

Effect Of Liquidity Ratios On The Financial Performance Of Financial Institutions In Taita Taveta County, Kenya

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Abstract

Financial performance remains one of the most important indicators of institutional sustainability within the financial sector. Financial institutions are expected to maintain adequate liquidity to meet their short-term obligations while simultaneously maximizing profitability and shareholder value. However, striking an optimal balance between liquidity and profitability continues to be a major management challenge, particularly among financial institutions operating in emerging economies. Despite numerous regulatory reforms introduced by the Central Bank of Kenya and the growing adoption of prudent liquidity management practices, many financial institutions continue to experience declining profitability, increasing operational costs, and liquidity pressures that undermine financial performance. This study examined the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya. The study was anchored on the Trade-Off Theory of Capital Structure and adopted a descriptive-correlational research design. The target population comprised managerial staff drawn from commercial banks, microfinance institutions, and Savings and Credit Cooperative Organizations (SACCOs) operating within Taita Taveta County. Primary data were collected using structured questionnaires and analyzed using the Statistical Package for Social Sciences (SPSS) through descriptive statistics, Pearson correlation analysis, and multiple linear regression analysis. The findings revealed that liquidity ratios had a positive and statistically significant effect on financial performance ($\beta > 0$, $p < 0.05$), indicating that institutions maintaining adequate liquidity levels recorded superior profitability, operational efficiency, and financial sustainability. The study concludes that liquidity management constitutes a critical component of financial flexibility and significantly contributes to improved financial performance. The study recommends that financial institutions strengthen liquidity monitoring systems, maintain optimal liquidity reserves, improve working capital management, and continuously review liquidity policies to enhance long-term financial performance.

Keywords: Liquidity Ratios, Financial Performance, Financial Flexibility, Commercial Banks, SACCOs, Microfinance Institutions, Kenya.

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I. Introduction

Financial institutions occupy a central position in every economy by mobilizing savings, facilitating investments, supporting business growth, and promoting economic development through efficient financial intermediation. Their ability to remain financially stable depends largely on their capacity to generate adequate profits while maintaining sufficient liquidity to meet both operational and regulatory obligations. Consequently, financial performance has become one of the most widely used indicators for evaluating institutional efficiency, sustainability, competitiveness, and long-term viability (International Monetary Fund, 2024).

Among the numerous determinants of financial performance, liquidity management has increasingly attracted considerable attention from scholars, policymakers, and financial regulators. Liquidity refers to an institution's ability to meet its short-term financial obligations as they fall due without incurring significant losses. Liquidity ratios therefore measure the adequacy of liquid assets relative to current liabilities and provide an important indication of an institution's financial flexibility and operational stability (Robinson, 2020).

Globally, financial institutions continue to operate in increasingly volatile economic environments characterized by inflationary pressures, fluctuating interest rates, technological disruption, changing customer expectations, and heightened regulatory requirements. Following the COVID-19 pandemic, banks and other financial institutions experienced significant liquidity challenges arising from loan restructuring, increased credit risk, declining customer deposits, and changing borrowing patterns (International Monetary Fund, 2024). Consequently, regulators across the world strengthened liquidity requirements through implementation of Basel

III liquidity standards, including the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR), aimed at enhancing institutional resilience against future financial shocks.

In developed economies, studies consistently demonstrate that effective liquidity management significantly improves profitability by reducing funding costs, minimizing financial distress, enhancing investor confidence, and improving institutional stability (Tarawneh et al., 2024). Financial institutions maintaining adequate liquidity are better positioned to withstand unexpected economic shocks while simultaneously exploiting profitable investment opportunities.

Across Africa, financial institutions continue to face significant liquidity management challenges arising from underdeveloped capital markets, limited financial inclusion, economic volatility, exchange rate fluctuations, and increasing non-performing loans. Although substantial progress has been achieved through financial sector reforms and digital financial services, liquidity risk remains one of the major threats to financial sustainability across many African economies (Yakubu & Bunyaminu, 2023). Institutions operating with inadequate liquidity often experience difficulties meeting customer withdrawals, financing lending activities, and maintaining regulatory compliance, thereby reducing overall financial performance.

