segment of respondents indicates that NPLs have had a large negative impact on profitability. This majority opinion suggests a widespread concern among employees about the adverse effects of Non-Performing Loans on Bayport's overall financial health.

Neutral (5%): A smaller percentage remains neutral, suggesting a group that neither strongly agrees nor disagrees with the statement. This group may require further exploration to understand the reasons for their neutral stance, which could be due to varying perspectives or a lack of direct involvement with financial matters.

Low Extent (17%): A considerable segment believes that NPLs have had a low negative impact on profitability. This group may perceive NPLs as a challenge, but not to the extent that it significantly hampers overall profitability.

Very Low Extent (10%): Another notable portion of respondents indicates that the negative impact of NPLs on Bayport's profitability is very low. This group may hold the view that NPLs are a minor concern compared to other factors influencing profitability.

From among the respondents on the impact of non-performing loans on profitability, the respondent argued that:

"*If the non-performing loans of a bank is higher then there will be a decrease in the level of income, which means there is a negative influence between non-performing loans on profitability…the impact of non-performing loans on profitability can be significant for banks and financial institutions…non-performing loans can lead to a decrease in interest income, an increase in provisioning for loan losses, and a decrease in overall profitability and there is no doubt non-*

performing loans can also affect a bank's reputation and ability to attract new customers and investors".

Another respondent stressed that:

"*A higher NPL is expected to reduce bank's profitability because according to regulations, bayport have to account for these NPL and keep larger provisions- so a part of their capital cannot be lent further…further, if bayport has a higher proportion of income generating assets, its income will be higher*".

Additionally, one of the respondents too time to explain that:

"*Non-Performing Loans are one of the main reasons that cause insolvency at Bayport and ultimately hurt the operations of institution. By considering these facts, it is necessary for Bayport to control non-performing loans for the economic growth in the country, otherwise the resources can be jammed in unprofitable projects and sectors which not only damages the financial stability but also the economic growth…in order to control the non-performing loans, it is necessary to understand the root causes of these non-performing loans in the particular financial sector*".

Not only the above, another respondent stipulated that:

" I have observed a direct correlation between non-performing loans (NPLs) and our overall profitability. NPLs impact our financial performance by exerting pressure on our resources and jeopardizing the stability of our credit portfolio. Delinquent debtors contribute to increased provisioning and potential write-offs, diminishing our earnings. Additionally, NPLs strain our liquidity, as resources are tied up in non-performing assets rather than being available for productive use. Effective credit management is crucial for minimizing NPLs, as it not only safeguards our financial health but also preserves our reputation and customer trust. Implementing robust credit assessment and monitoring mechanisms is essential to curbing NPLs, ensuring sustained profitability, and maintaining the financial integrity of Bayport. Therefore, addressing the challenge of non-performing loans is integral to securing our profitability and fostering long-term financial viability."

Overall, the majority of respondents express concern about the negative impact of NPLs on Bayport's profitability. This consensus highlights the perceived importance of managing and mitigating Non-Performing Loans for the financial well-being of the company. The varying degrees of impact reported by different groups offer insights into the diversity of perspectives within the workforce on this financial aspect.

5.4 Impact of Operational Expenses Bayport Profitability

The respondents were requested to indicate their level of agreement with the statement "Management Operational Expenses has negatively impacted on Bayport Profitability" . Their responses are indicated in the Figure 5.6 below

