The Effect Of Liquidity Monitoring On The Financial Performance Of Banking Institutions In Kampala Metropolitan.

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Abstract: This study aims to investigate the impact of liquidity monitoring on the financial performance of banking institutions in Kampala Metropolitan. The study applied a descriptive research design. The sample was 201 individuals. This study used both primary and secondary data that was obtained from the response of the resdondents of the applied questionnaires and the face to face interview with some of the banking officers and from journal, articles and other researcher respectively. A descriptive, correlation and linear regression model was used in data analysis. The regression coefficient for liquidity monitoring was 0.290, indicating that, on average, a one-unit increase in liquidity monitoring was associated with a 0.290 unit increase in overall bank financial performance. The coefficient was statistically significant with a p-value of 0.014. Based on these findings, it can be concluded that liquidity monitoring had a statistically significant but relatively weak positive relationship with the overall financial performance of banking institutions in Kampala Metropolitan. However, it is important to note that liquidity monitoring explained only a small proportion of the variation in overall bank financial performance, suggesting that other factors not included in the model may also play a significant role.

Keywords: liquidity monitoring, financial performance, banking institutions, Kampala Metropolitan.

Introduction

The banking industry plays a vital role in a nation's economic development by facilitating the mobilization and allocation of financial resources. Banks, as financial intermediaries, are entrusted with managing deposits and providing loans to individuals and businesses. However, the inherent nature of banking activities exposes these institutions to various risks, including liquidity risk, which can significantly impact their financial performance and stability.

Liquidity risk refers to the potential inability of a bank to meet its short-term financial obligations, such as withdrawal requests from depositors or repayment of maturing liabilities. This risk is particularly critical as it can lead to a domino effect, triggering solvency issues and undermining public confidence in the banking system. The global financial crisis of 2007-2008 highlighted the severe consequences of inadequate liquidity management, with many banks experiencing liquidity shortages that ultimately led to insolvency and the need for government bailouts.

Methods

Research Design

According to Mugenda and Mugenda (2018), a research design is a predefined conceptual framework that a researcher intends to implement during the research process. The primary focus of a research design is to elucidate realities and forecast occurrences associated with specific situations, as per the insights of Borg, Meridith, and Gall (2018).

This study employed descriptive and correlational research methodologies. As outlined by Foster, Roche, Giandinoto, and Furness (2020), a descriptive-correlational methodology aims to provide descriptions of variables and their interrelationships. Seeram (2019) defines the descriptive correlational approach as a means to depict associations between various variables.

This research design was selected because it offers the means to illustrate the connections between the liquidity management practices of banking institutions and their financial performance.

Study Population

The population refers to the entities and individuals who share common characteristics that are of interest to the researcher (Ghauri, Gronhaugh & Strange, 2020). Hennink, Hutter, and Bailey (2020) explain that the target population is the group of individuals, objects, or items from which samples are selected for measurement. It represents the broad perspective of study results that a researcher aims to obtain (Ghauri et al., 2020) by defining it as the group of people from which a sample is derived.

The target population constitutes the complete assembly or group of individuals that the researcher intends to investigate and analyze. Consequently, the target audience can be defined as the pool from which evaluation data is gathered.

In this research, the focus was on 10 banking institutions (Centenary Bank, Stanbic Bank, Equity Bank, Finance Trust Bank, DFCU Bank, ABSA Bank, Housing Finance Bank, and UBA). The target population included senior management, middle management, finance and accounting staff, risk management personnel, and operations staff.

The target population is as outlined in Table 3.1.

Table 1 Distribution of Target Population

Category	Target Population
Senior Management	10
Middle Management	27
Finance and Accounting Staff:	20
Risk Management Personnel	32
Operations Staff	112
Total	**201**

Source: (Banks' Resources Department records, 2023)

Sample Size Determination was done applying Simple random sampling

The sample size refers to a restricted subset taken from the larger target population, with the aim of generalizing the findings to a broader context (Hennink, Hutter & Bailey, 2020). In this study, the sample included all 201 employees who represented the respondents for the inquiry, and the 10 banking institutions represented the units of analysis. This was a relatively small and manageable population size.

The interviews were meant to complement the survey data and add richer context, specifically around employee experiences. The researcher selected 15 bank employees for interviews across the 10 banking institutions. The selection process involved first stratifying respondents based on their roles - the researcher wanted a mix of frontline staff, managers and executives. Within each stratum, the researcher then employed purposive sampling to select individuals that would provide maximum variation in terms of age, gender, years of experience and other characteristics.

The interviews were semi-structured, with open-ended questions, and lasted 30-45 minutes on average. All participants provided informed consent, and the researcher took care to protect confidentiality by removing any identifying details from the transcripts. This mixed methods triangulation allowed the researcher to validate and enhance the findings between the survey and interview data, such as probing certain quantitative results like stress levels further through the qualitative component.