Kenya possesses one of Africa's most developed financial sectors, comprising commercial banks, microfinance institutions, SACCOs, insurance companies, and digital financial service providers. Over the past decade, the Central Bank of Kenya has implemented various prudential regulations aimed at strengthening liquidity management and improving financial sector stability. These include statutory liquidity requirements, risk-based supervision, stress testing, and enhanced corporate governance guidelines. While these reforms have improved overall financial stability, many institutions continue to experience liquidity constraints resulting from increasing non-performing loans, declining interest margins, and changing market dynamics (Central Bank of Kenya, 2024).

Within Taita Taveta County, financial institutions play an essential role in facilitating agricultural production, mining activities, tourism, trade, and small business development. Commercial banks, SACCOs, and microfinance institutions provide financial services that support local economic development and financial inclusion. Nevertheless, these institutions operate within a relatively small and predominantly rural economy characterized by seasonal income fluctuations, limited industrial diversification, and varying customer cash flow patterns. Such conditions increase the importance of prudent liquidity management to ensure institutional sustainability and continued service delivery.

Maintaining adequate liquidity enables financial institutions to satisfy customer withdrawals, finance lending activities, absorb unexpected financial shocks, and maintain public confidence. Conversely, inadequate liquidity may expose institutions to financial distress, increase borrowing costs, constrain lending capacity, and ultimately reduce profitability. Although numerous studies have examined liquidity management in large commercial banks, limited empirical evidence exists regarding the influence of liquidity ratios on the financial performance of financial institutions operating within Taita Taveta County. This knowledge gap limits evidence-based managerial decision-making and policy formulation aimed at strengthening financial sustainability within the county. Consequently, this study sought to examine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya.

Statement of the Problem

Financial institutions are expected to maintain adequate liquidity to satisfy customer withdrawals, meet statutory obligations, finance lending activities, and sustain profitable operations. Effective liquidity management enables institutions to balance short-term financial obligations with long-term profitability objectives while enhancing resilience against unexpected economic shocks. Consequently, liquidity has become one of the key indicators used by regulators and investors to assess institutional financial health.

Despite numerous reforms introduced by the Central Bank of Kenya, including prudential liquidity requirements, risk-based supervision, and strengthened corporate governance frameworks, many financial institutions continue to experience liquidity challenges arising from rising non-performing loans, fluctuating customer deposits, increasing operational costs, and uncertain macroeconomic conditions. These challenges have adversely affected institutional profitability and financial sustainability.

Previous empirical studies have primarily concentrated on large commercial banks operating at the national level, with limited attention given to financial institutions operating in rural and semi-urban counties such as Taita Taveta. Furthermore, most existing studies have examined liquidity management using secondary financial data while providing limited evidence based on managerial perceptions regarding institutional liquidity practices. This empirical gap constrains the formulation of context-specific financial management strategies capable of improving institutional performance within the county. Therefore, this study sought to determine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya.

Purpose of the Study

The purpose of this study was to examine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya.

Theoretical Review

This study was anchored on the Trade-Off Theory of Capital Structure, originally advanced by Modigliani and Miller (1963) and later expanded by Kraus and Litzenberger (1973). The theory argues that organizations seek an optimal balance between the benefits and costs associated with maintaining financial resources. While originally developed to explain debt-equity financing decisions, the theory has increasingly been applied to liquidity management because maintaining excessive liquidity, like excessive debt, involves balancing costs and benefits.

According to the theory, adequate liquidity enables firms to satisfy short-term obligations, minimize bankruptcy risk, improve financial flexibility, and exploit profitable investment opportunities. However, holding excessive liquid assets may reduce profitability because idle cash generates relatively low returns compared to productive investments. Financial managers must therefore determine an optimal liquidity level that maximizes profitability while minimizing liquidity risk.

In financial institutions, liquidity management directly influences lending capacity, operational efficiency, customer confidence, regulatory compliance, and financial sustainability. Institutions maintaining optimal liquidity ratios are more capable of meeting customer demands while simultaneously generating superior financial returns. Conversely, inadequate liquidity may expose institutions to financial distress, increased borrowing costs, and reputational damage, whereas excessive liquidity may reduce profitability through underutilization of financial resources.

The Trade-Off Theory therefore provides an appropriate theoretical framework for explaining the relationship between liquidity ratios and financial performance. It suggests that institutions achieving an optimal liquidity position are more likely to maximize profitability while maintaining financial stability. Consequently, the theory supports the expectation that liquidity ratios significantly influence the financial performance of financial institutions operating in Taita Taveta County.

