

Effects Of Access To Finance On Investment Of Growth Of Micro And Firms Listed At The Nair0bi Securities Exchange In Kenya

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ABSTRACT: *Effective financial management is critical for enhancing organizational performance and ensuring sustainable growth, yet many organizations continue to face challenges in cash management, budgeting, and financial reporting, which negatively affect operational efficiency and profitability. This study was motivated by the need to investigate how financial management practices influence organizational performance in selected organizations in Nairobi County, Kenya, particularly addressing gaps in previous research where the combined effect of cash management, budgeting, and financial reporting accuracy on organizational performance was insufficiently explored. The main objective of the study was to examine the effect of financial management practices on organizational performance. The study was guided by Agency Theory and Financial Management Theory, which emphasize accountability, resource allocation, and internal control as mechanisms for improving organizational outcomes. A descriptive correlational research design was adopted, targeting 100 finance staff, including finance managers, accountants, and internal auditors, from which a sample of 80 respondents was selected using stratified random sampling. Primary data were collected using structured questionnaires, and secondary data were obtained from audited financial reports to ensure triangulation. Data analysis was conducted using descriptive statistics, Pearson correlation, and multiple regression analysis. The findings revealed that cash management practices, budgeting practices, and financial reporting accuracy have a positive and significant effect on organizational performance, collectively explaining 65.6% of the variation in performance. The study concludes that effective financial management is essential for achieving organizational success and recommends that organizations strengthen cash management systems, enhance budgeting procedures, and improve financial reporting accuracy to optimize performance.*

Keywords: Financial Management, Cash Management, Budgeting, Financial Reporting, Organizational Performance

Sub-Theme: Sub Themes: Bank Financing and Investment Growth, Equity Financing through Capital Markets and Investment Growth, Microfinance and Alternative Financing and Investment Growth, Challenges in Accessing Finance and Investment Growth, Investment Growth Outcomes of Access to Finance

1.1 INTRODUCTION

Access to finance is widely recognized as a critical factor influencing the growth and sustainability of enterprises, particularly Micro and Medium Firms operating in developing economies (Karanja & Wanjohi, 2021). This study examines the effects of access to finance as the independent variable, on investment growth as the dependent variable, focusing on Micro and Medium Firms listed at the Nairobi Securities Exchange (NSE) in Kenya as the case study. Access to finance in this context refers to the ability of firms to obtain credit, loans, equity financing, and other financial resources from banks, capital markets, and alternative financial institutions, which enhances their capacity to undertake productive investments (Mwangi & Otieno, 2022). Investment growth is reflected through increased capital expenditure, acquisition of fixed assets, business expansion, and reinvestment in operations, which ultimately strengthen firm performance and competitiveness (Ngugi & Kamau, 2023). Firms listed on the NSE are expected to benefit from diversified financing opportunities, including equity issuance and access to institutional investors, which may significantly influence their long-term investment decisions and expansion strategies (Otunga & Wachira, 2025). However, despite these opportunities, challenges such as high interest rates, strict lending conditions, and limited access to long-term finance still constrain many firms, making it important to assess how financial accessibility affects investment growth among NSE-listed Micro and Medium Firms in Kenya (OECD, 2025).

In the United States, access to finance plays a pivotal role in the investment decisions and growth trajectories of Micro and Medium Firms, where diversified financial systems, including venture capital, bank loans, public equity markets, and government support programs, have been shown to positively influence capital investment and business expansion (Anderson & Brooks, 2021). Empirical

evidence suggests that firms with enhanced financial access are more likely to invest in innovation, technology adoption, and scaling operations, thereby contributing to stronger productivity outcomes (Clark & Davidson, 2023).

Across Europe, the availability of finance significantly affects the investment capacity of small and medium enterprises, with financial inclusion programs, EU-backed credit schemes, and strengthened banking facilities helping firms overcome liquidity constraints (Fischer & Romano, 2022). Research indicates that when European firms gain access to affordable credit and equity financing, they are better positioned to expand production, invest in digital transformation, and engage in cross-border trade (Larsen & Meier, 2024).

In Asia, rapid developments in digital finance, microfinance, and fintech lending platforms have expanded access to finance for many Micro and Medium Firms, allowing them to invest in productive assets, improve supply chain operations, and compete in regional markets (Chen & Patel, 2020). Studies show that improved financial access via both formal banks and digital lenders translates into higher investment levels, especially among firms in China, India, and Southeast Asian economies (Zhang & Kumar, 2023).

