FINANCIAL MANAGEMENT CHALLENGES IN THE BANKING SECTOR; A CASE OF EQUITY BANK HOMA-BAY BRANCH KENYA

BY

MASESE ONYANGO ERIC

BIB/14314/71/DF

A RESEARCH REPORT SUBMITTED TO THE SCHOOL OF BUSSINES AND MANAGEMENT IN PARTIAL FULFILLMENT OF THE REQUIREMENT FOR THE AWARD OF A BACHELOR DEGREE IN INTERNATIONAL BUSINESS ADMINISTRATION OF KAMPALA INTERNATIONAL UNIVERSITY.

March 22, 2011

DECLARATION

I Masese Onyango Erick, do hereby declare that this research dissertation is my original work and that it has never been presented for any award in any institution.

Names:…………………………. Date …………………

APPROVAL

I do hereby certify that this work has been done under my supervision. I do approve it for submission in partial fulfillment of the requirement for the award of Bachelor of International Business Administration of Kampala International University.

Sign ....

MR. TINDI SEJE

Date.................................

DEDICATION

I specially want to dedicate this research dissertation to my beloved parents, Mr. and Mrs. Masese to whom I owe this success.

ACKNOWLEDGEMENT

My gratitude first goes to God who has given me the strength and courage to undertake this research. I want to thank my brothers and sisters for their contributions in my life. All your contributions are saluted.

I also owe a lot of appreciation to all those who assisted me in carrying out this research. I am grateful to my supervisor Mr. Tindi Seje who tirelessly went through my work and inspired me to dig deeper onto the core matter. His kind criticism, patience and understanding assisted me a great deal.

I am indebted to my friends who gave me encouragement in times of difficulties. Thanks also to tall those lecturers who impacted professionalism into my work.

I wish to thank my family especially, Uncle John Kakiriga, for their love, financial support and inspiration during my stay in Kampala International University (KIU).

Finally, I would like to thank all my respondents and those who responded within a short notice without which this work would not have been possible.

May God bless you all.

TABLE OF CONTENTS

DECLARATION ... i
APPROVAL ... ii
DEDICATION ... iii
ACKNOWLEDGEMENT ... iv
TABLE OF CONTENTS ... v

CHAPTER ONE ... 1
1.0 INTRODUCTION ... 1
1.I STATEMENT OF THE PROBLEM ... 2
1.2 PURPOSE OF THE STUDY ... 3
1.3 OBJECTIVE OF THE STUDY ... 3
1.4 RESEARCH QUESTIONS. ... 3
1.5 SCOPE OF THE STUDY ... 4
1.6 SIGNIFICANCY OF THE STUDY. ... 4

CHAPTER 2 ... 5
LITERATURE REVIEW ... 5
2.0 INTRODUCTIONS ... 5
2.1CONCEPTUAL FRAMEWORK ... 5
2.1.1Investment decisions ... 5
2.1.2Financing decisions ... 6
2.2.3 Assessment management decision ... 6
2.2 FINANCIAL MANAGEMENT STANDARDS ... 6
2.3 FINANCE AND ITS FUNCTIONS ... 7
2.3.1Cash flow forecasting ... 7
2.3.2Budget planning ... 7
2.3.3management accounting ... 8
2.3.4Finance forecasting and its acquisition ... 8
2.4TYPES OF DEBT AND EQUITY FINANCES ... 8
2.4.1 Long term sources. ... 9
2.4.2 Short-term sources ... 13
2.5 FEDERAL RESERVE SYSTEM ... 15

2.5.1 Purposes 15
2.5.2 Current functions of the Federal Reserve System includ 16
2.6 FINANCIAL CRISES 16
2.6.1 Types of financial crises 16
2.6.2 Causes and consequences of financial crises 18
2.6.3 Prevention measures 21
2.7 MONETARY POLICIES 22
2.8LEVERAGE (FINANCE) 24
2.9 MEASURE OF ORGANIZATION PERFORMANCE 26
2.9.1 The current ratio 26
2.9.2 Acid test ratio 26
2.9.3 Return capital employed 27
2.9.4 Gross and net profit margin 27
2.9.5 Growth and size of the business 27

CHAPTER THREE 28
THE RESEARCH METHODOLOGY 28
3.0. INTRODUCTION 28
3.1. DESIGN 28
3.2. SURVEY POPULATION 28
3.3. SAMPLE SELECTION AND SIZE PROCEDURE. 28
3.4 METHODS OF DATA COLLECTION 29
3.5 INSTRUMENT FOR DATA COLLECTION 29
3.6 DATA PROCESSING ANALYSIS AND INTERPRETATION 29
3.7 QUALITY CONTROL 29
3.8 LIMITATIONS 30

CHAPTER 4 31
PRESENTING, ANALYSIS AND INTERPRESENTATION OF RESEARCH FINDINGS 31
4.0 INTRODUCTION 31
4.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENCE 31
4.2 RESPONSE RATE 33
4.3 RESEARCH QUESTION FIVE 33
4.4 RESEARCH QUESTION 6 35
4.5 RESEARCH QUESTION SEVEN 35

4.6 RESEARCH QUESTION EIGHT 36

CHAPTER FIVE 37
5.0 INTRODUCTION 37
5.1 CONCLUSION 38
5.2 RECOMMENDATION 38

APPENDIX 39
QUESTIONARE FOR THE EQUITY BANK MANAGEMENT AND STAFF 39
KAMPALA UNIVERSITY ....**Error! Bookmark not defined.**

BIBLIOGRAPHY ....**Error! Bookmark not defined.**

CHAPTER ONE

1.0 INTRODUCTION

Equity bank group is a financial services organization in east Africa. The group headquarters are located in Nairobi, Kenya with subsidiaries in Kenya, Uganda, Rwanda and southern Sudan. Equity bank with the mission to offer inclusive, customer focused financial services that socially and economically empower our clients and other stakeholder, commence business in 1984.

The bank is credited for taking banking services to the people through its accessible, affordable and flexible services provision. It offers financial services through its whole network branches in Kenya, Uganda, Rwanda and southern Sudan supported by alternative delivery channels, which include:

- Visa branded ATMS in Kenya.
- Points of sales **(pos)** where customers shop pay and withdraw cash in leading outlets.
- Internet and mobile banking channels.

The bank runs on a global robust state supported by info system, hp, oracle administration, Microsoft. The purpose of the bank is to transform the lives and livelihood of people socially and economically by availing those modern inclusive financial services that maximize their opportunities.

Equity bank is a fast growing financial service organization with a vision to be the champion of the socio-economic prosperity of the people of Africa. The bank has received both local and global accolades for its unique and transformational financial model.

Currently the bank has over 4.1 million accounts accounting for over 52% of all bank accounts in Kenya. It is the largest bank in the region in terms of customer's base.

Equity bank is one of most capitalized bank in region with shareholders funds base of over Kshs. 57 billion and an assets base of us $ 1.1 billion Half year profit for 2009 totals, to Kshs 2.7 billion amidst leady investments and prevailing global recession.

Net income grew by 37% from 3.2 billion previous years to Kshs 4.4 billion. The AA rating by GCR (global credit rating) reflects the banks sound performance over the past two years.

Over the period under review, the bank grew its branch network by an additional 62 branches with 37 of those being part of regional expansion in Uganda and Southern Sudan to stand 145 branches. The staff members went up by 1818 to mean less additional investment at the branches and enhance capacity at the head office.

The bank was rewarded the best bank in Africa by AI financial reporting awards 2009 and prestigious Africa business of the year 2009 at the common wealth business council and Africa business award. The award recognized equity banks financial performance, its development of new market segment and more critical, economic empowerment through promotion of local business and capacity building.

During 2008, the shareholders funds were 17 billion. The gross profit was $ 46 billion and the profit before tax of 3.1 billion gross profit increased by 200%. The NSE rose by 3.3% to Kshs 176 per share to previous year .

In 2007 profit after tax increased by 137% to 830 million compared to 350 million in previous year. The bank worn global vision award in micro-finance during annual G8 summit held in Germany.

During 2006, the net profit was 755 million with positive change of 118.62% to previous year, which had Kshs 344 million net profits. The net profit before tax for 2006 was 1 billion with a positive charge of 120.34% in comparison to previous year, 2005 which had a profit before tax of 500 million.