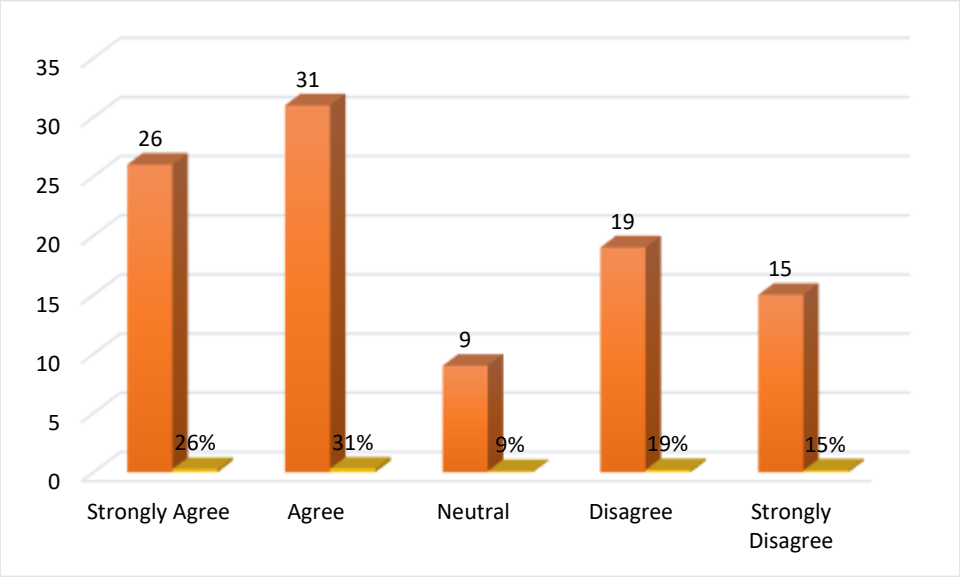


Figure 5. 6: Weak management of Operational expenses results in reduced profits of Bayport

Table 5.6 presents respondents' opinions on the impact of weak management of operations on Bayport's profitability.

Strongly Agree (26%): A notable portion of respondents strongly agrees that weak management of operations has a significant negative impact on Bayport's profitability. This group likely perceives operational management as a critical factor influencing the company's financial success.

Agree (31%): The largest segment of respondents agrees that weak management of operations contributes to reduced profits. This suggests a widespread acknowledgment among employees that effective operational management is crucial for maintaining or enhancing profitability.

Neutral (9%): A smaller percentage remains neutral, indicating a group that neither strongly agrees nor disagrees with the statement. Further investigation may be needed to understand the reasons for neutrality, which could be influenced by varying job roles or perspectives within the organization.

Disagree (19%): A considerable segment disagrees that weak management of operations leads to reduced profits. This group may perceive other factors as more influential in determining profitability or may have confidence in the current state of operational management.

Strongly Disagree (15%): Another notable portion of respondents strongly disagrees that weak operational management has a significant impact on profitability. This group may believe that operational management is robust and not a major factor affecting profits.

On the impact of operational expenses, one of the respondents stressed that:

"……My assessment indicates that operational expenses significantly impact our overall profitability. The current level of operational expenses is relatively high, posing a challenge to our financial performance. These expenses include various costs associated with day-to-day business operations, such as salaries, utilities, and administrative overheads. The elevated operational costs exert pressure on our profit margins, limiting our ability to generate higher net income. To enhance profitability, it is crucial to evaluate and streamline operational processes, identifying areas where cost efficiency can be improved without compromising the quality of services. Implementing strategic cost-cutting measures, optimizing resource allocation, and adopting technology-driven solutions can contribute to reducing operational expenses and thereby positively influencing Bayport's overall profitability. Addressing these concerns will contribute to financial sustainability and support the company's growth objectives…."

Another of the respondents argued that:

"*The impact of operational expenses on bayport's profitability is significant as it directly affects the bottom line. Operational expenses include costs such as rent, utilities, salaries, and other day-to-day expenses required to run the business. When these expenses increase, it can eat into the company's profits, reducing the overall profitability*".

Overall, while there is a general consensus among respondents that weak management of operations can impact profitability, there are variations in the degree of agreement. The distribution of responses indicates diverse perspectives within the workforce, highlighting the complexity of evaluating the relationship between operational management and financial outcomes at Bayport.