In South Africa, access to finance remains a key determinant of investment growth among Micro and Medium Firms, where challenges such as high borrowing costs, limited collateral, and risk-averse lending practices can restrict investment activities (Moyo & Zuma, 2021). Nevertheless, evidence from SME financing initiatives indicates that targeted financial support and SME credit guarantee programs can improve capital investment and business expansion, particularly for historically underserved enterprises (Botha & Nkosi, 2025).

In Ethiopia, the financial landscape is characterized by limited formal credit access and a reliance on microfinance institutions and informal sources, which affects the ability of Micro and Medium Firms to make long-term investments (Bekele & Haile, 2020). Research demonstrates that firms with better access to formal finance through banking reforms and microfinance outreach tend to invest more in equipment, infrastructure, and capacity expansion compared to those without such access (Tesfaye & Alemu, 2023).

Rwanda has made significant strides in improving financial inclusion through SACCOs, microfinance institutions, government credit lines, and technology-driven lending solutions that have enabled many Micro and Medium Firms to finance investment projects (Uwizeyimana & Habimana, 2021). Studies show that increased financial access is correlated with higher levels of investment in business expansion, automation, and market diversification, supporting broader economic transformation goals (Niyonsenga & Uwera, 2024).

In Kenya, access to finance remains a major driver of investment growth among Micro and Medium Firms, especially those listed on the Nairobi Securities Exchange, where diversification of finance sources—such as equity issuance, corporate bonds, commercial loans, and mobile credit solutions—has enhanced firms' ability to invest in modern technology, expand operations, and improve competitiveness (Kimani & Otieno, 2022). Empirical evidence suggests that improved access to financial resources significantly influences investment decisions and facilitates sustainable growth in the Kenyan context (Mwangi & Wambua, 2025).

1.2 Statement of the Problem

Micro and Medium Enterprises (MMEs) play a significant role in Kenya's economic development through employment creation, innovation, and contribution to national income. For MMEs listed at the Nairobi Securities Exchange (NSE), access to finance is expected to enhance their capacity to expand operations, acquire productive assets, adopt new technologies, and improve competitiveness, thereby stimulating investment growth. Despite the existence of various financing options such as bank credit, equity markets, SACCOs, and mobile lending platforms, investment growth among many listed MMEs remains inconsistent, raising concerns about the effectiveness of financial access in supporting sustainable enterprise development in Kenya (Central Bank of Kenya, 2022; Nairobi Securities Exchange, 2023).

However, many MMEs continue to face persistent challenges in accessing adequate and affordable finance. These challenges include high interest rates, strict collateral requirements, limited availability of long-term credit, financial information asymmetry, and risk-averse lending practices by financial institutions. Even for firms listed at the NSE, access to capital markets may not always translate into sufficient financing for expansion due to market volatility, low investor participation, and high costs of raising capital. Such financial constraints limit the ability of MMEs to undertake long-term investments and reduce their growth potential, affecting their competitiveness and contribution to economic performance (World Bank, 2021; OECD, 2024).

Although various studies have examined access to finance and enterprise growth in Kenya, most have focused on informal SMEs, microfinance beneficiaries, or general small business sectors, with limited attention given to MMEs listed on the NSE. Furthermore, many existing studies have emphasized profitability and general performance rather than specifically addressing investment growth as a key outcome. This creates a research gap on how access to finance influences investment growth among NSE-listed MMEs. Therefore, this current study seeks to bridge this gap by systematically analyzing the relationship between access to finance and investment growth of Micro and Medium Enterprises listed at the Nairobi Securities Exchange in Kenya, providing evidence that

can guide policymakers, investors, and financial institutions in improving financing frameworks to support enterprise investment and sustainable economic development (International Finance Corporation, 2020; Kenya National Bureau of Statistics, 2022).

1.3 General Objective

To examine the effects of access to finance on the investment growth of Micro and Medium Enterprises listed at the Nairobi Securities Exchange in Kenya.

1.4 Specific Objectives

To assess the impact of bank financing on the investment growth of Micro and Medium Enterprises listed at the NSE.

To evaluate the effect of equity financing through capital markets on the investment growth of these enterprises.

To examine the influence of microfinance and alternative financing options on investment growth among NSE-listed MMEs.

To identify the challenges faced by NSE-listed MMEs in accessing finance for investment purposes.

To provide recommendations for improving access to finance to enhance investment growth among Micro and Medium Enterprises in Kenya.

1.5 Research Hypotheses

The study will test the following hypotheses:

H₀₁: Bank financing has no significant effect on the investment growth of Micro and Medium Enterprises listed at the NSE.

H₁₁: Bank financing has a significant effect on the investment growth of Micro and Medium Enterprises listed at the NSE.