II. Research Methodology

The study adopted a descriptive-correlational research design to examine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya. The design was appropriate because it enabled the researcher to describe the characteristics of liquidity management practices while simultaneously establishing the relationship between liquidity ratios and financial performance. The study employed a cross-sectional survey in which primary data were collected once from respondents using structured questionnaires.

The target population comprised 55 managerial staff drawn from eleven financial institutions operating within Taita Taveta County, including commercial banks, microfinance institutions, and Savings and Credit Cooperative Organizations (SACCOs). Because of the relatively small target population, a census approach was adopted whereby all managers were targeted to participate in the study. The respondents included branch managers, operations managers, finance managers, credit managers, and accountants because they possessed adequate knowledge regarding liquidity management and institutional financial performance.

Primary data were collected using structured questionnaires containing five-point Likert scale items measuring respondents' perceptions on liquidity management practices and financial performance. Prior to the main survey, the research instrument was subjected to pilot testing to establish validity and reliability. Reliability was assessed using Cronbach's Alpha coefficient, while content validity was established through expert review by university supervisors.

Completed questionnaires were coded and analyzed using the Statistical Package for Social Sciences (SPSS Version 29). Descriptive statistics including frequencies, percentages, means, and standard deviations were used to summarize the data. Inferential statistics comprised Pearson Product Moment Correlation analysis to determine the relationship between liquidity ratios and financial performance, while multiple linear regression analysis established the magnitude and significance of the effect of liquidity ratios on financial performance. The study complied with all ethical requirements by obtaining informed consent from respondents, assuring confidentiality, anonymity, and voluntary participation throughout the research process.

Response Rate

The study targeted all the 55 managerial employees working in financial institutions within Taita Taveta County. Out of the 55 questionnaires administered, 34 were duly completed and returned, representing a 61.82% response rate. According to Kothari (2019), a response rate above 50 percent is adequate for statistical analysis, while Mugenda and Mugenda (2019) argue that response rates exceeding 60 percent are considered good for

social science research. Therefore, the response rate achieved in this study was considered sufficient for both descriptive and inferential statistical analyses.

The relatively satisfactory response rate demonstrates the willingness of financial institution managers to participate in studies aimed at improving financial management practices within the banking and microfinance sectors.

Reliability Assessment

Reliability analysis was conducted to establish the internal consistency of the research instrument using Cronbach's Alpha coefficient. Cronbach's Alpha values greater than 0.70 are generally considered acceptable for social science research (Hair et al., 2022).

Table 1: Reliability Analysis

Variable	Number of Items	Cronbach's Alpha
Liquidity Ratios	6	0.806
Financial Performance	5	0.772

The findings indicate that the liquidity ratio construct attained a Cronbach's Alpha coefficient of 0.806, which exceeded the recommended threshold of 0.70. This demonstrates that the questionnaire items measuring liquidity ratios possessed satisfactory internal consistency and reliably measured the intended construct. Likewise, all the remaining study variables also achieved acceptable reliability coefficients, confirming that the research instrument was appropriate for subsequent statistical analyses.

Respondents' Characteristics

The respondents comprised managers responsible for financial management, operations, lending, accounting, and branch administration within financial institutions operating in Taita Taveta County. Their managerial responsibilities provided adequate experience regarding liquidity management policies and financial performance.

Table 2: Respondents' Characteristics (N = 34)

Characteristic	Frequency	Percentage (%)
Gender		
Male	21	61.8
Female	13	38.2
Age		
Below 30 Years	5	14.7
31–40 Years	12	35.3
41–50 Years	10	29.4
Above 50 Years	7	20.6
Highest Education		
Diploma	5	14.7
Bachelor's Degree	18	52.9
Master's Degree	10	29.4
Doctorate	1	2.9
Working Experience		
Less than 5 Years	6	17.6
5–10 Years	12	35.3
11–15 Years	10	29.4
Above 15 Years	6	17.6

The results indicate that the majority of respondents possessed university education and considerable managerial experience within the financial sector. This suggests that the respondents were sufficiently knowledgeable to provide reliable information regarding liquidity management practices and financial performance. Furthermore, the relatively balanced distribution across age groups and work experience enhanced the credibility and representativeness of the study findings.

Effect of Liquidity Ratios on Financial Performance

The second objective of the study sought to determine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County. Respondents were requested to indicate their level of agreement with various statements describing liquidity management using a five-point Likert scale, where 1 represented *Strongly Disagree* and 5 represented *Strongly Agree*.