1.I STATEMENT OF THE PROBLEM

Recently equity bank group as a continued growth and expansion strategy amidst a prevailing global recession, the groups profit before tax grew by 25% to shs1.6 billion compared to start of year 1.1 totaling to 2.7 billion. These results are attribute to balanced growth, high operating efficiency and prudent management of risks as validated by just realized. A rating of equity bank by GCR. The combined effect of current year investment was a growth in operating expenses by 32% to close at Kshs. 4.6 billion up from Kshs . 3.5% billion in the previous half of the year. The significant

investment is yet to realize revenue growth with most of branches starting to turn profitable in near future.

1.2 PURPOSE OF THE STUDY

To investigate the challenges faced in management of finances by bank in the banking industry of Kenya.

1.3 OBJECTIVE OF THE STUDY

1.3. i) General objective

The study aims at examining challenges of managing finances in the banking industry of Kenya.

1.3.ii) Specific objectives.

The specific objectives of this study are:

1. To establish the level of understanding of the challenges of managing bank amongst management and employees of equity bank.
2. To find out whether the existing banking regulation is on management of finances match the required operation standards of the banking industry of Kenya.
3. To give recommendation to equity bank and other institutions on how to improve the management of the financial resources.

1.4 RESEARCH QUESTIONS.

1. Does the existing banking regulation on management of finances match with the required operational standards of banking industry of Kenya?
2. Do equity bank and other banking industries have improved management of financial resources?
3. What are the challenges faced in managing bank finances
4. Which are the financial skills adopted to attain company desired results
5. What are the solutions that can be adopted to collect the challenges of managing the financial resources in the banking industry

1.5 SCOPE OF THE STUDY

The area of study was limited to a case of equity bank, which has its headquarters in Nairobi, 145 branches nationwide. It took on the management of financial resources from inception.

The main reason for limiting this research to this company was due to results that one of main objectives was to establish whether their exist a connection between proper management of finance and the actual survival of a company in the banking industry . The respondent to this research were the management and staff of equity bank with key despondence trenching from managing director to middle managers and banking officers, documented information in both the library and the departments.

1.6 SIGNIFICANCY OF THE STUDY.

This study is considered to be significant because the findings bring out information that is to promote:

i. Proper finance management in banks.
ii. Right management of decision making as per working capital.
iii. The design of better controls of income.
iv. To up coming academicians in the area of management of finance.

Finally, this study is important since it offers a connection between theory and practices in the banking industry by establishing the correlation between the two.

CHAPTER 2

LITERATURE REVIEW

2.0 INTRODUCTION

This chapter analyses literature related to approaches of managing finances in banking sector. It also further looks at the key concepts of strategically managing financial resources and how the two approaches of strategy finance complement one another to attain the desired organizational goals. On the contrary, however the available literature on the experience of managing finance in the banking sector is limited in scope because there are few institutions that have taken keen interest in the venture. However, as regards equity bank enough has been collected and done in this area of study, which further explains why equity bank has successfully sustained itself in the industry. The chapter goes on to define strategy and strategic management and elaborates how these processes can be used in the concept of financial management.

2.1CONCEPTUAL FRAMEWORK

According to James C Van Horne (Stanford University) John W. Wachowics Jr. (the University of Tennessee) 9th edition financial management is concerned with the acquisition financing and management of assets with some overall goal in mind. Thus, the decision function of financial management can be broken down into three major areas: the investment, financing and asset management decision.

2.1.1Investment decisions

The investment decision is the most important of the three major decisions. It begins with a determination of total amount of assets needed to be held b the firm. For example how much of the firm total assets should be devoted to cash or to inventory. Also the print side of investment must not be ignored. Assets that can no longer be economically justified may need to be reduced, eliminated or replaced.

2.1.2Financing decisions

This is the second decision of the firm financing decisions. Here the financial manager is concerned with the make up of the right hand side of the balance sheet. If you look at mix of financing for firms across banks you will see marked differences. Some banks have relatively large amounts of debt, while others are almost debt free. This is due to type of financing employed. Dividend policy must be viewed as integrated part of the firm is financing decision. The dividend payout ratio determines the amount of earnings that can be retained in the firm. Retaining a greater amount of current earnings in the firm means that a fewer dollars will be available for current dividend payments. The value of the dividends paid to stockholders must therefore be balanced against the opportunity cost of retained earnings lost as a means of equity financing. Once mix of financing has been decided, the financial manage must still determine how best to physically acquire the needed funds. The mechanics of getting a short-term loan, entering into a long term lease arrangement or negotiating a sale of bonds or stocks must be understood.

2.2.3 Assessment management decision

The third important decision of the firm is the asset management decision. Once the assets have been acquired and appropriate financing provided, these assets must still be managed efficiently. The financial manager is charged with varying degrees of operating responsibility over existing assets. These responsibilities require that the financial manager be more concerned with the management of current assets than with that of fixed assets.

2.2 FINANCIAL MANAGEMENT STANDARDS

The financial management standards 1997 is a state law of Queensland government empowered by the financial administration and audit act .1997 (Qld). Its primary purpose is to provide the policies and principles to be observed in financial management, including planning, performance management, internal control, and corporate management within Queensland government. This is achieved by stating the functions of each accountable officer and statutory body in relation to corporate management. A key aspect of the FMS is its directives associated with management of information and communications technology (ICT), included the requirement for detailed ICT planning to ensure appropriate acquisition processes and ongoing management. Unlike the united state federal law known as the information technology management reform act (also known as the Clinger-Cohen Act) the FMS links the planning of ICT directly to the accountable officers to comply with the

requirements of the financial administration and Audit Act 1977 (Qld) and associated regulations and the FMS.

2.3 FINANCE AND ITS FUNCTIONS

According to Manascah, Paul W (1990) finance is money, obtained from a person or organization other than the actual owners of business organization. Once a business as been established and makes profit, both the management and owners of organization would want to expand. To obtain this, there is need for acquisition of more funds that will assist in the smooth running of the business activities and purchases for example, in purchasing more assets and raw materials to increase production or resource a project. A good financial planning is at the heart of every successful business, for example, in the production department, the amount of finance available will dictate whether the business can invest in new technology or abandon a risky business proposal whereas the mid budget influences the type of campaign venture the business can afford in a particular trading period. Finance has different sectors/areas, which are associated with factors that are attributed to the measure acquisition of financial aid and the assessment of the organizations debt to equity ratio. They be outlined as:

2.3.1Cash flow forecasting

Hingrey (1978) defines cash flow forecasting as a prediction of cash flows and outflows of the business. This will assist in assessing the actual net values during a trading period to monitor the existence of cash flow problems, that is, a situation whereby a business does not have sufficient cash to clear out bills and cover the cost of running the business on a daily basis. The forecast acts as an indicator of an organization, liquidation state prior to the measure of debt to equity ratio. Cash flow problems can be dealt with by delaying creditors' fees and accruals, making purchases on trade credits and by ensuring that customers pay off transactions on cash basis.

2.3.2Budget planning

This setting of financial budgets for individual departments that would assist the organization in assessing the actual book value from the estimated one (Moyer 19810)contemporary financial management. For example an estimate of capital expenditure , the a mount used to purchase land and equipment, machine, motor vehicle and many more that make the fixed asset of the business, and revenue expenditure. In attaining a positive output in a trading

period, any particular firm as to run its activities in a tight budget schedule to avoid any kind of impairment in appropriation of resource and findings.

2.3.3management accounting

This exercise helps in identifying methods of controlling cost for efficiency thus increasing levels of profits. It also assists management's owners and potential investors in assessing the progress ,performances and efficiency of organization, thus increasing its chances in attaining funds and encouraging the current shareholders to invest more into their projects hence improving both the organization performance and its debt to equity ratio.

2.3.4Finance forecasting and its acquisition

According to Wallace et al (2001). This practice is based ion the analysis of the financial position of organization and to if necessity begets then a sound and most appropriate sources of finance is allocated. This practice would involve, assessing the profitability of the business to establish the need of attaining more financial resources. Implementing and executing strategic plans and decision making to ensure a smooth trend in performance improvement in meeting its objective. This will also include a measure of organizations efficiency and effectiveness in meeting its goals to weigh its capacity in meeting its running costs and liabilities and the initialization of available resources and monitor its future trends in the business.

2.4TYPES OF DEBT AND EQUITY FINANCES

Introduction:

Funds may be obtained from different sources, decision is to be made in relation to when, where and how to acquire funds to meet the firms investment needs. The cost and impacts of different sources of finance on the profitability and liquidity of business are taken into account to make those decisions.

Funds are needed fro:

a. Investing in new fixed assets for example, plant and machinery to expand the business.

b. Financing additional working capital as business, i.e. to increase the level of stocks and debtors.

c. In times of high inflation, to maintain the real value of working capital.