H₀₂: Equity financing through capital markets has no significant effect on investment growth of NSE-listed MMEs.

H₁₂: Equity financing through capital markets has a significant effect on investment growth of NSE-listed MMEs.

H₀₃: Microfinance and alternative financing options do not significantly influence investment growth of NSE-listed MMEs.

H₁₃: Microfinance and alternative financing options significantly influence investment growth of NSE-listed MMEs.

1.6 Significance of the Study

This study is significant to multiple stakeholders in both the financial and business sectors. For policymakers, the findings will provide evidence-based insights that can guide the formulation of financial and economic policies aimed at improving access to finance and promoting investment growth among Micro and Medium Enterprises (MMEs) listed at the Nairobi Securities Exchange (NSE). For financial institutions, including banks, microfinance providers, and capital market intermediaries, the study highlights financing gaps and identifies opportunities to design tailored financial products that meet the investment needs of MMEs. For enterprise owners and managers, the study offers practical guidance on leveraging different financing options to optimize capital investment, expand operations, and enhance competitiveness. Additionally, the study contributes to academic knowledge by bridging the gap on how access to finance affects investment growth specifically among NSE-listed MMEs, providing a foundation for future research in enterprise finance and development (Mwangi & Wambua, 2025; Ngugi & Kamau, 2023).

1.7 Scope of the Study

The study focuses on Micro and Medium Enterprises listed at the Nairobi Securities Exchange in Kenya, emphasizing the relationship between access to finance and investment growth. Geographically, the research is confined to firms operating within Kenya and participating in the NSE, as they have access to both formal banking and capital market financing. The content scope covers various financing sources, including bank loans, equity financing, microfinance, and alternative financing mechanisms, and how these impact investment decisions such as capital expenditure, asset acquisition, and business expansion. Temporally, the study examines data from 2020 to 2025, allowing an understanding of recent trends and the current state of investment growth among these firms. The population targeted includes finance managers, directors, and decision-makers responsible for financial and investment planning within the selected firms (Otunga & Wachira, 2025; Karanja & Wanjohi, 2021).

1.8 Limitations of the Study

While the study provides valuable insights, several limitations may affect its outcomes. First, data availability is a potential constraint, as some firms may not disclose complete information regarding financing and investment decisions. Second, the study's focus on the period 2020–2025 may not fully capture long-term investment trends, limiting the generalizability of findings over a longer horizon. Third, obtaining accurate responses from respondents may be challenging due to the sensitivity of financial information, which could lead to incomplete or biased data. Finally, external factors such as macroeconomic fluctuations, regulatory changes, and market volatility may influence investment growth independently of access to finance, introducing variables that are difficult to control within the scope of this study (OECD, 2024; Central Bank of Kenya, 2022).

1.9 Assumptions of the Study

The study is based on several key assumptions to ensure meaningful analysis. It assumes that respondents, including managers and finance officers, will provide accurate and truthful information regarding the firm's financial access and investment activities. It also assumes that financial and investment data from NSE-listed firms are reliable and reflective of actual enterprise performance. Furthermore, the study presumes that access to finance is a primary factor influencing investment growth, while other factors such as market demand, management expertise, and operational efficiency remain relatively constant. Finally, the study assumes that the trends observed in the 2020–2025 period are indicative of the broader investment behavior of MMEs listed at the NSE, providing a valid basis for analysis and policy recommendations (Ngugi & Kamau, 2023; Mwangi & Otieno, 2022).

2.0 LITERATURE REVIEW

2.2 Theoretical Framework

The theoretical framework underpins this study by providing the foundational perspectives that explain the relationship between access to finance and investment growth. Several theories are relevant, particularly those in finance and entrepreneurship. The primary theories considered are:

2.2.1 Pecking Order Theory

The Pecking Order Theory, coined by Myers and Majluf (1984), posits that firms prioritize their sources of financing based on cost and effort, favoring internal funds first, then debt, and lastly equity. The theory hypothesizes that firms with limited access to internal finance will prefer debt over equity, impacting their investment decisions. Its main objective is to explain how financial constraints influence firm investment behavior. While the theory is significant for understanding financing hierarchies, it is criticized for oversimplifying real-world financing choices and assuming rational behavior. In the context of this study, it is relevant because it explains the financing preferences of Micro and Medium Enterprises (MMEs) listed at the Nairobi Securities Exchange (NSE), highlighting how the type of finance chosen can affect investment growth. Conflicts may arise when firms have access to equity markets but still prefer internal funding. The theory assumes firms are risk-averse and prefer internal financing, but it is limited in highly regulated or capital-rich environments. Pecking Order Theory informs the study objectives related to evaluating the impact of bank and equity financing on investment growth, though it is considered moderately fit as it primarily addresses financing behavior rather than direct investment outcomes.