Table 3: Descriptive Statistics for Liquidity Ratios

Liquidity Ratio Statements	N	Mean	Std. Dev.
The institution maintains adequate liquid assets to meet short-term obligations.	34	4.18	0.79
Current assets are effectively managed to support operational activities.	34	4.06	0.82
Liquidity ratios are regularly monitored by management.	34	4.24	0.73
The institution rarely experiences liquidity shortages.	34	3.97	0.86
Liquidity policies support efficient financial operations.	34	4.15	0.77
Adequate liquidity enhances customer confidence and institutional stability.	34	4.29	0.69

The descriptive findings indicate that respondents generally agreed that effective liquidity management positively contributes to financial performance. The relatively high mean scores demonstrate that financial institutions operating in Taita Taveta County maintain adequate liquidity positions, regularly monitor liquidity levels, and implement liquidity policies that support operational efficiency.

The highest mean score ($M = 4.29$) was recorded for the statement that adequate liquidity enhances customer confidence and institutional stability, suggesting that respondents strongly recognized liquidity as a critical determinant of organizational credibility and long-term sustainability. Similarly, respondents agreed that liquidity ratios are regularly monitored by management ($M = 4.24$), reflecting the importance attached to liquidity management in ensuring compliance with regulatory requirements and maintaining financial stability.

The findings further suggest that institutions maintaining adequate liquidity are better positioned to meet customer withdrawals, finance lending activities, absorb unexpected financial shocks, and improve profitability. These findings are consistent with Tarawneh et al. (2024), who identified liquidity as one of the most important internal determinants of bank profitability. They also agree with Yakubu and Bunyaminu (2023), who reported that institutions maintaining optimal liquidity positions experience improved profitability, lower financial risk, and enhanced operational efficiency.

Overall, the descriptive results demonstrate that liquidity management remains an essential component of financial flexibility and significantly contributes to improved financial performance among financial institutions operating in Taita Taveta County.

Correlation Analysis

The study further sought to establish the relationship between liquidity ratios and financial performance among financial institutions in Taita Taveta County using the Pearson Product Moment Correlation coefficient. Pearson correlation analysis was considered appropriate because it measures both the strength and direction of the linear relationship between two continuous variables.

Table 4: Correlation Analysis between Liquidity Ratios and Financial Performance

Variables	Financial Performance
Liquidity Ratios	$r = 0.648$
Sig. (2-tailed)	$p = 0.000$

The results indicate a strong positive and statistically significant relationship between liquidity ratios and financial performance ($r = 0.648$, $p < 0.001$). This implies that financial institutions maintaining adequate liquidity positions are more likely to record superior financial performance.

The positive relationship suggests that institutions with sound liquidity management practices experience improved operational efficiency, greater customer confidence, enhanced lending capacity, and stronger profitability. Maintaining optimal liquidity enables financial institutions to satisfy customer withdrawals, meet regulatory requirements, and exploit profitable investment opportunities without exposing themselves to excessive financial risk.

These findings are consistent with Yakubu and Bunyaminu (2023), who established that liquidity management positively influences bank profitability in emerging economies. Similarly, Tarawneh et al. (2024) reported that adequate liquidity significantly enhances institutional efficiency by reducing funding costs and improving financial stability.

Multiple Linear Regression Analysis

To determine the effect of liquidity ratios on financial performance while controlling for the other financial flexibility indicators investigated in the study, multiple linear regression analysis was conducted.

Table 5: Regression Coefficients

Variable	Beta (β)	t	Sig.
Liquidity Ratios	0.284	2.846	0.007

Dependent Variable: Financial Performance

The regression results reveal that liquidity ratios have a positive and statistically significant effect on financial performance ($\beta = 0.284$, $p = 0.007$). This indicates that a one-unit improvement in liquidity management is associated with a corresponding improvement in financial performance, holding the other financial flexibility indicators constant.

The findings demonstrate that institutions maintaining optimal liquidity positions benefit from improved operational efficiency, reduced financial distress, enhanced customer confidence, increased lending capacity, and greater profitability. Effective liquidity management enables institutions to respond promptly to short-term financial obligations while maintaining adequate resources for productive investments.

Although liquidity ratios were not the strongest predictor among the financial flexibility indicators examined in the broader study, their statistically significant coefficient confirms that liquidity management remains a critical determinant of institutional financial performance.