5.5 Impact of debt recovery effort on Bayport Profitability

The respondents were requested to indicate their level of agreement with the statement "Debt Recovery Effort's has been weak , thereby negatively impacting Bayport Profitability " . Their responses are indicated in the Figure 5.7 below

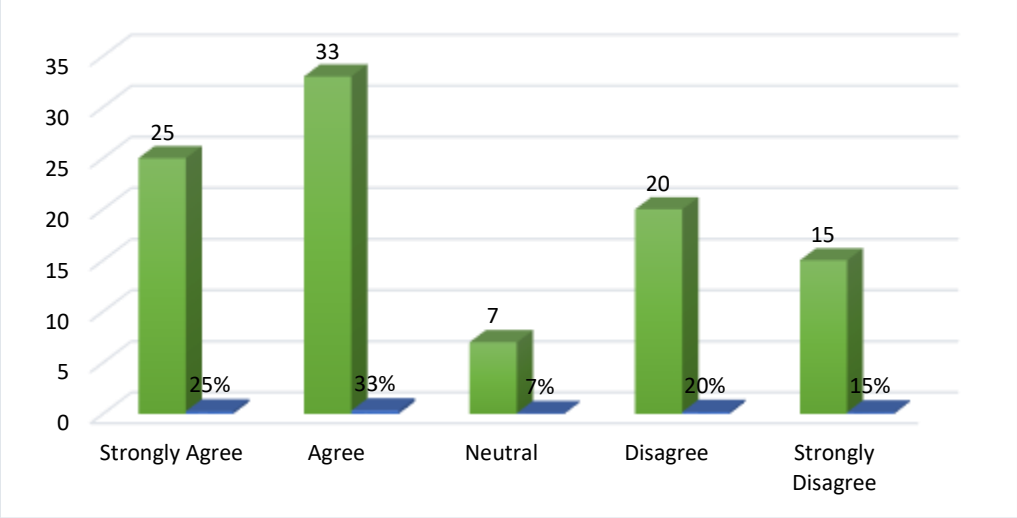


Figure 5. 7: Impact of debt recovery effort on Bayport Profitability

Figure 5.7 represents respondents' opinions on the extent to which debt recovery efforts impact Bayport's profitability.

Strongly Agree (25%): A notable portion of respondents strongly agrees that effective debt recovery efforts have a substantial positive impact on Bayport's profitability. This group likely perceives successful debt recovery as a crucial factor contributing to financial success.

Agree (33%): The largest segment of respondents agrees that debt recovery efforts positively influence profitability. This suggests a widespread acknowledgment among employees that efficient recovery processes are integral to maintaining or enhancing profits.

Neutral (7%): A smaller percentage remains neutral, indicating a group that neither strongly agrees nor disagrees with the statement. Further investigation may be needed to understand the reasons for neutrality, which could be influenced by varying job roles or perspectives within the organization.

Disagree (20%): A considerable segment disagrees that debt recovery efforts significantly impact profitability. This group may believe that factors other than debt recovery play a more substantial role in determining overall financial success.

Strongly Disagree (15%): Another notable portion of respondents strongly disagrees that debt recovery efforts have a substantial positive impact on profitability. This group may hold the view that the influence of debt recovery efforts on profitability is limited.

When asked on the impact of debt recovery effort on Bayport's profitatbility, one of the respondents stated that:

"……. I must express concerns about the current state of our debt recovery efforts and their impact on profitability. The recovery effort, in its present form, appears to be relatively weak, posing challenges to our overall financial performance. Timely and efficient debt recovery is essential for maintaining a healthy cash flow and minimizing potential losses. The existing weaknesses in the recovery process may result in prolonged outstanding debts and increased non-performing loans, negatively affecting our profitability. It is imperative to reassess and strengthen our debt recovery strategies, possibly through enhanced communication channels, proactive follow-ups, and, if necessary, the introduction of more robust collection procedures. Addressing these issues will not

only contribute to improved cash inflows but also positively shape Bayport's profitability in the long run…."

Overall, there is a mix of perspectives within the workforce regarding the relationship between debt recovery efforts and Bayport's profitability. While a significant portion recognizes the importance of effective recovery, variations in agreement levels highlight the nuanced nature of assessing the impact of debt recovery on the company's financial outcomes.