Sources of finance available to any business unit can be classified as under:

1. Long term sources
2. Short term sources

2.4.1 Long term sources.

Long term sources finance of a permanent nature or that which is payable over a long period of time.

Shares

The most commonly source of long term finance/capital are issue of shares, long time debt and leasing.

a. Ordinary share capita/equity

It claim on income is in the form of dividends which vary with the level of profits and rank last for payment after all others have been paid. It capital invested is not refundable and holders are entitled to surplus assets after prior claims have been satisfied in the event of dissolution. It is contributed by real owners of business. It is not redeemable hence a permanent source. The holders of equity carry voting rights and controls the affaires of the company.

b. Preference share capital

Annual dividend rate is fixed and rank second after interest is paid. If cumulative, dividends arrears must be paid before ordinary share dividends are paid incase of participating preferred on shares. It is contributed by the preference shareholders. They carry the prior right to fixed dividends from profits and to preference payments before ordinary shareholders in the events of winding up. They may be cumulative receive full payment of dividend in arrears before other shareholders. Non-cumulative receive affixed dividend when sufficient profit are available. Redeemable shares May be redeemed at specific date fixed at the time of issue. Preference shares have become less popular as the method of finance these days as they are not attractive for the investors as well for the company.

debt capital

Annual rate of interest is fixed and rank first for payment before any other claims. Capital provided is refundable at pre-specified date to be refunded before any capital in the events of liquidation. Debt capital has no voting. It would be favorable to use debt capital rather than an ordinary share capital under the following conditions;

When it is possible to trade on equity successfully i.e when substantial increase in sales and earnings is expected in the future, leading to substantial benefit from the use of leverage.

During inflationary periods, making it advantageous for the borrowing firm to incur debt that will be repaid with cheaper currency in the future.

When the prices of equity shares would involve problems of maintaining existing control pattern in the company.

Where the financial manager expects to reduce the overall cost of capital further by introducing more of the cheaper debt capital.

Firms would need long-term finance under the following reasons;

When first established i.e. for the acquisition of fixed assets and initial working capital. When business expands at a faster rate than can be financed out of retained profits.

TYPES OF DEBT CAPITAL

Debenture

A debenture loan is one which is backed by general credit rating of the issuing firm without specific lien against assets. In other words it is not secured by a pledge of any specific. Assets, but, like any other general creditor claim; it is secured by any property not otherwise pledged. Debentures are usually to a large number of investors, who hold debenture certificates entitling them to claim of annual fixed interest and return of capital on maturity. Debentures are the weakest form of loan in terms of security. The absence of specific security makes them more risky and hence they are issued at a higher interest rate.

Mortgage

Mortgage loan is one, which is secured by liens or real estate. The borrowing company pledges a certain real asset as security for the loan, usually the asset being financed by the loan is the one, which forms security. A mortgage loan will always be provided by one lender and provides the strongest form of collateral in terms of security. Advantages of a debenture over a mortgage loan to the borrowing firm are:

i. It leaves the company's property unencumbered for subsequent financing

ii. It is available for firms, which hardly keep large fixed assets such as finance companies, supermarkets, retail stores, mail order houses etc.

Term loan

Term loan is one with a maturity of more than one year and is ordinarily retired by systematic repayments over its life, referred to as amortization payments.

It usually attracts security in the form of chattel mortgage although large firms with good credit standing secure term loans on an unsecured basis.

Advantages of debt capital to the provider of capital:

- Claim on income and assets of the company ranks prior to all others.
- Has definite maturity date and the provider's interest in the firm (capital) is protected by certain provisions of the debt contract
- The return is fixed and does not depend on level of profits earned or management discretion.

  Advantages to the issuing company
- Low cost and no participation in super profits earned and can be used too boost earnings to the owners.
- Leaves the pattern of control in the business undisturbed
- Interests provides a tax shield (saving)
- May be used to introduce capital structure flexibility by inserting a call provision in the debt agreement.

Retained profits as a source of finance

These are the undistributed profits. They are important source of finance for expansion because it the cheapest and painless method of raising additional capital. Provisions also provide funds for the business. They include provision for depreciation, provision for taxation.

Sale and lease back

A company or a partnership which owns its own premises can obtain finance by selling the property and renting it back. It is not advisable since;

i. The firm loses valuable asset certain to appreciate with inflation.
ii. There is reduction in the company's future borrowing power as the only property could be used as security.

iii. There is less freedom to modify the premises.

Financing through options-warrants, convertibles and rights.

A warrant is a right or an option to buy a stated number of ordinary shares at a specified price before a certain date in the future. They are often sold as part package with other securities e.g., bonds. exercising a warrant involves surrendering the warrant and buying shares at the stated price; which may occur only if the market value of the share is above the exercise price stated in warrant and /or the company raises dividends on ordinary shares when the warrant is about to expire.

Convertible are either bonds or preference shares, which are exchangeable into ordinary shares at the option of the holder under specified terms and conditions. It is a right, which entitles the holder to exchange his or preference shares into ordinary share at his option. When exercising a convertible, the holder gives up the bond or preference share and gets ordinary shares in its place.

Reasons for using warrant and convertibles.

Warrants and convertibles may be used by firms mainly as "sweetners" when selling other types of securities such as bonds and preference shares.

- Since they promise investors a share in the future prosperity of the firm, the investors are willing to accept lower rates of return thereby lowering the cost of the capital to the firm
- The investors also accept less restrictive indenture provisions as they accept to participate in the ownership of the business.
- They give the firm an opportunity to expand its mix of capital, by appealing to a broader group of investors.
- They also enable a firm to defer the sale of ordinary shares when market prices are still temporarily depressed, until such a time that prices have appreciated reasonably
- They enable a firm to raise low cost capital during periods when profits are low and the company cannot afford to pay the high ordinary dividend rates.

2.4.2 Short-term sources

Short term finance is expected to be advantageous to a firm relative to long term sources of capital.

Bank overdrafts and short-term bank loans

Commercial banks are given short-term loans in form of overdrafts. The rate of overdrafts is comparatively high. The main advantage of overdrafts is comparatively high. The main advantage of overdraft is that interest is charged on the part of facility, which has actually been used. The main disadvantage is that this money is paid on demand. Bank credit is the cheapest as well as the most convenient form of finance.

Trade credit

Trade credit is finance offered by trade suppliers by allowing the buying company to defer payment for the goods supplied to a future period. The funds which would have been tied up in stock of goods is released for other uses and this may boost returns as interest may be earned on investments else where. Trade credit forms a major source of funds, particularly for merchandising firms whose main asset is trade stocks.

Large firms tend to be net suppliers of trade credit whereas small firms and under capitalized firms of all sizes tend to be net users of trade credit. It is convenient and informal source of short term finance. A customer must be credit worth. There is no cash discount in trade discount. If lost, cash discount is lower than interest paid on other sources of finance, then trade credit is beneficial and vice-versa.

Bills of exchange

It is "an unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is endorsed to pay on demand or at a fixed or determinable time a sum certain in money to or to the order of a specific person or bearer". A trade can get credit facility by signing a bill of exchange. It may also be discounted with a commercial bank. The bank will pay the face value of the bill of exchange less discount charges and on maturity, it will be collected by the bank from the acceptor. This source is not definite and reliable.

Invoice discounting and factoring

Invoice discounting is the pledging of a firm's invoices (debtors) to financial institution or any other discounter to raise a loan for immediate use in the business. Collections from debtors are then deposited to the discounter's deposit account are repayment of advance. The client business retains the whole function of debt management, including the sales ledger accounts, collection of debtors, evaluating customer's credit worthiness etc. The main advantage of invoice discounting is its flexibility i.e. as the firm expands its sales, large volume of invoices is generated automatically which can be used to support the extra financing requirement. Factoring on the other hand, is the selling of debtors to a factor who, in return remits regular amount of funds at special intervals to the business. The ownership of the invoices passes to the financial institution (factor) as well as the whole function of debt management. The factor becomes responsible for the maintenance of sales ledgers and the collection of cash from debtors as well as customers.

Hire purchase

Is a method of paying for plant and machinery out of income rather than use of capital, use of the asset is gained after payment of first installment. The seller invoices the goods to the hire purchase company, which agrees with the customer to receive the total amount and hire purchase interest in equal installments. The goods may be reposed if installments are not paid in time.