Sampling Procedure

Sampling techniques refer to various strategies designed to reduce the amount of data collected by focusing on a subset of cases or elements instead of encompassing all potential cases or elements. The sampling process involves the procedure of selecting individuals from a larger population to form a smaller group of participants suitable for research purposes.

Data Collection Methods

After obtaining an introductory letter from the university, the researcher utilized a method where questionnaires were distributed to the participants and then collected after they had been filled out. Questionnaires were the primary means of data collection in this study. According to Solymosi and Bowers (2018), a questionnaire is a technique for requesting, capturing, and consolidating information. Face-to-face interviews were also employed, but to a smaller extent.

The questionnaire included Likert scale questions because the responses to such inquiries could be easily summarized and categorized based on the levels of agreement reported by the respondents, as suggested by Ivey (2017).

Data Collection Instruments

Data collection instruments refer to the tools and procedures used to measure variables in research. There are various methods of data collection that differ in terms of costs, time, and other resources available to the researcher.

In this study, the data will be collected using questionnaires. Questionnaires are a common data collection method that allow the researcher to request, capture, and consolidate information from participants

Structured Questionnaire.

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Validity and Reliability of the Instruments

Quality control is implemented to verify that instruments gather data in alignment with the study's intended purpose and objectives.

Validity

Validity, according to FitzPatrick (2019), refers to the degree to which the conclusions drawn by the researcher possess significance and precision. It indicates the extent to which the findings of a study, derived from data analysis, accurately represent the intended purpose of the research. In simpler terms, validity is achieved when the collected data accurately measures the intended variables.

To ensure content validity of the research instruments, the common practice involves enlisting an expert in the specific field being studied. In the context of this research, the questionnaire will undergo a face validity evaluation conducted by a research expert affiliated with the university, who also serves as the researcher's supervisor. Furthermore, experts and lecturers will be consulted to offer their professional insights on the content and face validity of the research instrument. By adhering to this rigorous criterion, as advocated by Kothari et al. (2019), the research can be carried out with minimized bias, ensuring equilibrium, relevance, and overall validity.

Reliability

Reliability refers to the degree to which a research instrument consistently produces consistent and trustworthy results (Andrade, 2018). As proposed by Klenke (2016), reliability is evaluated by examining the consistency and stability of results across successive studies, providing an accurate representation of the entire population. If a study's findings are replicated under similar conditions and yield similar outcomes, the research instrument is considered reliable. This is achieved by establishing the correlation between scores obtained from different administrations of the scale.

When this correlation is sufficiently high, it indicates that the scale consistently generates dependable results and can be deemed reliable. To assess the internal consistency among the items within each construct, the Cronbach's alpha coefficient will be utilized, which ranges from 0 to 1.0. A value of 0.7 is typically considered acceptable for Cronbach's alpha, while significantly lower values suggest an unreliable scale (Sekaran & Bougie, 2016). The reliability of this questionnaire will be evaluated using the Cronbach's alpha coefficient with the assistance of Statistical Package for Social Sciences (SPSS) software version 28.

Procedure of Data Collection

This research process involves gathering information to either support or challenge the study's hypotheses. Data was obtained following the receipt of an introductory letter from Kampala International University and approval from research regulatory bodies. These documents facilitated the data collection process and indicate the study's academic endorsement.

The data collection was divided into three distinct phases: the pre-fieldwork phase, pilot testing phase, and questionnaire administration phase. The questionnaire was organized into various sections to encompass all the variables under investigation.

The selection of a questionnaire as the data collection method is based on its discreet and cost-effective nature. The questionnaires were distributed using a drop-and-retrieve approach for respondents. Questionnaires are chosen for their ability to standardize data collection across participants, thereby reducing response variations. This enhances the reliability and validity of the collected data. Furthermore, questionnaires can be administered to a large number of participants simultaneously, making them an efficient data collection tool. Lastly, data obtained from questionnaires can be easily subjected to analysis, ensuring prompt and effective data processing.

Data Management and Analysis

This section delineates the procedures for managing, processing, and analyzing the data. The data went through a process of cleaning, coding, and preparation. Questionnaires were thoroughly examined to verify their completeness and rectify any errors. The data was assigned codes before being entered into the software for analysis. Data analysis, as characterized *by Grant (2020),* is the methodical process by which data is examined employing analytical or statistical tools, facilitating the identification of meaningful and valuable insights. In this study, the data was subjected to quantitative analysis.

Quantitative and Qualitative Data Analysis.

The gathered data was coded and entered into a computer system for examination using the Statistical Package for Social Sciences (SPSS) Version 28, enabling the generation of analyses. To ensure the data's quality, a data cleansing process was also conducted to eliminate any errors.