5.6 Hypothesis findings

Table 5. 2: Hypothesis findings

Hypothesis	Path	Findings	Decision
H1	**H_0:** Cash management does not affect the profitability of MFIs **H_1:** Cash management affects the profitability of microfinance institutions	It affects	H_0 Rejected H_1 Accepted
H2	**H_0:** Non-performing loans do not affect the profitability of MFIs **H_1:** Non-performing loans affects the profitability of MFIs	It affects	H_0 Rejected H_1 Accepted
H3	**H_0:** Operational expenses do not affect the profitability of MFIs **H_1:** Operational expenses affect the profitability of MFIs	It affects	H_0 Rejected H_1 Accepted
H4	**H_0:** Debt recovery efforts not affect the profitability of MFIs **H_1:** Debt recovery efforts affects the profitability of MFIs	It affects	H_0 Rejected H_1 Accepted

From the study findings, it was estbalishhed that all the study variables had an effect on profitability of MFIs. Therefore, it meant that all null hypotheses were rejected in favour of the alternative hypotheses which were accepted.

5.7 Discussion of the Findings

This section delves into a comprehensive analysis of the findings, aligning them with the predefined research objectives. The ensuing discussion thoroughly examines the results, offering insights into how they address the specific goals set for the research. Through this exploration, the chapter aims to provide a nuanced understanding of the outcomes, their implications, and their relevance to the broader context of the study

5.7.1 The Effect of cash management on profitability of Bayport.

The finance manager's perception underscores the pivotal role of efficient cash management in influencing Bayport's profitability. This aligns with Walker's Theory of Liquidity, which posits that a company's growth and profitability are intricately tied to the effective management of working capital (Asongu, 2013). According to this theory, liquidity, defined as a bank's ability to meet financial obligations without incurring significant losses, is crucial for financial stability.

The study incorporates various theories as guides, including working capital management theory, shareholder theory, liquidity preference theory, and cash conversion cycle theory. These theories collectively inform the exploration of Bayport's cash management practices and their impact on profitability. Notably, liquidity management is highlighted as a key factor in minimizing liquidity risk and enhancing financial resilience.

The findings resonate with Bordeleau, Crawford, and Graham's (2009) study in the USA, which identified a nonlinear relationship between holding liquid assets and banks' profitability. The study suggested that while holding some liquid assets improves profitability, there's a threshold beyond which further holdings diminish profitability. This aligns with the notion that funding markets reward banks for holding liquid assets up to a certain point.

In essence, the study's findings, influenced by the theories cited, affirm the critical importance of prudent cash management for Bayport's financial stability and profitability. The nuanced relationship between liquidity, cash assets, and profitability is well-supported by both empirical findings and established financial theories, contributing valuable insights to the existing literature on financial management in the banking sector.

5.7.2 The effect of non-performing loans(debtors) on Bayport Profitability.

The credit manager's observations align with findings in the literature, particularly Buserese's (2016) study on Kenyan microfinance banks, where poor liquidity positions resulting from a high portfolio of bad loans were identified as a factor affecting profitability. This suggests a broader trend within the microfinance sector where the management of non-performing loans (NPLs) significantly impacts financial performance.

Microfinance institutions (MFIs), including Bayport, treat loans as assets, and the study by Yeboah and Yeboah (2014) underscores this perspective. However, the credit manager's insights emphasize that these assets can turn into liabilities if not managed effectively. The practice of giving out more loans without rigorous credit analysis, as mentioned in the literature, resonates with Bayport's challenge of delinquent debtors contributing to increased provisioning and potential write-offs.

Moreover, the mention of tripling clients' amounts after a few months of repayment, leading to a sizable portion of the loan portfolio defaulting, reflects the need for Bayport to enhance its credit assessment and monitoring mechanisms. This aligns with the credit manager's recommendation for robust credit management practices to minimize NPLs.

The study findings at Bayport echo broader challenges faced by MFIs, and the literature provides a framework for understanding these challenges and proposing solutions. By addressing the issue of NPLs through effective credit management, Bayport can not only safeguard its financial health but also maintain customer trust and reputation, as emphasized in the credit manager's insights.