These findings support the Trade-Off Theory, which argues that firms should maintain an optimal balance between liquidity and profitability. While excessive liquidity may reduce returns through idle resources, inadequate liquidity increases financial risk and operational vulnerability. Therefore, maintaining optimal liquidity enhances organizational performance by minimizing financial distress while supporting profitable operations.

The findings further corroborate recent studies by Yakubu and Bunyaminu (2023), Tarawneh et al. (2024), Nguyen and Tran (2024), and Al-Homaidi et al. (2023), all of whom concluded that prudent liquidity management significantly improves financial performance through enhanced operational stability and efficient resource utilization.

Hypothesis Testing

The study tested the following null hypothesis:

H02: Liquidity ratios have no statistically significant effect on the financial performance of financial institutions in Taita Taveta County, Kenya.

The regression analysis produced a standardized coefficient of $\beta = 0.284$ with a significance level of $p = 0.007$, which is below the conventional significance threshold of 0.05.

Accordingly, the null hypothesis was rejected, and the alternative hypothesis was accepted.

The findings therefore demonstrate that liquidity ratios have a statistically significant positive effect on the financial performance of financial institutions operating in Taita Taveta County. This implies that institutions maintaining optimal liquidity positions are more likely to achieve higher profitability, improved operational efficiency, enhanced customer confidence, and greater long-term financial sustainability.

III. Discussion Of Findings

The objective of this study was to examine the effect of liquidity ratios on the financial performance of financial institutions in Taita Taveta County, Kenya. The regression analysis established that liquidity ratios exert a positive and statistically significant influence on financial performance ($\beta = 0.284$, $p = 0.007$), indicating that effective liquidity management contributes substantially to institutional success.

The findings suggest that financial institutions maintaining sufficient liquid assets are better positioned to meet short-term obligations, support lending operations, comply with statutory liquidity requirements, and respond effectively to unexpected financial demands. Consequently, institutions with sound liquidity management practices experience improved profitability, stronger customer confidence, and enhanced organizational resilience.

These findings reinforce the propositions of the Trade-Off Theory, which argues that firms should maintain an optimal balance between liquidity and profitability. Adequate liquidity reduces the probability of financial distress, minimizes emergency borrowing costs, and enhances institutional flexibility in responding to changing market conditions. At the same time, maintaining excessive liquidity may reduce profitability because idle funds generate relatively low returns. The significant positive coefficient obtained in this study suggests that financial institutions in Taita Taveta County generally maintain liquidity levels that support profitability rather than constrain it.

The findings are consistent with those of Yakubu and Bunyaminu (2023), who reported that prudent liquidity management significantly enhances profitability among commercial banks by improving operational efficiency and reducing liquidity risk. Their study concluded that institutions maintaining adequate liquidity reserves achieve greater financial stability and stronger long-term performance.

Similarly, the results corroborate those of Tarawneh et al. (2024), who found that liquidity management positively influences financial performance by lowering funding costs, improving customer confidence, and increasing institutional resilience during periods of economic uncertainty. They emphasized that maintaining optimal liquidity enhances both regulatory compliance and shareholder value.

The findings also agree with Nguyen and Tran (2024), who established that banks implementing robust liquidity management frameworks experience higher returns on assets and improved financial sustainability. Their study highlighted the importance of balancing liquidity holdings with income-generating investments to maximize organizational performance.

Likewise, Al-Homaidi et al. (2023) concluded that effective liquidity management strengthens financial institutions by improving cash flow management, supporting lending activities, and enhancing overall profitability. Their findings emphasized that liquidity constitutes a strategic resource that enables institutions to withstand financial shocks while maintaining operational continuity.

From a managerial perspective, the findings underscore the importance of integrating liquidity management into strategic financial planning. Senior managers should continuously monitor liquidity ratios, forecast cash flow requirements, and align liquidity policies with organizational objectives to sustain financial performance.

From a policy perspective, the findings highlight the need for continued regulatory oversight by the Central Bank of Kenya and other supervisory agencies to ensure that financial institutions maintain prudent liquidity levels without compromising profitability. Strengthening liquidity risk management frameworks, stress-testing procedures, and corporate governance practices will further enhance institutional stability within the financial sector.

Overall, the findings demonstrate that liquidity ratios constitute a significant determinant of financial performance among financial institutions operating in Taita Taveta County. Effective liquidity management should therefore remain a strategic priority for financial managers seeking to enhance institutional competitiveness, resilience, and long-term sustainability.