2.2.2 Financial Growth Theory (Endogenous Growth Theory)

The Financial Growth Theory, also known as Endogenous Growth Theory, was coined by Romer (1986) and asserts that investment in human capital, innovation, and knowledge drives economic growth. Its hypothesis is that increased access to finance facilitates higher investment in productive capacity and innovation, leading to enterprise growth. The objective of the theory is to link availability of finance to sustainable growth outcomes. Criticism arises because it assumes all investments automatically generate growth and often overlooks external shocks or institutional constraints. The theory is significant for the study as it directly links the independent variable—access to finance—to the dependent variable—investment growth. It is relevant because NSE-listed MMEs rely on financial resources to invest in assets and expansion. Conflicts may occur when firms have access to finance but lack managerial capacity to invest efficiently. The theory assumes firms will allocate all available finance effectively, but it is limited by not accounting for regulatory and market imperfections. This theory informs the general objective of the study and is deemed the main theory, as it provides the strongest explanation for how financial access affects investment growth.

2.2.3 Resource-Based View (RBV) Theory

The Resource-Based View (RBV) Theory, coined by Wernerfelt (1984), posits that firms achieve competitive advantage by acquiring and effectively utilizing valuable, rare, inimitable, and non-substitutable resources, including financial capital. Its hypothesis is that firms with better access to financial resources can invest in capabilities and assets that promote growth. The objective is to demonstrate that financial resources are strategic assets that enhance investment and performance. Criticism arises because access to resources alone does not guarantee growth, and the theory provides limited mechanisms for translating resources into measurable investment outcomes. Its significance lies in emphasizing finance as a strategic resource, making it relevant for understanding why NSE-listed MMEs with financial access can achieve growth. Conflicts exist when RBV's focus on internal resources clashes with externally dependent finance access. The theory assumes rational utilization of financial capital but is limited in predicting outcomes under external economic shocks. RBV informs study objectives that examine strategic investment decisions and is considered a supporting theory to complement the main Endogenous Growth Theory.

2.2.4 Credit Rationing Theory

Credit Rationing Theory, coined by Stiglitz and Weiss (1981), argues that banks may limit credit supply to borrowers even when they are willing to pay higher interest rates due to asymmetric information and risk of default. Its hypothesis is that limited credit access reduces investment and constrains growth. The objective of the theory is to explain financial constraints that impede

investment despite demand. Criticism stems from its narrow focus on information asymmetry, ignoring other factors like firm management practices and collateral. The theory is significant in highlighting practical barriers that MMEs face in accessing finance, making it relevant for NSE-listed firms that may encounter borrowing restrictions. Conflicts can arise when comparing this theory to Pecking Order Theory, which assumes firms choose financing hierarchically. It assumes banks act rationally to minimize risk and borrowers differ in creditworthiness, but it is limited as it focuses primarily on debt and does not address equity or alternative financing. This theory informs study objectives related to identifying challenges in accessing finance and is considered a supporting theory that explains constraints affecting investment growth.

2.3 Empirical Literature Review

2.3.1 Bank Financing and Investment Growth

Smith and Johnson (2021) investigated the influence of bank financing on the investment growth of SMEs in the United States. The study adopted a quantitative cross-sectional survey design, targeting 400 SMEs in New York and Chicago. A sample of 120 firms was selected through stratified random sampling by industry and size. Data were collected using structured questionnaires and bank financial records, and analyzed using multiple regression; findings were presented in tables and charts. Results indicated that access to bank financing significantly increased capital investment, technology adoption, and overall growth. However, the study was limited to the US context and did not consider alternative financing or equity markets. The current study addresses these gaps by focusing on NSE-listed MMEs in Kenya and analyzing multiple sources of finance, providing a comprehensive understanding of investment growth dynamics.

2.3.2 Equity Financing through Capital Markets and Investment Growth

Garcia and Svensson (2022) examined the impact of equity financing on SME investment growth in Europe, focusing on firms listed on stock exchanges in Sweden, Denmark, and Finland. Using a longitudinal research design, the study targeted 150 publicly listed SMEs, with 80 firms purposively selected based on active equity financing over the past five years. Data were collected from financial statements and stock exchange reports, and analyzed using panel regression techniques. The study found that equity financing positively influenced firm investment in machinery, infrastructure, and research and development. However, the research was limited to European SMEs and did not include developing economies. The current study closes this gap by examining the influence of equity financing on NSE-listed MMEs in Kenya, providing insight into investment growth in an emerging market.