5.7.3 To examine the effect of operational expenses on the Profitability of Bayport.

The finance personnel’s assessment at Bayport aligns with findings from the study by Uddin and Hossain (2020) on the impact of operating expenditures on firms' profitability. The acknowledgment of relatively high operational expenses at Bayport, including costs related to salaries, utilities, and administrative overheads, mirrors the factors examined in the study, such as salaries and wages, rent, repairs, maintenance, and advertising.

The literature indicates that operating expenses, when not carefully managed, can have a significant impact on a company's profitability, supporting the finance manager's observation. The study's finding that an increase in salaries and wages by 10% leads to an 8% decrease in operating margin reflects the sensitivity of operational costs to overall profitability, reinforcing the finance manager's concern about the pressure on profit margins at Bayport.

Furthermore, the literature suggests both positive and negative relationships between firms' profitability and operating expenditures. In Bayport's context, the finance manager's emphasis on evaluating and streamlining operational processes, implementing strategic cost-cutting measures, optimizing resource allocation, and adopting technology-driven solutions resonates with the study's recommendations for closely controlling operating expenses to maintain long-term value.

Addressing these concerns at Bayport, as suggested by the finance manager, aligns with the broader understanding in the literature that effective management of operational expenses is crucial for financial sustainability and growth. It emphasizes the importance of Bayport's focus on cost efficiency to positively influence overall profitability, reflecting the study's advice for firms, especially financial institutions, to control operating expenses to avoid cash shortages.

Several studies have shown that operating expenses have an inverse relationship with net profit, meaning that as operating costs increase, net profit decreases. It is important for companies to control and minimize costs in order to enhance profitability and financial health.

5.7.4 The effect of debt recovery effort on the profitability of Bayport.

The credit manager's concerns at Bayport regarding the weaknesses in debt recovery efforts align with findings from Padachi's (2006) study on the relationship between liquidity and profitability in a firm's performance. The credit manager's emphasis on timely and efficient debt recovery resonates with Padachi's findings that efficiency in debt collection has a positive impact on a firm's profitability. In the context of Bayport, this implies that addressing weaknesses in the debt recovery process is crucial for maintaining healthy cash flow and minimizing potential losses, thus positively influencing profitability.

Padachi's (2006) exploration of the cash conversion cycle (CCC) is particularly relevant to Bayport's situation. The credit manager's observation about the impact of low repayment rates on cash available for new borrowers aligns with CCC's illustration of the gap between expenditure for purchases and the collection of sales. This suggests that the weaknesses in Bayport's debt recovery efforts not only affect profitability directly but also have implications for the availability of cash for new lending, potentially influencing the company's overall financial health.

By reassessing and strengthening debt recovery strategies through enhanced communication channels, proactive follow-ups, and robust collection procedures, as suggested by the credit manager, Bayport aims to strike the right balance between liquidity and profitability. This resonates with Padachi's (2009) broader recommendation that the management of a corporate entity must find the optimal balance between liquidity and profitability for enhanced financial performance.

In summary, Bayport's challenges in debt recovery, as highlighted by the credit manager, align with findings from the literature, emphasizing the interconnectedness of debt recovery, liquidity, and profitability. Addressing these challenges, as recommended, contributes to improved cash inflows and positively shapes Bayport's profitability in line with the broader insights from the literature.

5.7.5 Hypothesis results

The study findings revealed that all null hypotheses were rejected because the study results established that cash management, non-performing loans, operational expenses and debt management affect the profitability of finances. Therefore, the alternative hypotheses were acted because the results were positive as stated above. The findings revealed that cash management has a positive impact on the profitability which is in accordance with the alternative hypothesis of the study. it was revealed that non-payment of loans constantly affects the performance of MFIs in terms of finance to run their lending operations. Furthermore, the study established that Operational expenses can have a significant impact on the profitability of microfinance institutions. High operational expenses can eat into the institution's revenue and reduce its overall profitability. This can be particularly challenging for microfinance institutions, which often

operate on tight margins and serve low-income clients. Debt recovery efforts can have a significant impact on the profitability of microfinance institutions. Effective debt recovery processes can help minimize losses due to non-performing loans, improve cash flow, and maintain the institution's financial health. On the other hand, inefficient or ineffective debt recovery efforts can lead to increased costs, reduced profitability, and even financial instability.