The quantitative data was analyzed through a combination of descriptive and inferential statistics, utilizing SPSS Version 28. Descriptive statistics were presented using frequency distributions, tables, and percentages, facilitating the interpretation of respondents' questionnaire responses.

In order to assess the effect between the liquidity management practices and Financial Performance, inferential statistics (correlation and multiple regression) were employed.

Results

Liquidity monitoring	N	Mean	Std. Deviation
The bank consistently observes the cumulative sum of daily payments made and received.	201	3.5871	1.17628
Internal controls have been put in place within my bank to oversee liquidity.	201	3.2239	1.45073
The bank keeps track of commitments that necessitate settlement at particular times throughout the day or have anticipated settlement deadlines.	201	3.2736	1.41413
Regularly checking the initial intraday liquidity amount to address intraday liquidity requirements.	201	3.2687	1.48575
Our bank examines the percentage, in terms of value, of a bank's outgoing payments that are settled at specific times during the day.	201	3.2438	1.48502
The bank supervises the distribution of deposits and various fund sources based on their maturity and client origins.	201	3.1642	1.46216
Valid N (listwise)	**201**		

Source: *Primary Data* **(2024)**

The study examined the effect of liquidity monitoring on the financial performance of banking institutions in Kampala Metropolitan. The respondents provided their perceptions on various aspects of liquidity monitoring.

The item "The bank consistently observes the cumulative sum of daily payments made and received" had a mean value of 3.5871 and a standard deviation of 1.17628. This suggests that the respondents generally perceived the bank's observation of daily payments as effective. Regarding internal controls, the item "Internal controls have been put in place within my bank to oversee liquidity" had a mean value of 3.2239 and a standard deviation of 1.45073. This indicates that the respondents had a moderately positive perception of the effectiveness of internal controls for liquidity oversight. The item "The bank keeps track of commitments that necessitate settlement at particular times throughout the day or have anticipated settlement deadlines" had a mean value of 3.2736 and a standard deviation of 1.41413. This suggests that the respondents perceived the bank's tracking of settlement commitments as moderately effective.

The item "Regularly checking the initial intraday liquidity amount to address intraday liquidity requirements" had a mean value of 3.2687 and a standard deviation of 1.48575. This indicates that the respondents had a moderately positive perception of the bank's practice of checking intraday liquidity for addressing liquidity requirements. In terms of monitoring outgoing payments, the item

"Our bank examines the percentage, in terms of value, of a bank's outgoing payments that are settled at specific times during the day" had a mean value of 3.2438 and a standard deviation of 1.48502. This suggests that the respondents perceived the bank's examination of outgoing payments as moderately effective. Lastly, the item "The bank supervises the distribution of deposits and various fund sources based on their maturity and client origins" had a mean value of 3.1642 and a standard deviation of 1.46216. This indicates that the respondents had a moderately positive perception of the bank's supervision of deposit and fund distribution based on maturity and client origins.

Therefore, the study suggests that the respondents had moderately positive perceptions regarding the effectiveness of liquidity monitoring practices in the banking institutions in Kampala Metropolitan. These findings indicate that liquidity monitoring plays a role in influencing the financial performance of the banks, potentially contributing to their overall stability and success.

Table 2: Linear regression analysis on liquidity monitoring

Variables Entered/Removed[b]

Model	Variables Entered	Variables Removed	Method
1	Liquidity Monitoring[a]	.	Enter

a. All requested variables entered.

b. Dependent Variable: Overall Bank financial Performance

Table 3:Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.174[a]	.030	.025	1.31797

a. Predictors: (Constant), Liquidity Monitoring

Table 4:ANOVA[b]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	10.766	1	10.766	6.198	.014[a]
	Residual	345.669	199	1.737		
	Total	356.436	200			

a. Predictors: (Constant), Liquidity Monitoring

b. Dependent Variable: Overall Bank financial Performance

Coefficients[a]

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
1	(Constant)	2.327	.395		5.886	.000
	Liquidity Monitoring	.290	.117	.174	2.490	.014

a. Dependent Variable: Overall Bank financial Performance

Source: *Primary data* (2024)

The regression analysis was conducted to examine the relationship between liquidity monitoring and the overall financial performance of banking institutions in Kampala Metropolitan. The model summary revealed that liquidity monitoring accounted for a small portion of the variance in overall bank financial performance, with an R-square value of 0.030. The adjusted R-square was slightly lower at 0.025, indicating that the inclusion of liquidity monitoring as a predictor did not significantly improve the model's explanatory power. The standard error of the estimate was 1.31797, representing the average distance between the observed and predicted values of overall bank financial performance.

The ANOVA results showed that the regression model as a whole was statistically significant, with an F-value of 6.198 and a p-value of 0.014. This indicates that there was evidence to suggest that liquidity monitoring had a significant relationship with overall bank financial performance. The regression coefficient for liquidity monitoring was 0.290, indicating that, on average, a one-unit increase in liquidity monitoring was associated with a 0.290 unit increase in overall bank financial performance. The coefficient was statistically significant with a p-value of 0.014.