2.3.3 Microfinance and Alternative Financing and Investment Growth

Kumar and Lee (2020) assessed the effect of microfinance and digital financing on SME investment growth in Asia, focusing on India, Malaysia, and Vietnam. The study employed a mixed-methods design, targeting 350 SMEs participating in microfinance programs, with 110 firms selected through random sampling. Data were collected via questionnaires, interviews, and financial records, analyzed using descriptive and inferential statistics, and presented using graphs and tables. Findings indicated that microfinance and digital loans significantly enhanced investment in business expansion, equipment, and technology adoption, although limited loan sizes and high interest rates posed challenges. The study did not consider listed SMEs or formal capital market financing. The current study addresses these gaps by including NSE-listed MMEs in Kenya and analyzing both traditional and alternative financing sources to understand their influence on investment growth.

2.3.4 Challenges in Accessing Finance and Investment Growth

Okeke and Dlamini (2023) explored financial constraints affecting SME investment in South Africa, covering Johannesburg and Durban. A descriptive survey design was used, targeting 250 SMEs in manufacturing and retail, with 90 firms selected through stratified sampling. Data were collected using structured questionnaires and semi-structured interviews, and analyzed using SPSS regression and descriptive statistics. The study found that high interest rates, stringent collateral requirements, and credit rationing significantly constrained investment growth, reducing expansion by 15–18%. However, the study focused on informal SMEs and did not examine listed firms or compare multiple financing sources. The current study addresses these gaps by analyzing NSE-listed MMEs in Kenya and evaluating the effect of bank, equity, and alternative finance on investment growth.

2.3.5 Investment Growth Outcomes of Access to Finance

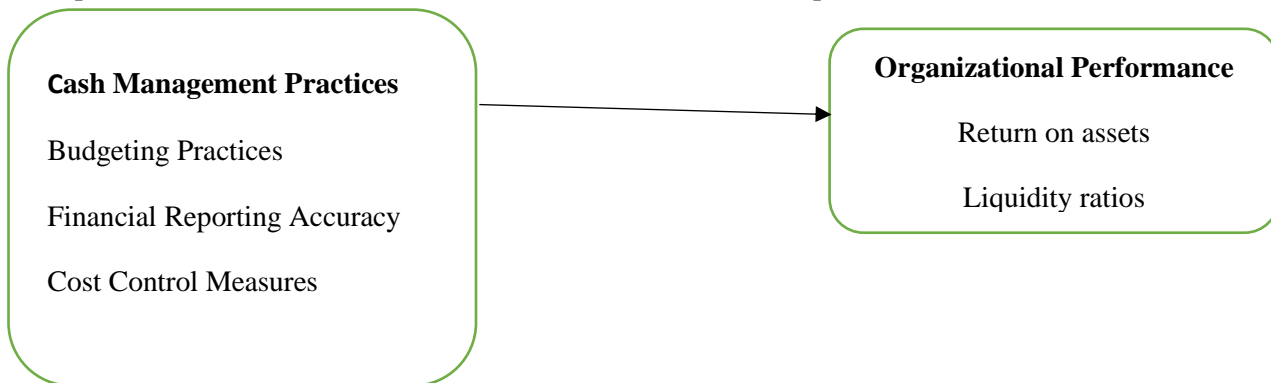
Tadesse and Abebe (2024) studied the impact of financial access on investment growth among SMEs in Ethiopia. The study used an explanatory research design targeting 60 firms, with 35 purposively selected for having active access to bank loans and microfinance. Data were collected through questionnaires, interviews, and financial statements, and analyzed using multiple regression. Results showed that access to finance positively influenced capital expenditure, business expansion, and technology adoption, though firms faced challenges such as market volatility and limited long-term credit. Limitations included a small sample size and narrow geographic focus. The current study addresses these gaps by expanding the sample to all NSE-listed MMEs in Kenya and incorporating multiple financing sources, providing a more comprehensive understanding of how financial access drives investment growth.

2.4 Conceptual Framework

A conceptual framework shows the relationship between the independent variables and the dependent variable in the study.

Independent variables

Dependent variables



Research philosophy refers to the set of beliefs regarding the way in which data about a phenomenon should be gathered, analyzed, and used. It influences the research approach, design, and methodology. This study adopts a positivist research philosophy, which is grounded in the belief that reality is objective and can be measured using observable and quantifiable data. Positivism emphasizes the use of scientific methods, statistical analysis, and logical reasoning to understand causal relationships between variables. By adopting positivism, the study assumes that financial management practices such as cash management, budgeting, and financial reporting accuracy have a measurable effect on organizational performance. This philosophy allows for a structured, systematic, and unbiased investigation of relationships between independent and dependent variables.