5.8 Chapter summary

This chapter presents the study's outcomes utilizing a comprehensive methodology. Employing a diverse approach for both data analysis and presentation, the findings are systematically organized and visually represented through figures and tables. This approach offers a well-structured overview of the results, aiding in a comprehensive understanding of identified patterns, trends, and relationships during the research. Additionally, for the qualitative portion, content and narrative analysis methods are applied. A thorough examination of textual data reveals key themes, patterns, and insights, providing qualitative depth to the overall analysis. The integration of quantitative representation with qualitative exploration ensures a well-rounded interpretation of the research findings.

CHAPTER 6

CONCLUSION AND PRESENTATION

6.0 Introduction

The previous chapter presented the analysis and dicussin of the findings . The conclyusions are in line with the research objectives utlined in Chapter one and the findings in chapter four . From the conclusions drawn, the recommendations for future study. Therafter the recommendations for future study are provided.

6.1 Conclusions

In tandem with the research objectives, arising from the study findings, the following are the conclusions:

6.1.1 The Effect of cash managegement of Profitability of Bayport.

This study concludes that there was a consensus on the negative repercussions of weak cash management on profitability at Bayport. This aligns with the conventional understanding in business literature that effective cash management is crucial for sustaining and maximizing profits . In essence, the study's findings, influenced by the theories cited, affirm the critical importance of prudent cash management for Bayport's financial stability and profitability

6.1.2 The effect of non-performing loans (debtors) on Bayport Profitability.

This study concludes that there is a negative impact of NPLs on Bayport's profitability. This consensus highlights the perceived importance of managing and mitigating Non-Performing Loans for the financial well-being of the company.The findings align with findings in the literature, particularly Buserese's (2016) study on Kenyan microfinance banks, where poor liquidity positions resulting from a high portfolio of bad loans were identified as a factor affecting profitability. This suggests a broader trend within the microfinance sector where the management of non-performing loans (NPLs) significantly impacts financial performance.

6.1.3 The effect of operational expenses on the Profitability of Bayport.

This study notes a general consensus among respondents that weak management of operations can impact profitability, . The distribution of responses indicates diverse perspectives within the workforce, highlighting the complexity of evaluating the relationship between operational management and financial outcomes at Bayport. In Bayport's context, the finance manager's emphasis on evaluating and streamlining operational processes, implementing strategic cost-cutting measures, optimizing resource allocation, and adopting technology-driven solutions resonates with the study's recommendations for closely controlling operating expenses to maintain long-term value.

6.1.4 The effect of debt recovery effort on the profitability of Bayport.

This study concludes that there are weaknesses in debt recovery efforts at Bayport Financial services. Management emphasis on timely and efficient debt recovery has a positive impact on a firm's profitability. In the context of Bayport, the company has been addressing weaknesses in the debt recovery process is crucial for maintaining healthy cash flow and minimizing potential losses, thus positively influencing profitability.

6.2 Recommendations

Bayport's challenges in debt recovery, as highlighted by the credit manager, align with findings from the literature, emphasizing the interconnectedness of debt recovery, liquidity, and profitability. Addressing these challenges, as recommended, contributes to improved cash inflows and positively shapes Bayport's profitability in line with the broader insights from the literature. Therefore, the recommendatiosn from the study are as follows:

i. There is need for Bayport to strengthen their Debt Recovery through enhanced communication channels, proactive follow-ups, and robust collection procedures, as suggested by the credit manager, Bayport can strike the right balance between liquidity and profitability.

ii. The management at Bayport must address the issue of high operational expenses as this is impacting negatively on profitability

iii. Bayport should begin to utilize technology solutions to effectively monitor customer status

iv. such as customer relationship management (CRM) systems, to streamline and automate debt recovery processes.

v. Bayport should collaborate with regulatory authorities to develop and enforce a regulatory framework that encourages responsible lending practices and efficient working capital management in MFIs.

vi. There is need for bayport to establish guidelines for debt collection practices to ensure fair and ethical treatment of clients, balancing the interests of both the financial institution and borrowers.

vii. Bayport should collaborate with government agencies and non-governmental organizations to implement financial literacy programs targeting clients and the general public. This will help promote awareness about responsible borrowing, financial planning, and debt management to empower clients to make informed financial decisions, reducing the risk of delinquencies.