There are also other internal sources of finance for businesses and these include:

i. Retained profits as a source of capital are difficult to obtain and/or carries high cost of capital. External capital may be scarce due to general credit restraint in the money market or because the business's financial position does not allow more room for employing external funds.

ii. Depreciation of fixed assets

iii. Corporation tax as a source of capital

2.5 FEDERAL RESERVE SYSTEM

It was created in 1931 by the enactment of the Federal Reserve act, largely as a response to a series of financial panics or banks runs, particularly a severe panic in 1907. Overtime, the roles and responsibilities of the Federal Reserve System have expanded and its structure has evolved.

Events such as the great depression were some of the major factors leading to changes in the system. Its duties today, according to official Federal Reserve documentation, fall into four general areas;

i. Conducting the nation's monetary policy by influencing monetary and credit conditions in the economy in pursuit of maximum employment, stable prices, and moderate long-term interest rates.

ii. Supervising and regulating banking institutions to ensure the safety and soundness of the nation's banking and financial system, and protect the credit rights of consumers.

iii. Maintaining stability of the financial system and containing systemic risk that may arise in financial markets.

iv. Providing financial services to depository institutions, the U.S government, and foreign official institutions, including playing a major role in operating the nation's payments system.

2.5.1 Purposes

The primary motivation for creating the Federal Reserve System was to address banking panics. Other purposes are stated in the Federal Reserve act, such as to furnish an elastic currency, to afford means of rediscounting commercial paper, to establish a more effective supervision of banking in the United States, and or other purposes. Before the founding of the Federal Reserve, the united underwent several financial crises. A particularly severe crises in 1907 led congress to enact the Federal Reserve act 1913. Today the fed has broader responsibilities than only ensuring the stability of the financial system.

2.5.2 Current functions of the Federal Reserve System includ

- to address the problem of banking panics
- To serve as the central bank for the United States.
- To strike a balance between private interests of banks and the centralized responsibility of government and to supervise and regulate banking institutions; to protect the credit rights of consumers.
- To manage the nation's money supply through monetary policy to achieve the sometimes-conflicting goals of maximum employment, stable prices, including prevention of either inflation or deflation, moderate long-term interest raters.
- To maintain the stability of the financial system and contain systemic risk in financial markets.
- To provide financial services to depository institutions, the U.S. government, and foreign official institutions, including playing a major role in operating the nation's payment system. To facilitate the exchange of payments among regions, to respond to local liquidity needs.
- To strengthen U.S standing in the world economy.

2.6 FINANCIAL CRISES

The term financial crisis is situations in which some financial institutions or assets suddenly lose large part of their value. In the 19th and early 20th centuries, many financial crises were associated with banking panics, and many recessions coincided with these panics. Other situations that are often called financial crises include stock market crashes and the bursting of other financial bubbles, currency crises, and sovereign defaults.

2.6.1 Types of financial crises

- banking crises (banking panic)

When a bank suffers a sudden rush of withdrawals by depositors, this is called a bank run. Since banks lend out most of the cash they receive in deposits (fractional-reserve banking), it is difficult for them to quickly pay bank all deposits if these are suddenly demanded, so a run may leave the bank in bankruptcy, causing many depositors to lose their saving unless they are covered by deposit insurance.

A situation in which a bank runs are widespread is called a systemic banking crises or just a banking crisis or just a banking panic. A situation without widespread bank runs, but in which banks are reluctant to lend, because they worry that they have insufficient

funds available, is often called a credit crunch. In this way, the banks become an accelerator of a financial crisis.

Examples of bank runs include the run on the bank of the United States in 1931 and the run on northern rock in 2007. The collapse of bear Stearns in 2008 has also sometimes been called a bank run, even though bear Stearns was an investment bank rather than a c commercial bank. The U.S. saving and loan crisis of the 1980's led to a credit crunch which is seen as a major factor in the U.S. recession of 1990-91.

- Speculative bubbles and crashes;

  Economists say that a finance dial asset (stock, for example) exhibits a bubble when its price exceeds the present value of the future income (such as interest or dividends) that would be received by owing it to maturity. If most market participants buy the asset primarily in hopes of selling it later at a higher price, instead of buying it for the income, it will generate, this could be evidence that a bubble is present.

  If there is a bubble, there is also a risk of a crash in asset prices; market participants will go on buying only as long as they expect others to buy, and when many decide to sell the price will fall.

- International financial crises

  When a country that maintains a fixed ex change rate is suddenly forced to devalue its currency because of a speculative attack, this is called a currency crisis or balance of payments crisis. When a country fails to pay back its sovereign debt, this is called a sovereign debt; this is called a sovereign default. While devaluation and default could both be voluntary decisions of the government, they are often perceived to be the involuntary results of a change in investor sentiment that leads to a sudden stop in capital inflows or a sudden increase in capital flight.

- Wider economic crises:

  Negative GDP growth lasting two or more quarters is called a recession. An especially prolonged recession is be called a depression, while a long period of slow but not necessary negative growth is sometimes called economic growth stagnation. Since this phenomenon affect much more than the financial system, they are not usually considered financial crises. However, more economics have argued that many recessions have been caused in large part by financial crises. One more important example is the Great Depression, which was preceded in many countries by bank runs and stock market crashes.

The subprime mortgage crisis and the bursting of other real estate bubbles around the world have led to recession in the US and a number of other countries in late 2008 and 2009. Nonetheless, some economists argue that financial crises are caused by recessions instead of other way around. Also, even if a financial crises is the initial shock that set off a recession, other factors may be more important in prolonging the recession. In particular, Milton Friedman and Ann Schwartz argued that the initial economic decline associated with the crash of 1929 and the bank panics of the 1930s would not have turned into a prolonged depression it had not been reinforced by monetary policy mistakes on the part of the Federal Reserve.

2.6.2 Causes and consequences of financial crises

-Strategic complementarities in financial markets

It is often observed that successful investment requires each investor in a financial market to guess what other investor will do. George Soros has called this need to guess the intentions of others reflexivity.

Similarly, John Maynard Keynes compared financial markets to a beauty contest game in which each participant tries to predict which model other participants will consider most beautiful.

-Leverage

This means borrowing to financial investments, is frequently cited as a contributor to financial crises. When a financial institutions (or an individual) only invests its own money, it can potentially earn more from its investment, but it can also lose more than all it has. Therefore, leverage magnifies the potential returns from investment, but also creates a risk of bankruptcy. Since bankrupcy means that a firm fails to honor all its promised payment to other firms to another it may spread financial troubles from one firm to another.

-Regulatory failures (Financial and Bank regulation)

Governments have attempted to eliminate or mitigate crises by regulating he financial sector. One major goal of regulation is transparency: making institutions financial situations publicly known by requiring regular reporting under standardized accounting procedures. Another goal of regulation is making sure institutions have sufficient assets to meet their contractual obligations, through reserve requirements,

and other limits on leverage. Some financial crises have been blamed on insufficient regulation, and have led to changes in regulation in order to avoid repeat. For example, the Managing Director of the IMF, Dominique Strauss-Kahn, has blamed the financial crisis of 2008 on regulatory failure to guard against excessive risk-taking in the financial system, especially in the US.

Likewise, the New York Times singled out the deregulation of credit default swaps as a cause of crisis. In particular, the Base II Accord has been criticized for requiring banks to increase their capital when risks rise, which might cause them to decrease lending precisely when capital is scarce, potentially aggravating a financial crisis.

-Contagion

This refers to the idea that financial crises may spread from one institution to another, as when a bank run spread from a few to many others, or from one country to another, as when currency crises, sovereign defaults, or stock market crashes spread across countries. When the failure of one particular financial institution threatens the stability of many other institutions, this is called systemic risk. One widely cited example of contagion was the spread of Thai crisis in 1997 to other countries like South Korea.

However, economists often debate whether observing crisis in many countries around the same time is truly caused by contagion from one market to another, or whether it is instead caused by similar underlying problems that would have affected each country individually even in the absence of international linkages whether it is instead caused by similar underlying problems that would have.

-Fraud: Has played a role in the collapse of some financial institutions, when companies have attracted depositors with misleading claims about their investment strategies, or have embezzled the resulting income. Examples include Charles Frenzy scam in early 20th century Boston, the collapse of the MMM investment fund in Russia in 1994, the scams that led to the Albanian Lottery Uprising of 1997, and the collapse of Mad off investment securities in 2008. Many rogue traders that have caused large losses at financial institutions have accused of acting fraudulently in order to hide their trades. Fraud mortgage financing has also been cited as one possible cause of the 2008subprime mortgage crisis, Government officials stated on Sept. 23, 2008 that the FBI was looking into possible fraud by mortgage financing

companies Fannie Mae and Freddie Mac, Lehman Brothers, and insurer American Group.