Additionally, the constant term in the model was estimated to be 2.327, indicating the expected value of the dependent variable (overall bank financial performance) when liquidity monitoring was zero. The t-value of the constant term was 5.886, and its p-value was 0.000, suggesting that the constant term was also statistically significant.

Based on these findings, it can be concluded that liquidity monitoring had a statistically significant but relatively weak positive relationship with the overall financial performance of banking institutions in Kampala Metropolitan. However, it is important to note that liquidity monitoring explained only a small proportion of the variation in overall bank financial performance, suggesting that other factors not included in the model may also play a significant role.

Discussion of findings

To determine the effect of liquidity monitoring on the financial performance of banking institutions in Kampala Metropolitan.

The findings revealed that liquidity monitoring accounted for a small portion of the variance in overall bank financial performance, with an R-square value of 0.030. The adjusted R-square was slightly lower at 0.025, indicating that the inclusion of liquidity monitoring as a predictor did not significantly improve the model's explanatory power. The standard error of the estimate was 1.31797, representing the average distance between the observed and predicted values of overall bank financial performance. The ANOVA results showed that the regression model as a whole was statistically significant, with an F-value of 6.198 and a p-value of 0.014. This indicates that there was evidence to suggest that liquidity monitoring had a significant relationship with overall bank financial performance. The regression coefficient for liquidity monitoring was 0.290, indicating that, on average, a one-unit increase in liquidity monitoring was associated with a 0.290-unit increase in overall bank financial performance. The coefficient was statistically significant with a p-value of 0.014. Additionally, the constant term in the model was estimated to be 2.327, indicating the expected value of the dependent variable (overall bank financial performance) when liquidity monitoring was zero. The t-value of the constant term was 5.886, and its p-value was 0.000, suggesting that the constant term was also statistically significant. The findings from this regression analysis provide useful insights into the relationship between liquidity monitoring and financial performance among Kampala Metropolitan banks. Some key results align with prior studies such as Acharya and Steffen (2023), who found robust liquidity monitoring enables financial resilience. Similarly, Demirgüç-Kunt and Detragiache (2002) observed effective practices bolster stability. This current study echoes such work by indicating a statistically significant positive association between monitoring and results. However, the modest explanatory power contrasts studies like Botoe (2022), where liquid assets strongly impacted profitability among Liberian banks. This divergence could partly stem from differing industry or regional market conditions over time as posited by Birajit and Shweta (2018). Nonetheless, our adjusted R-square concurs with Houston, James, and Marcus (2022) that discrete risk mitigation methods typically demonstrate constrained isolated impacts. Rather, a balanced, comprehensive monitoring regime as promoted by Farai (2020) may yield optimal benefits.

Therefore, while more robust than some investigations, the pronounced results corroborate theories advanced by researchers including Smith and Zahra (2017) and Jones and Hillier (2018). They reinforce recommendations to strategically govern cash positions optimally balancing objectives like resilience, growth and returns.

Conclusion

It is concluded that the regression coefficient for liquidity monitoring was 0.290, indicating that, on average, a one-unit increase in liquidity monitoring was associated with a 0.290-unit increase in overall bank financial performance. The coefficient was statistically

significant with a p-value of 0.014. Additionally, the constant term in the model was estimated to be 2.327, indicating the expected value of the dependent variable (overall bank financial performance) when liquidity monitoring was zero. The t-value of the constant term was 5.886, and its p-value was 0.000, suggesting that the constant term was also statistically significant. This analysis provides valuable insight into the relationship between liquidity monitoring and financial performance in our market. While the positive correlation and statistical significance for the monitoring coefficient aligns with studies emphasizing such oversight's importance, the modest explanatory power underscores its limited isolated impact.

Recommendations

Recommendations to banking institutions concerning the effect of liquidity monitoring on financial performance in Kampala Metropolitan:

Increase liquidity monitoring. The study found that a one-unit increase in liquidity monitoring was associated with a 0.290-unit increase in overall bank financial performance. Therefore, banks should increase their liquidity monitoring efforts to improve their financial performance.

Develop and implement a comprehensive liquidity monitoring framework. The framework should include clear policies and procedures for monitoring liquidity risk, as well as regular reporting and analysis of liquidity data.

Use liquidity monitoring data to make informed decisions about lending and investment activities. Banks should use liquidity monitoring data to identify and mitigate potential liquidity risks. For example, banks may reduce their lending activity or increase their investment in liquid assets if they are concerned about a potential liquidity shortfall.

Train staff on liquidity monitoring and management. Staff should be trained on how to identify and mitigate liquidity risks. Training should also cover the importance of liquidity monitoring and how to use liquidity monitoring data to make informed decisions.

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