IV. Conclusion

The study examined the effect of liquidity ratios on the financial performance of financial institutions operating in Taita Taveta County, Kenya. The findings established that liquidity ratios have a positive and statistically significant influence on financial performance. The correlation analysis revealed a strong positive relationship between liquidity ratios and financial performance ($r = 0.648$, $p < 0.001$), while the regression analysis demonstrated that liquidity ratios significantly predict financial performance ($\beta = 0.284$, $p = 0.007$). Consequently, the study rejected the null hypothesis that liquidity ratios have no significant effect on financial performance.

The findings indicate that financial institutions maintaining adequate liquidity are better positioned to meet short-term obligations, support lending activities, comply with regulatory requirements, and withstand financial shocks. Effective liquidity management enhances operational efficiency, strengthens customer confidence, reduces financial risk, and contributes to sustainable profitability.

The study therefore concludes that liquidity ratios constitute an important dimension of financial flexibility and are a significant determinant of institutional financial performance. Financial institutions should therefore consider liquidity management not merely as a regulatory requirement but as a strategic management function capable of creating long-term competitive advantage.

Practical Implications

The findings of this study have several important practical implications for managers, regulators, policymakers, and financial institutions.

First, senior management should continuously monitor liquidity ratios to ensure that adequate liquid resources are maintained without unnecessarily sacrificing profitability. Institutions should establish effective liquidity forecasting systems capable of anticipating future cash requirements and responding promptly to changing market conditions.

Second, boards of directors should integrate liquidity management into strategic planning and enterprise risk management frameworks. Continuous monitoring of liquidity indicators will improve governance, strengthen financial resilience, and support informed investment decisions.

Third, regulators, particularly the Central Bank of Kenya and the SACCO Societies Regulatory Authority (SASRA), should continue strengthening prudential liquidity supervision while encouraging

institutions to adopt advanced liquidity risk management frameworks consistent with international best practices such as Basel III.

Fourth, investors and other stakeholders may use liquidity ratios as important indicators when assessing institutional financial health, operational efficiency, and long-term sustainability.

Finally, the findings demonstrate that liquidity management should be viewed as a strategic tool for enhancing financial performance rather than merely a compliance requirement.

Recommendations

Based on the findings of the study, the following recommendations are made:

- i.Strengthen Liquidity Monitoring Systems.** Financial institutions should implement integrated liquidity monitoring systems capable of providing real-time information regarding cash flows, liquid assets, and short-term liabilities. Continuous monitoring will facilitate timely management decisions and improve financial stability.
- ii.Maintain Optimal Liquidity Levels.** Management should establish policies that maintain liquidity at optimal levels capable of supporting operational activities while maximizing profitability. Excessive liquidity should be minimized because idle resources reduce investment returns.
- iii.Improve Cash Flow Forecasting.** Financial institutions should strengthen cash flow forecasting techniques to anticipate liquidity requirements accurately and reduce unexpected liquidity shortages. Accurate forecasting enhances operational planning and investment decision-making.
- iv.Enhance Liquidity Risk Management.** Institutions should regularly conduct liquidity stress testing and scenario analysis to evaluate their ability to withstand unexpected financial shocks. Such practices will improve institutional resilience during periods of economic uncertainty.
- v.Strengthen Regulatory Compliance.** Financial institutions should continuously review their liquidity management policies to ensure compliance with Central Bank of Kenya prudential guidelines, Basel III liquidity requirements, and other applicable regulatory standards.
- vi.Invest in Staff Capacity Building.** Management should organize regular training programmes for finance managers, branch managers, and treasury personnel on emerging liquidity management techniques, financial risk management, and regulatory developments.

Limitations of the Study

The study was limited to financial institutions operating within Taita Taveta County. Consequently, the findings may not be generalized to financial institutions operating in other counties characterized by different economic conditions, customer profiles, and regulatory environments.

The study also employed a cross-sectional research design, which captured respondents' perceptions at a single point in time. Future studies employing longitudinal designs may provide a better understanding of how liquidity management influences financial performance over extended periods.

Additionally, the study relied primarily on self-reported questionnaire data obtained from managerial staff. Although the respondents were knowledgeable regarding institutional financial practices, integrating primary data with audited financial statements would provide a more comprehensive assessment of liquidity management.

Finally, liquidity ratios represented only one component of financial flexibility. Other factors such as capital adequacy, asset quality, earnings management, corporate governance, macroeconomic conditions, and digital financial innovation may also influence financial performance and warrant further investigation.

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