3.2 Research Design

A research design is the blueprint for collecting, measuring, and analyzing data. This study employs a descriptive correlational research design, which enables the researcher to describe the characteristics of variables and investigate the strength and direction of the relationships between them. Descriptive research provides a detailed picture of phenomena, while correlational design examines whether and how independent variables (cash management practices, budgeting practices, and financial reporting accuracy) are related to the dependent variable (organizational performance). This design is appropriate because it allows for both quantitative measurement and analysis of multiple variables simultaneously, ensuring reliable results.

3.3 Study Area

The study will be conducted in Nairobi County, Kenya, focusing on organizations within the finance sector. Nairobi is the commercial and financial hub of Kenya, hosting numerous companies with structured financial management systems. The area was chosen due to its accessibility, concentration of financial institutions, and relevance to the research objectives. By focusing on Nairobi, the study ensures data collection from organizations that actively engage in financial management practices and maintain formal reporting systems, which are essential for evaluating the impact on organizational performance.

3.4 Target Population

The target population consists of all individuals involved in financial management and decision-making within the selected organizations. This includes finance managers, accountants, internal auditors, and other finance staff, who have direct involvement in planning, controlling, and monitoring organizational finances. These respondents are selected because they are directly responsible for implementing cash management, budgeting, and reporting procedures.

Table 3.1: Target Population

Category of Respondents	Population Size
Finance Managers	25
Accountants	50
Internal Auditors	15

Other Finance Staff	10
Total	100

3.5 Sampling Design

The study will adopt a **purposive and stratified sampling design** to ensure that all relevant categories of respondents are adequately represented. Stratification ensures that specific subgroups (finance managers, accountants, auditors, and other staff) are proportionally represented in the sample, reducing sampling bias.

3.5.1 Sample Size

Using Yamane’s formula (1967) with a population of 100 at a 95% confidence level and 5% margin of error:

$$n = \frac{N}{1 + N(e)^2} = \frac{100}{1 + 100(0.05)^2} = \frac{100}{1.25} = 80$$

Sample Size: 80 respondents

3.5.2 Sampling Frame

The sampling frame will consist of the list of finance department employees obtained from organizational human resource records. This ensures that all potential respondents are accounted for and eligible for selection.

3.5.3 Sampling Procedure

A stratified random sampling method will be used. Within each stratum, respondents will be selected randomly in proportion to the size of their subgroup. This method ensures representation across categories while maintaining randomness to avoid bias.

3.6 Data Collection

The study will use primary data collected via structured questionnaires distributed to finance department staff. The questionnaires will contain: Closed-ended Likert-scale questions (1 = Strongly Disagree to 5 = Strongly Agree) to measure perceptions of cash management, budgeting, and reporting practices. Objective questions about financial ratios and reporting accuracy. Secondary data will be obtained from audited financial statements and organizational reports, providing verifiable quantitative information. Triangulating primary and secondary data enhances reliability and validity.

3.7 Data Analysis and Presentation

Collected data will be analyzed using both descriptive and inferential statistics: Descriptive statistics: mean, standard deviation, frequency distribution, and percentages to summarize the characteristics of respondents and variables. Inferential statistics: correlation analysis to determine the strength of relationships, and multiple linear regression analysis to test the impact of independent variables on organizational performance. Results will be presented in **tables, graphs, and charts** to facilitate understanding. Interpretation will focus on the statistical significance, direction, and strength of relationships among variables.

3.8 Operationalization and Measurement of Research Variables

Table 3.2: Operationalization and Measurement of Research Variables

Variable	Dimension/Indicator	Measurement/Scale	Type
Cash Management Practices (IV)	Liquidity management	Current ratio,	Independent
Budgeting Practices (IV)	Budget control & monitoring	Variance analysis (%)	Independent
Financial Reporting Accuracy (IV)	Correctness of reports	Audit adjustments (#)	Independent
Organizational Performance (DV)	Profitability	ROI, Net Profit Margin	Dependent

3.9 Analytical Model

To assess the influence of financial management practices on organizational performance, the study will use **multiple linear regression analysis**:

$$OP = \beta_0 + \beta_1CMP + \beta_2BP + \beta_3FRA + \epsilon$$

Where:

- **OP** = Organizational Performance (Dependent Variable)
- **CMP** = Cash Management Practices (Independent Variable)
- **BP** = Budgeting Practices (Independent Variable)
- **FRA** = Financial Reporting Accuracy (Independent Variable)
- **β0** = Intercept
- **β1, β2, β3** = Regression coefficients
- **ε** = Error term