-Policies and Procedures

These are sets of documents that describe organization policies for operation and the procedures necessary to fulfill the policies. They are often initiated because of some external requirement, such as environmental compliance or other governmental to prevent fraud and embezzlement. Guidance, Internal controls, and the investigation by Edward J. McMillan; John Wiley and Sons, publishing company John C. Wiley, American ambassador and others, Nearly every enterprise is a potential victim of fraud, and CPAs well –versed in the scope of fraudulent activities can help businesses prepare for the worst scenarios. Management and auditors will find this manual helpful in evaluating internal control systems to expose weaknesses, take corrective action. A corrective action is a change implemented to address a weakness identified in a management system. Normally corrective actions are instigated in response to a customer complaint, abnormal levels if internal non-conformity, nonconformities identified during an internal audit or and avert fraud.

Author Edward J. McMillan, a fraud examiner and CPA founded in 1993 that promoted excellence in computer journalism. Its annual awards honored outstanding examples in print, broadcast and electronic media. The CPA disbanded in 2000, advises a victimized company first to contact an independent CPA firm to assist with the investigation, insurance claims and going to trial if necessary.

Before a company implements the policies and procedures he discusses, an attorney should review them for compliance with federal, state and local laws.

In a work book formant, this publication lists the methods a company should employ to avoid embezzlements and offers sample forms for confidentiality agreements, conflicts of interest and check and were transfer signatures, among others. Auditors complying with the requirements of statement on auditing standards no. 99, consideration of fraud in a financial statement audit should find helpful the nearly 130 pages of illustrative policies and procedures in the section titled “internal control analysis, documentation and recommendations”; the material also is available on a company web site. Additional sections provide case studies of actual embezzlements, profiles of the perpetrators and detailed data on identity theft issues.

The fraud glossary is reprinted from the association of certified fraud examiner established in 1988 the association of certified fraud examiners organization that governs professional fraud examiners. Its activities include producing fraud information, tools and training.

Forensic accountants stress that the best way to prevent fraud is to establish an efficient control system. An efficient control system should include; a strong control environment influenced by management's philosophy of ethical behavior and strong control corporate governance policies. A solid accounting system, that ensures proper recording, classification and reporting of all transactions. Tight procedural controls that provide for safeguarding of assets, proper authorizations, audit mechanisms and proper documentation.

2.6.3 Prevention measures

The most common prevention measures used by organizations according to ACFE reports were external audits (75%); internal audits (59%); fraud training and hotlines (49%); and surprised audits (29%). Those organizations using internal audits, surprise audits, fraud training and hotlines experienced a significantly lower median loss and detection time than those organizations that did not.

Fraud detection

Besides prevention measures, it is important to know how most frauds are discovered. The ACFE said tips detected 34% of all frauds in their study. These tips came from vendors, customers, employees and anonymous sources. The remaining frauds were detected by; accident-25%, of the time, internal audit-20%, internal controls-19%, external audit-12%, notification by police-4%.

The clearly demonstrates the importance of having a strong internal control environment, a mechanism of reporting tips and abuses to someone who will react accordingly and external and internal audit services performed.

Industries most likely to experience fraud

Banking/financial services, government and public administration, manufacturing, health care, insurance, retail.

Cost of prevention measures

Because of fraud's disastrous consequences, failure to implement safeguards could jeopardize your business. The ACFE estimates that fraud costs typical U.S companies 6% of their annual revenues. Determining how much your company should spend to safeguard itself is difficult to estimate. The ACFE does not recommend how much an organization should spend on compliances.

But, various studies analyzing Sarbanes-Oxley (SOX) corporate governance reforms have been conducted by Foley and leader, LLP, found that the average cost of compliance for private firms was $50,000, whereas public companies reported that costs were close to $3 million.

However, A.R.C. Morgan found that companies in the $1 billion revenue range are already spending more than $2 million, without factoring internal resource spending and growing auditor fees. According to Morgan, this figure is likely to grow to $ 3 billion in the near future. Fraud prevention cost could vary significantly and are based on a number of factors. For example, you ay be forced to adopt corporate governance reforms such as SOX (public companies); conform to industry-specific regulatory compliance (banking, financial or insurance); or operate in an industry more prone to occupational fraud. In some cases, it becomes a judgment decision. What would you spend to safeguard from losing 6% of your annual revenues? We can all agree that fraud prevention should not be ignored. Our firm can perform the association of certified fraud examiners fraud prevention checkup on your organization to determine your vulnerabilities.

The incidence of fraud is now so common that its occurrence is no longer remarkable, only its scale, the ACFE says. By failing to protect your organization, you can expect to become a victim of fraud at some point in the future and become a statistic in their next study.

2.7 MONETARY POLICIES

- Risks and alternatives

The staff projection is an outlook for the economy's most likely path. There is, of course, much uncertainty around this outlook, and the economic model is used to assess the main "risks" to it. Examples of risks include different assumptions about the current amount of slack in the economy or the growth rate of economic capacity;

different assessments of the prospects for the U.S. Economy; and alternative views on the future path for the price of oil or other commodities. The staff's "risk analyses" assess the sensitivity of the baseline forecast to such risks and provide the governing council with a range of forecasts and policy recommendations. The staff also considers alternative policy scenarios; for example, one in which interest rates is held constant for a period. This would indicate the consequences of delaying the interest rate response proposed by the model. As well, staff reviews various indicators of capacity pressures and inflation.

- Regional survey and forecast

Information on economic activity gathered from industry contacts across the country provides a very different lens through which to view the economy. Four times a year, regional representatives visit about 100 companies. They ask a set of standard questions on past and expected future sales growth, investment intentions, inventories, employment plans, wage growth, and prices.

The survey is small, but it is designed to reflect the diversity of the Canadian economy by region, by type of activity, and by firm size. The information gathered gives the council insight into what business people are seeing ad planning. Based on the survey and other factors, regional staff forecast the growth in each region of the country for the current and next year. These are then aggregated to produce a national forecast that can be compared with the staff economic projection.

- Money and credit

The economic model used in the staff projection focuses on the links from interest rates to spending by households and firms. Information on various holdings of money and credit provide another view of what consumers and firms are doing and planning to do. The challenge for the staff is to separate the genuine signal about economic activity and inflation from volatility caused by other factors. Regular contact with financial institutions provides useful insight into developments that appear to e affecting the growth of money and credit. Information is also obtained on credit spreads in bond markets and on any changes in the conditions under which banks are lending two businesses and households.

The staffs in the bank department of monetary and financial analysis assemble this information to provide and overall view from the financial side of the economy on the outlook for output growth and inflation, as well as on the risks surrounding this

outlook. They then make a recommendation to the governing council on the appropriate level for the key policy rate.

- Financial market expectations

The financial markets department assesses market expectations for interest rates; in particular, what the market expect the bank to do with the key policy rate, and what the U.S Federal Reserve is expected to do at their next few meetings. This assessment is based on interest's rate futures and expectations implicit in the term structure of interest rate, as well as on market commentary, the published reports of investments banks, and the banks contact with dealers and investors. The discussion highlights what the market is expecting and what factors participants are focusing on. The market perspective acts both as a reference point against which to compare the staffs analysis and as a guide to the issues that may need to be addressed when communicating the decision.

2.8 LEVERAGE (FINANCE)

In finance, leverage or leveraging refers to the use of debt to supplement investment. Companies usually leverage to increase returns to stock, as this practice can maximize gains (and losses). The easy but high-risk increases in stock prices due to leveraging at US banks has been blamed for the unusual high rate of pay for top executives during the recent banking crisis, since gains in stock are often rewarded regardless of methods.

Delivering is the action of reducing borrowing. If the firms rate of return on assets (ROA) is higher than the rate of interest on the loan, then its return on equity (ROE) will be higher than if it did not borrow because assets = equity + debt. On the other hand, if the firms ROA are lower than the interest rate, and then its ROE will be lower than if it did not borrow. Leverage allows greater potential returns to the investor that otherwise would have been unavailable but the potential for loss is also greater because if the investment becomes worthless, the loan principal and all accrued interest on the loan still need to be repaid.