6.3 Recommendation for future study

It is recommended that future researcher could conduct a comparative study analyzing the working capital management practices and profitability of microfinance institutions in Zambia with those in other countries or regions. Exploring the impact of varying economic, regulatory, and cultural factors on working capital dynamics and profitability in the microfinance sector, will provide a broader perspective on the subject. This recommendation encourages future researchers to expand the scope of the study by examining how contextual differences influence the relationship between working capital management and profitability in microfinance institutions, contributing to a more comprehensive understanding of the topic.

6.4 Chapter summary

The conclusions were in line with the research objectives outlined in Chapter one and the findings in chapter four. From the conclusions drawn, recommendations for future study were provided. Thereafter, recommendations for future study were provided.

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APPENDICES

UNIVERSITY OF ZAMBIA POSTGRADUATE SCHOOL OF BUSINESS

QUESTIONNAIRE

Dear Respondent,

You are one of the respondents who was chosen at random to fill out this questionnaire. I am a Master's student at the University of Zambia (UNZA) researching the topic Assessing the Impact of Working Capital Management on Profitability: A Case of Bayport. Please be aware that the data you provide will be handled anonymously; as a result, you are NOT obliged to provide your name on the survey. This study is solely academic in nature and counts toward my MBA requirements.

Thank you in anticipation.

FUNGAI JOE

Section 1: Biographical Data

1. Gender

a) Male

b) Female

2. Age

(I) Between 18- 30

(II) Between 31 -40

(III) Between 41 -50

(IV) Above 50

3. For how long have you been for Bayport " :

(I) Less than 5 years

(II) Between 6-10 years

(III) Between 11 -15

(IV) Between 16-20

(V) Above 20 years

4. Tick your highest educational qualification

(I) School Certificate GCE

(II) Diploma

(III) Degree

(IV) Masters

(V) PHD

5 Cash Management is weak resulting in reduced profits

(I) Strongly Disagree

(II) Disagree

(III) Neutral

(IV) Agree

(V) Strongly Agree

6 . Indicate the extent to which non-performing loans have negatively impacted on Bayport profitability

(I) Very large extent

(II) Large extent

(III) Neutral

(IV) Low extent

(V) Very low extent

7. Management Operational Expenses has negatively impacted on Bayport Profitability

Strongly Agree

Agree

Neutral

Disagree

Strongly Disagree

8. Debt Recovery Effort's has been weak , thereby negatively impacting Bayport Profitability

(I) Strongly Agree

(II) Agree

(III) Neutral

(IV) Disagree

(V) Strongly Disagree

9. Overall Satisfaction with Bayport management of liquidity

(I) Very Dissatisfied

(II) Dissatisfied

(III) Neutral

(IV) Satisfied

(V) Very Satisfied

10.. Perception of Bayport's Financial Health

(I) Very Unhealthy

(II) Unhealthy

(III) Neutral

(IV) Healthy

(V) Very Healthy

11. Confidence in Bayport's Financial Management

(I) Not Confident at All

(II) Low Confidence

(III) Neutral

(IV) Confident

(V) Very Confident

Interview Guide with management staff

1. How do you perceive the impact of Bayport's management of cash assets on its profitability?

2. Can you share your observations regarding the influence of non-performing loans (debtors) on Bayport's profitability?

3. In your opinion, how do operational expenses affect Bayport's overall profitability?

4. How significant do you think Bayport's efforts in debt recovery are in shaping its profitability?