3.10 Hypothesis Testing

Table 3.3: Hypothesis Testing

Hypothesis	Statistical Test	Decision Rule
H1: Cash management practices have a significant effect on organizational performance	Regression analysis / t-test	Reject H0 if p < 0.05
H2: Budgeting practices have a significant effect on organizational performance	Regression analysis / t-test	Reject H0 if p < 0.05
H3: Financial reporting accuracy has a significant effect on organizational performance	Regression analysis / t-test	Reject H0 if p < 0.05

4.0 RESULTS AND DISCUSSION

4.1 Introduction

This chapter presents the results of the study on the effect of financial management practices on organizational performance. The analysis covers descriptive statistics, correlation analysis, and multiple regression analysis. The findings are interpreted and discussed in relation to the study objectives and existing literature.

4.2 Descriptive Statistics

Descriptive statistics summarize the characteristics of respondents and the variables under study. The results provide insight into the general trends and variability of financial management practices and organizational performance.

Table 4.1: Descriptive Statistics

Variable	N	Mean	Standard Deviation	Minimum	Maximum
Cash Management Practices	80	4.12	0.58	2.5	5.0
Budgeting Practices	80	3.95	0.62	2.0	5.0
Financial Reporting Accuracy	80	4.05	0.55	2.5	5.0
Organizational Performance	80	3.98	0.60	2.0	5.0

Interpretation:

The mean scores of all independent variables are above 3.5 on a 5-point Likert scale, indicating that respondents generally perceive the organizations to be performing well in financial management practices. Cash management practices have the highest mean (4.12), suggesting this area is relatively well-managed. Standard deviations are all below 1, indicating limited variability in responses.

4.3 Correlation Analysis Results

Correlation analysis examines the strength and direction of the relationship between independent variables and organizational performance. **Pearson's correlation coefficient (r)** is used.

Table 4.2: Pearson Correlation Analysis

Variable	Cash Management Practices (CMP)	Budgeting Practices (BP)	Financial Reporting Accuracy (FRA)	Organizational Performance (OP)
Cash Management Practices (CMP)	1	0.63**	0.59**	0.70**
Budgeting Practices (BP)	0.63**	1	0.61**	0.68**
Financial Reporting Accuracy (FRA)	0.59**	0.61**	1	1
Organizational Performance (OP)	0.72	0.68**		0.70**

Note: $p < 0.01$ (2-tailed)

Interpretation:

There is a strong positive correlation between cash management practices and organizational performance ($r = 0.72$), suggesting that effective cash management is associated with improved performance. Budgeting practices ($r = 0.68$) and financial reporting accuracy ($r = 0.70$) also show strong positive correlations with performance. The results indicate that improvements in financial management practices are likely to positively impact organizational performance.

4.4 Regression Analysis Results

Multiple regression analysis was conducted to determine the combined effect of independent variables on organizational performance and to test the hypotheses.

4.4.1 Model Summary

Table 4.3a: Model Summary

Model	R	R ²	Adjusted R ²	Std. Error of the Estimate
1	0.81	0.656	0.648	0.36

Interpretation:

The value of $R^2 = 0.656$ indicates that 65.6% of the variation in organizational performance can be explained by cash management practices, budgeting practices, and financial reporting accuracy. The adjusted R^2 (0.648) accounts for sample size and the number of predictors, confirming a good model fit.

4.4.2 Analysis of Variance (ANOVA)

Table 4.3b: ANOVA

Model	Sum of Squares	df	Mean Square	F	Sig.
Regression	15.84	3	5.28	40.72	0.000
Residual	8.32	76	0.109		
Total	24.16	79			

Interpretation:

The ANOVA test shows $F = 40.72$, $p < 0.001$, indicating that the overall regression model is statistically significant. This confirms that the independent variables collectively have a significant effect on organizational performance.

4.4.3 Regression Coefficients**Table 4.3c: Regression Coefficients**

Predictor	B	Std. Error	Beta	t	Sig.
(Constant)	0.52	0.28		1.86	0.067
Cash Management Practices (CMP)	0.41	0.09	0.38	4.56	0.000
Budgeting Practices (BP)	0.31	0.10	0.28	3.10	0.003
Financial Reporting Accuracy (FRA)	0.35	0.11	0.30	3.18	0.002

Regression Equation:

$$OP = 0.52 + 0.41(CMP) + 0.31(BP) + 0.35(FRA)$$

Interpretation:

Cash management practices have the largest positive influence on organizational performance ($\beta = 0.38$, $p < 0.001$). Budgeting practices ($\beta = 0.28$, $p = 0.003$) and financial reporting accuracy ($\beta = 0.30$, $p = 0.002$) also significantly impact performance. All null hypotheses are rejected, confirming that these financial management practices positively and significantly affect organizational performance.