- Derivatives

This allows leverage without borrowing explicitly, though the "effect" of borrowing is implicit in the cost of the derivative.

i. Buying a futures contract magnifies your exposure with little money down.

ii. Options do the same. The purchase of a call option on a security gives the buyer the right to purchase the underlying security at a given price in the future. If the price of the underlying security rises, the value of the call option will rise at a rate much greater than the value of the underlying security. However if the rate of the call option falls or does not rise, the call option may be worthless, involving a much greater loss than if the same money had been invested in the underlying instrument. Generally speaking, a put option allows the holder (owner), the investor, to achieve inverted-leverage and/or inverted enhancement sometimes called inverse enhancement and/or inverse leverage.

iii. Structured products that exist as either closed-ended funds, or public companies, or income trusts are responding to the public's demand for yield by leveraging.

- Risk and over leverage

Leverage ratios of investment banks increased significantly 2003-2007. Employing leverage amplifies the potential gain from an investment or project, but also increases the potential loss. Interest and principal payments (usually certain ex-ante) may be higher than the investment returns (which are uncertain exe-ante).

This increased risk may still lead to the optimal outcome for the entity or per6son making the investment. In fact, precisely managing risk utilizing strategies including leverage and security purchases is the subject f a discipline known as financial engineering. There are economic periods when optimism incites to a widespread and excessive use of leverage, what is called over leverage. One of its forms, associated to the subprime crisis, was the practice of financing homes with no or little down payment, playing on the hope that the price of the assets (the property in this case) will rise. Another form involved the five largest U.S investment banks, which borrowed funds to invest in mortgage-backed securities, increasing their leverage during 2003-2007.

During September 2008, the five largest firms went either bankrupt (Lehman brothers), were bought out by another banks (Merrill Lynch and Bear Stearns) or changed to commercial bank holding companies, subjecting themselves to leverage restrictions (Morgan Stanley and Goldman Sachs).

Negative gearing is a form of financial leverage where an investor borrows money top buy an asset, but the income generated by that asset does not cover the interest on the loan. A negative gearing strategy can only make a profit if the asset rises in value and creates enough future capital gains to cover the short fall between the income and interest that the investor suffers. The investors must also be able to find that shortfall until the asset is sold. The tax treatment of interest expenses and future gain will also affect the investor's final return.

2.9 MEASURE OF ORGANIZATION PERFORMANCE

Economic planning in less developed countries since independence particularly has put emphasis on resource accumulation and development planning. The focus has been on raising the rate of growth and maximization of profit and dividend.

However, the principles of sustainable development argue that the enterprises should make decisions based not only on financial factors such as profits and dividends but also on the immediate and long term social and environmental consequences of their activities, economic commission for Africa (2002). Some of the major trends affecting the performance of the business may be put as competitors increased cost of production, unfavorable changes in interest rates and the effects of fluctuation and inflation.

As such, the researcher used some established ratios in measuring organization performance and the ease of comparing these to debt and equity ratio as provided by Hingerey Etal (1978), financial management made simple. The most appropriate methods of measuring organization performance are.

2.9.1 The current ratio

This is a measure of how easily an organization can pay its short term debts. This is determined as;

$$= \frac{\text{current assets}}{\text{Current liabilities}}$$

2.9.2 Acid test ratio

This is how well an organization can pay off its debts without including sales or stock and can be determined by;

$$\frac{\text{Current assets} - \text{stock}}{\text{Current liabilities}}$$

2.9.3 Return capital employed

This is the measure of how well a company uses its capital to earn more returns to the organization. It is given as

$$\frac{\text{Operational profit}}{\text{Capital}}$$

2.9.4 Gross and net profit margin

This is an indicator of low well an organization can turn its revenues into profits which is attained after the deduction of stock and net expenses respectively

= stock – net expenses.

2.9.5 Growth and size of the business

If the business is growing, the success in achieving expansion can be measured through

i. Sales turn over and revenues
ii. Profits
iii. Number of employees to meet the greater demand
iv. Assets, which give the business a greater capacity to grow further

The calculation of the year and the year percentage change gives the rate of growth. The market share of the business, that is, the business percentage of the total market.

$$= \frac{\text{business sales}}{\text{Total market shares}} * 100.$$

CHAPTER THREE

THE RESEARCH METHODOLOGY

3.0. INTRODUCTION

This chapter describes the methodology employed by the study. It elaborates on the design chosen, survey population, sample selection procedures, sample size, data collection methods and instruments, data processing analysis and interpretation.

It also presents methods of data quality control and limitation of the study.

3.1. DESIGN

The study employed descriptive analytical and statistical methods to demonstrate and establish strategies employed in the management of finance in the bank.

This research design was intended to be flexible to allow for consideration of many different aspects of the problem.

3.2. SURVEY POPULATION

This consists of major individuals who are responsible for management of the finance in the equity bank. Under this, more emphasis was put on individuals who are signatories to the finance therefore managing director, financial controller, bank operation manager, chief risk manager, manager treasury and the general staff of the account and the finance departments.

3.3. SAMPLE SELECTION AND SIZE PROCEDURE.

Equity bank was selected as an area of study among the many bank of Kenya. The study mainly covers equity bank and its headquarters. Stratified sampling was employed in order to obtain a representation sample hence not all staff formed a sample of respondent out of the approved count of 400, representing 10% of the sample population.

This was from different selection of Accounts and finance department of banking section, top management and middle managers of equity bank. They all form the different stratum hence forming the required sample size.

3.4 METHODS OF DATA COLLECTION

This study maximally utilized both quantative and qualitative methods of data collection. Quantative methods were used to establish sample, the qualitative response which involved the use of informal interviews. For example, data collected from questionnaire was tallied into frequencies in order to access the challenges of managing finance in the banking sectors. Qualitative, the data from field was analyzed descriptively.

The researcher critically accessed the data by developing meanings out of the responses to each particular item in accordance with the objectives of the study. The careful assessment of each response aimed at obtaining relevant data contained in the objectives through use of context analysis. To extract the meanings given by despondence.

3.5 INSTRUMENT FOR DATA COLLECTION

Data was collected using both structured and unstructured instruments. A self-administered questionnaire with both quantitive and qualitative questions was used. The researcher constructed unstructured questions to give respondents freedom of expression to write from his or her own point of view besides that of the researcher. Hence, the questionnaire used had open and closed ended questions. The used of personal interview, observations, checklist of schedules to verify relevant aspects physically was applied aided by a document review format.

3.6 DATA PROCESSING ANALYSIS AND INTERPRETATION

The process of collecting data was closely followed by data processing and was done to ensure that data collected is organized summarized and reduced to meaningful interpretation for accomplishment of the study. Qualitative data was processed through editing, narrative statement; textual questions, impressive summaries and making of relevant questions to bring out meaning to the area of study. Frequent attribution and close tabulation were intended to bring out statistical analysis of responses. Any tick editing was done to ensure completeness and uniformity of responses it is out of this point that errors were collected.

3.7 QUALITY CONTROL

The researcher upon meeting respondents made a self-introduction and explained the purpose of the study to respondents. She assured the respondents of total confidentiality during the

interviews to enable them respond appropriately. Respondents were also informed that personal responses and objectivity were necessary for accomplishing this study.

3.8 LIMITATIONS

Difficulties in getting confidential information from the organization due to sensitivity and suspension based on mistrust towards a non-staff member fearing that he/she might disclose it to its competitor. This included some conservativeness from the respondents either due to unwillingness to respond or due an organization policy regarding confidentiality or such that may exist. Some of the questions were not answered up to the expectations required due to unwillingness of the respondents to respond accordingly or being arrogant. The researcher faces some financial constraints that involve shortage of funds between carrying out study. Since it involved lot of activities like visiting selected bank for research, preparing the questionnaire, typing and printing the project.

CHAPTER 4

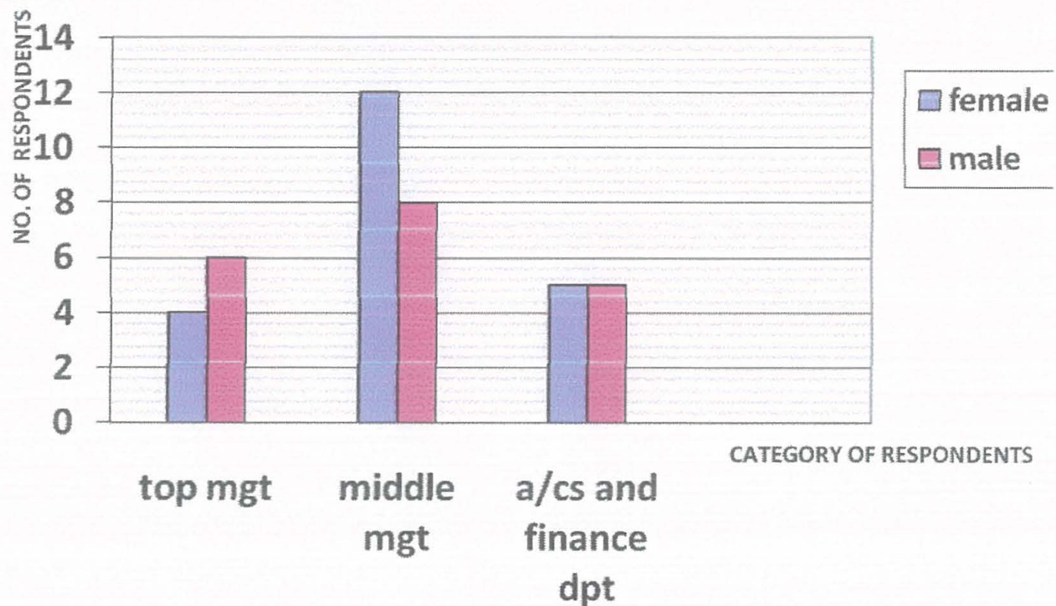
PRESENTING, ANALYSIS AND INTERPRESENTATION OF RESEARCH FINDINGS

4.0 INTRODUCTION

This part of research presents and discusses the findings of study undertaken on challenges of managing finances. Not all findings are meant to be exhaustive and conclusive. It also to be acknowledging that challenges in managing of finances are part of the tasks of, management which if managed well leads to the success of the bank.

4.1 DEMOGRAPHIC CHARACTERISTICS OF RESPONDENCE

Figure1. Showing demographic characteristic and gender graphic representation showing the demographic characteristics by departments



SOURCE:

Primary data employees of equity bank

Table 1. showing demographic characteristics by education levels.

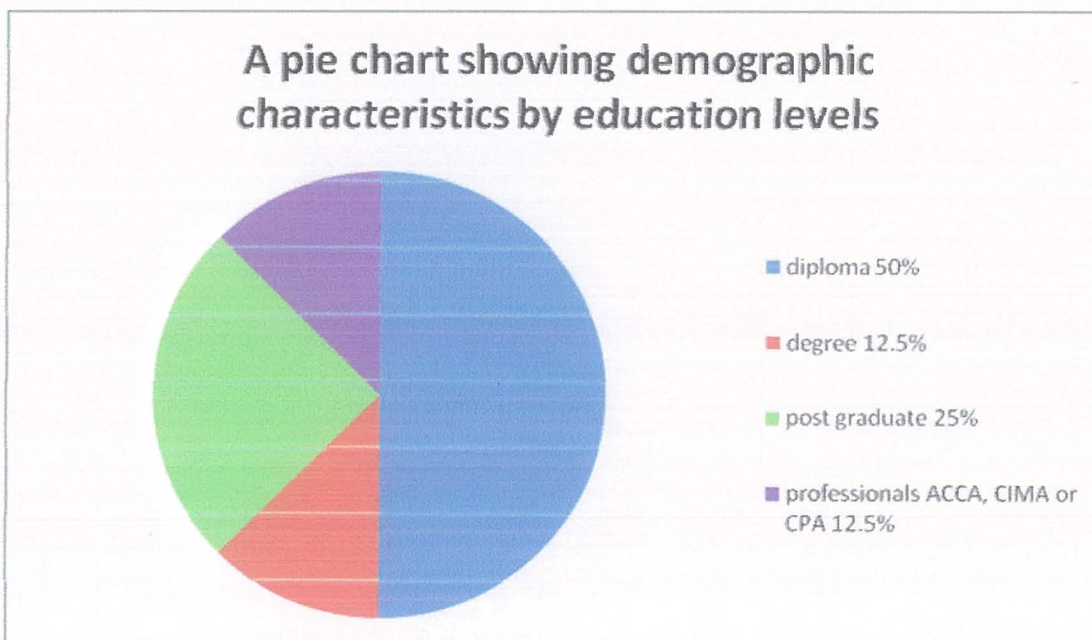
Category	No of respondents	Frequency	Percentage
Diploma	20	20	50%
Degree	5	5	12.5%
Post graduate	10	10	25%
Professionals	5	5	12.5%
(ACCA,UMA,CIMA)			
TOTAL	40	40	100%

Source.

Primary data:

Employees of equity bank.

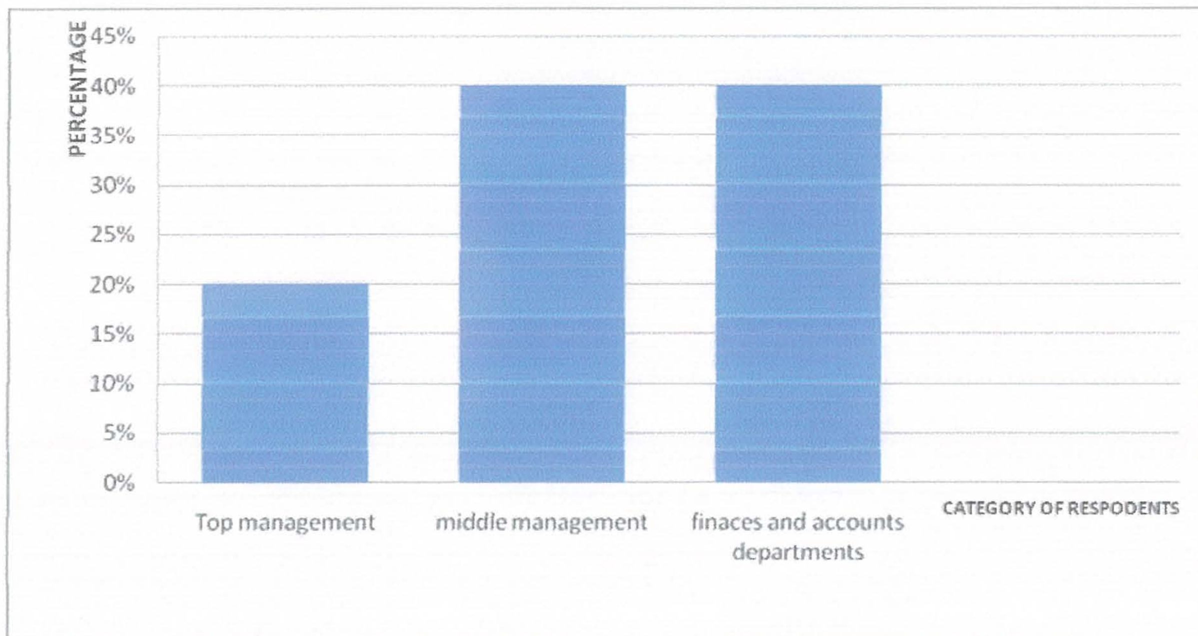
The figure above shows that there exists a high level of understanding on issues of managing finances



4.2 RESPONSE RATE

Figure 3: Showing response rate

A graph showing response rate.



Source: Primary data: Employees of equity bank

As noted the researcher administered 40 questionnaires and the completed ones were 30whichn was a response of 75%. However it is observed that most responses came from the accounts and finance, credit and banking departments and at least 20% from top management. This gives a response which is favorable enough given the sample size.

4.3 RESEARCH QUESTION FIVE

What constitutes a good strategy of managing finances in the bank?

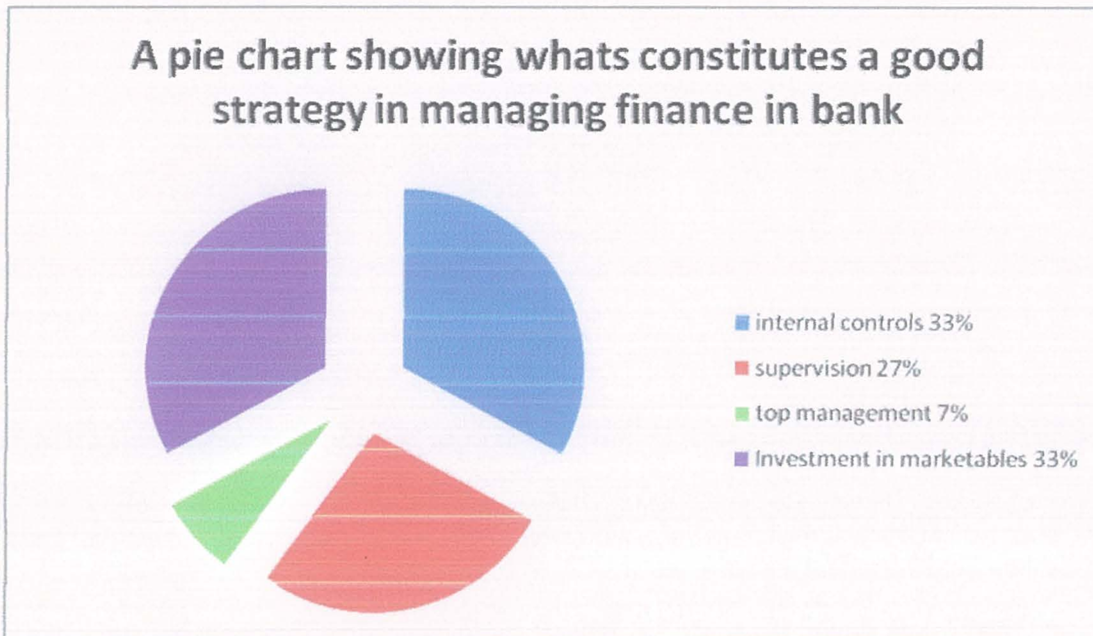
Respondents were asked to show what's constitutes a good strategy of managing finances in the bank. The responses were summarized as shown in table two.