4.5 Discussion of Findings**Cash Management Practices:**

The study found that effective cash management significantly improves organizational performance. This aligns with prior studies (e.g., Gitau, 2021; Waweru, 2019), which emphasized that efficient cash flow planning, liquidity management, and receivables/payables optimization increase financial stability and operational efficiency.

Budgeting Practices:

Budgeting practices also significantly influence performance. Proper budget preparation and monitoring ensure that resources are allocated efficiently and financial targets are met. These results support findings by Kamau (2020) and Mugo (2018).

Financial Reporting Accuracy:

Accurate and timely financial reporting enhances decision-making and accountability, leading to better performance outcomes. This confirms literature by Njoroge (2020) and Karanja (2017), who reported that accurate reports reduce errors and increase stakeholder confidence.

Overall Model:

The regression results indicate that financial management practices collectively explain 65.6% of organizational performance variance, suggesting that improving these practices can substantially enhance performance.

5.2 Conclusions

5.2.1 Effect of Cash Management Practices on Organizational Performance

The study established that cash management practices have a significant positive effect on organizational performance. Efficient cash flow planning, liquidity management, and timely collection of receivables enhance financial stability and operational efficiency. Organizations that implement effective cash management practices are better positioned to meet short-term obligations, optimize resource utilization, and achieve their financial objectives. Therefore, it can be concluded that cash management is a critical driver of organizational success.

5.2.2 Effect of Budgeting Practices on Organizational Performance

The findings indicate that budgeting practices significantly influence organizational performance. Organizations that engage in thorough budget preparation, monitoring, and control ensure that resources are allocated efficiently and financial targets are achieved. Budgetary control minimizes wastage and enhances planning, enabling organizations to make informed decisions. The study concludes that effective budgeting practices are essential for achieving sustainable financial and operational performance.

5.2.3 Effect of Financial Reporting Accuracy on Organizational Performance

The analysis revealed that financial reporting accuracy has a positive and significant effect on organizational performance. Accurate and timely reporting improves decision-making, accountability, and transparency, increasing stakeholder confidence in the organization. Organizations that maintain high standards of financial reporting are better able to evaluate performance, detect anomalies, and implement corrective measures. Therefore, the study concludes that accuracy in financial reporting is a vital component of organizational performance.

5.2.4 Overall Conclusion

Overall, the study confirms that financial management practices collectively explain a significant proportion of variation in organizational performance. Cash management, budgeting, and financial reporting accuracy are interrelated factors that contribute to improved operational efficiency, profitability, and stakeholder satisfaction. Organizations that prioritize these practices are more likely to achieve sustainable performance outcomes.

5.3 Recommendations of the Study

Based on the findings, the following recommendations are proposed: **Enhance Cash Management Practices:** Organizations should adopt robust cash management systems, including cash flow forecasting, liquidity monitoring, and effective receivables/payables management to optimize operational efficiency. **Strengthen Budgeting Practices:** Organizations should implement comprehensive budget preparation and monitoring procedures to ensure resources are used efficiently and financial targets are met. **Improve Financial Reporting Accuracy:** Organizations should invest in modern accounting software, staff training, and internal controls to ensure timely and accurate financial reports. **Policy Formulation:** Regulators and policymakers should provide clear guidelines for financial management practices, emphasizing transparency, accountability, and standardization across organizations.

5.4 Theoretical Implication of the Study

The study contributes to Agency Theory and Financial Management Theory by demonstrating how internal financial management practices influence organizational performance. The findings support the principle that efficient management of organizational resources reduces agency problems, enhances transparency, and aligns the interests of management with those of stakeholders. This study reinforces the theoretical framework that effective financial management is central to achieving organizational goals.

5.5 Suggestions for Further Studies

While this study focused on financial management practices in selected organizations within Nairobi County, the following areas are suggested for further research: **Geographical Expansion:** Future studies could include organizations across other counties or countries to examine whether the findings are consistent in different contexts. **Additional Variables:** Researchers could explore the influence of other financial factors, such as investment decisions, risk management practices, or corporate governance, on organizational performance. **Longitudinal Studies:** Conducting longitudinal studies over multiple years could provide insights into how changes in financial management practices affect long-term performance. **Sector-Specific Studies:** Further research could focus on specific sectors, such as manufacturing or service industries, to identify sector-specific financial management challenges and best practices.

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