Table two: what constitutes a good strategy of managing finances in a bank?

Type of strategy	Number of respondents	frequency	percentage
Internal control	10	10	33%
supervision	8	8	27%
Top management	2	2	7%
Investment in marketable	10	10	33%
TOTAL	30	30	100%

Source: primary data; employees of equity bank.

The figure above shows that there exist of a high level of understanding on issues of managing finances.



4.4 RESEARCH QUESTION 6

What strategy of financial management strategies have been employed by the management of equity bank?

The respondents were asked of financial management strategies employed by the management on equity bank.

Table 3: What strategies of financial management have been employed by management of Equity Bank?

Type of strategy	No of respondents	Frequency	Percentage
Investment in market	6	6	20%
Internal control	10	10	33%
Supervision	10	10	33%
Top management	4	4	14%
Non of the above	0	0	0
Total	30	30	100%

Source: primary data, employees of Equity Bank.

From the table above it is noted that internal control and supervision has the highest percentage of 33% because referring to the business there is a lot of risks surrounding finances

4.5 RESEARCH QUESTION SEVEN.

What challenges does management meet in implementing these financial strategies? Respondents were asked the challenges encountered by management during implementation of the financial strategies and these were at the responses

Table three

Type of challenges	Number of respondents	frequency	percentage
overtrading	6	6	20%
Weak management	4	4	14%
competition	8	8	26%
Unstable interest rates	10	10	33%
Market share	2	2	7%
TOTAL	30	30	100%

Source: primary data employees of equity bank.

From the table above it is seen that unstable interest rate in market securities is the major challenge faced by management because of the unstable economic condition that warrant the unstable nature of the interest rate.

4.6 RESEARCH QUESTION EIGHT

Out of thirty questionnaires received from respondents twenty of them stated that the impact of strategic management of finance to the general performance of the bank is excellent which was at 67%, while 10 which is 33% said it was good since the performance of the bank for the last four years has been gradually improving with an increase in projects, dividends, market shares and assets. It can be clearly stated that the strategy of managing finance employed by equity bank has a positive impact on the performance of the bank.

CHAPTER FIVE

5.0 INTRODUCTION

This research study was conducted in order to answer the question how the banking sector is striving with the challenges of managing finances. By answering this it is hoped that is will act as a reference to the banking sector on how to strategically manage their finances and yet remain competitive in the market. The nature of the question necessities the creation of sub questions which included; what does managing of finance mean to banking sector? The answering this question through the interview to the management of equity bank represented by managing director the researcher was able to ascertain that Managing finance is a managerial task which involves the acquiring and operating resources so as to maximize the value of the company. This is achieved through specific activities of the managing and planning major investment and financial decision coordinating and control dealing with financial market and risk management. Hence for a bank to sustainably manage its finances well, decisions regarding the acquiring of finances how should finances be financed and how the company should conduct its operation, should be conducted optimally as in the long run maximizes the value of the company and also contribute the well fare of the consumer and the employees.

Secondly what general perception do the bank have towards managing finances, the answer to this subsequent questions enables the researcher identify and overview of the general perception of managing finances in the banking sector. The answer ascertained from head of finance of equity was that managing of finance is important in banking sector as there are financial implications in virtually all financial decisions. Therefore for a bank to sustain itself in business even its non financial activities must know some budgeting process.

Lastly, what financial strategies are in place that suitably leads to the survival of a bank in Kenya? The answer to this subsequent question enables the researcher to determine how managing finance is formulated, initiated and final outcome of maximizing the companies value ensure banking market. As a way of answering the above questions the final objective of this research is meant possible to giving recommendation as how to effectively manage finance in banking sector. The data analysis as indicated in fourth chapter shows several

findings which prove consistent diverse and inconsistent in some aspect of how the case study Equity Bank (Kenya) is striving to meet challenges of managing finances.

5.1 CONCLUSION

A variety of conclusions can be drawn on the finding the interpretation of literature review conformity with the research objective of this research. The key conclusion drawn from the findings are elucidated from below. There is sufficient evidence to show that managing of finance by banks exists. The interview with different members of management team of Equity Bank revealed that managing of finance is done because of nature of business. Banking industries generally display a strong knowledge of managing finances their formulation initiation and outcome and to most extent their applications are evident in the annual management report. This is validated by the consequence in response and physical analysis. Managing field involved in managing finance, their initiation and realization process and management also shows a conviction that equity plays a role in relation to strategy.

5.2 RECOMMENDATION

Though all banks in Kenya have the working knowledge of managing finance in order to navigate through its volatility of the current market conditions and versatility of future trends. Some observations were made by the researcher which could act as a hindrance to meeting the right finance management process in the future if not dealt with. Though managing finances effectively is carried out there are so many times when proper procedure of managing finance are not followed by management hence underpinning the whole process.

APPENDIX

QUESTIONARE FOR THE EQUITY BANK MANAGEMENT AND STAFF

Dear respondent

The information being requested for in the form bellow will be used for academic research purposes based on the challenges of managing finance in the banking sector. It seeks to establish the extent to which proper management of finances will lead to the survival of a bank. It is hoped that this research will benefit equity bank as a corporate entity by enabling them attain a deeper understanding on the challenges of managing finances. Information provided in this questionnaire will strictly be used for research purpose and will be treated with utmost confidentiality.

1. What is your sex male ☐ female ☐

2. What is your level of education

   Diploma ☐

   Degree ☐

   Post graduate profession ☐

3. How long have you worked for equity bank

   1-5 years ☐

   6-10 years ☐

   11-15 years ☐

   16-20 years ☐

   ☐

21-25 years

26-30 years ☐

4. What is your position in equity bank

   ……………………………………………………………………………

   ……………………………………………………………………………

5. What constitutes a good strategy of managing finances in the bank?

   Internal controls ☐

   Supervision ☐

   Top Management ☐

   Investment in marketable securities ☐

6. What financial management strategies the management of Equity Bank has employed?

   Investment in marketable securities ☐

   Internal control ☐

   Supervision ☐

   Top management ☐

   None of the above ☐

7. What challenges does the management meet in implementing those financial strategies?

   Overtrading ☐

Weak management ☐

Competition ☐

Unstable interest rate in marketable securities ☐

Market share ☐

8. What is the impact of strategies management of finances to the general performance of Equity Bank?

Refference

Arthur J. Keas prentice hall personal finance 3rd edition

Bellerd E. Needles, Jr. Marian Powers, Susan V. Crosson Hougton Miffing co. Boston New York 2002

Broyees, Jack, Cooper F. & Archer S (1983); financial management handbook, 2nd edition grower publishing co. ltd.

Certo, S. C and Peter J. P. (1998) strategy management of a focus of the process. Usa Mc Graw publishing company

Charles T. Horngren, Srikant M. Datar George Forester prentice hall upper saddle river NJ 07458

Hargreaves RL Smith R.H (1998); managing your company's finances, J. S Brown publication co.

Hingery, Wilfred and Osborn Frank (1978); financial management made simple, W. H. Allen and co. ltd.

James C. Van Horne prentice hall international in 2003 financial management and policy 12th edition.

James Rowlett Richard Clay (Chaucer press) ltd Bungay Suffolk. A guide to saving and investment.

Levi and Morris (1783) international finance; Mc Graw hill, New York

Manasseh, Paul N. (1990); business finance, Boulder bookstore publishers.

Van Horne Wachowiez Jr. finances management 9th edition prentice hall

Wallace Stephen and Dianne (2001); business studies, Kenya training institute publication