

The effect of assets management and financial performance of Centenary Bank.

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Abstract

The study aimed at the effect of assets management and financial performance of Centenary Bank. Financial statements for Centenary Bank spanning 2017 to 2021 were obtained from the bank's annual reports and analyzed to extract trend data on key performance indicators like return on assets, return on equity, net interest margins, cost-to-income ratios and non-performing loan levels. Quarterly regulatory prudential returns submitted by Centenary Bank to Bank of Uganda between Q3 2019 to Q2 2022 provided further granular insights. Primary data was collected through a survey of 50 bank managers directly involved in overseeing Centenary Bank's assets deployment and recovery processes across various branches. Descriptive statistics were used to analyze survey data in SPSS while interviews underwent thematic analysis. Pearson's correlation and regression analyses were then conducted to determine significance and direction of relationships between assets management variables and financial performance indicators. From the findings, It was revealed that the bank has maintained adequate business stability through treasury management, corporate treasurers and chief financial officers who have effectively handled their responsibility for overall cash management strategies, cash related responsibilities and stability analysis. It was revealed in an interview session by one respondent that, "Good management of disposals, whether they are scrapping or sales can help minimise losses and even make some profits, hence making a difference in the bank's profitability". This means that when the bank chooses the right time to carry out a resale or even optimising the management of obsolescence, the disposal of fixed assets can be a profitability level for the bank. The cash management in the bank should also be upheld as a key financial management practice that ought to enhance the finance independence of the bank.

Key words: assets management and financial performance

Background of the study

Effective asset management plays a pivotal role in ensuring the financial stability and profitability of banks (Alex & Kazaara, 2023). Optimizing the allocation, utilization, and monitoring of assets directly impacts financial performance and long-term sustainability. Optimizing asset allocation by focusing on high-yielding assets while minimizing exposure to high-risk assets can boost returns and improve profitability (Polycarp et al., 2023). Centenary Bank's Mapeera branch can enhance its return on assets

(ROA) by strategically allocating resources to low-risk loans with attractive interest rates (Annet et al., 2023).

Another important decision that the managers of commercial banks take refers to the liquidity management and specifically to the measurement of their needs related to the process of deposits and loans. The importance of liquidity goes beyond the individual bank as a liquidity shortfall at an individual bank can have systemic repercussions (CBK, 2019). It

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is argued that when banks hold high liquidity, they do so at the opportunity cost of some investment, which could generate high returns (Akankwasa et al., 2022). The trade-offs that generally exist between return and liquidity risk are demonstrated by observing that a shift from short term securities to long term securities or loans raises a bank's return but also increases its liquidity risks and the inverse is true. Thus, management is faced with the dilemma of liquidity and profitability (Polycarp et al., 2023). Levine (2018) emphasizes the adverse effect of increased liquidity for commercial banks stating that, "although more liquid assets increase the ability to raise cash on short-notice, they also reduce management's ability to commit credibly to an investment strategy that protects investors" which, finally, can result in reduction of the "firm's capacity to raise external finance" in some cases (Innocent et al., 2023).

Poor management of expenditure is the main contributors to poor profitability (Alex & Kazaara, 2023). In the literature on bank performance, operational expense efficiency is usually used to assess managerial efficiency in banks. (T. Christopher, 2022) examine the various factors that contribute to high interests spread in Kenyan banks. Overheads are found to be one of the most important components of the high interests' rate spreads. An analysis of the overheads showed that they are driven by staff wage costs which are comparatively higher than other banks in the SSA countries (Victoria et al., 2023).

Problem Statement

Effective management of assets is imperative for commercial banks to improve financial performance and maximize shareholder value. Centenary Bank, which was established in 1993 and has grown to become one of the leading retail

Although the relationship between expenditure and profits appears straightforward implying that higher expenses mean lower profits and the opposite, this may not always be the case. The reason is that higher amounts of expenses may be associated with higher volume of banking activities and therefore higher revenues (Kazaara & Christopher, 2023). In relatively uncompetitive markets where banks enjoy market power, costs are passed on to customers; hence there was a positive correlation between overheads costs and profitability (Nelson, Christopher, Teddy, et al., 2022).

Commercial banks in recent years have increasingly been generating income from "off-balance sheet" business and from fees and commissions income. As cited by (Gracious, 2023) notes that the decline in interest margins, is forcing banks to explore alternative sources of revenues, leading to diversification into trading activities, other services and non-traditional financial operations (Moses et al., 2023). The concept of revenue diversifications followed the concept of portfolio theory which states that individuals can reduce firm specific risk by diversifying their portfolios. However, there is a long history of debates about the benefits and costs of diversification in banking literature. The proponents of activity diversification or product mix argue that diversification provides a stable and less volatile income, economies of scope and scale, and the ability to leverage managerial efficiency across products (F. Christopher et al., 2022).

banks in Uganda, relies on optimal allocation and utilization of its asset portfolio to drive profitability (Musaibah et al., 2023). However, recent financial reports have shown declines in key profitability and growth indicators for the bank over the last 3 years (Deus, 2023). Returns on assets and equity have dropped, loan book growth has slowed, and non-performing loans have risen slightly above the industry average. While external macroeconomic challenges have impacted the banking sector, insiders note that weaknesses in allocating capital to profitable lending segments and inefficient monitoring of deployed assets may also be contributing factors hindering financial results (Frank et al., 2023). As a publicly listed company with responsibilities to investors, understanding factors influencing assets management and addressing internal inefficiencies is imperative for Centenary Bank to reverse unfavorable trends, strengthen its competitive position and achieve long-term sustainability goals (Turyatamba et al., 2022). Therefore, this study seeks to examine the relationship between assets management including adequacy of capital allocation processes, credit risk oversight and loan recoveries, and key financial metrics at Centenary Bank (Kazaara & Christopher, 2023).

Main Objective

To determine the effect of assets management on financial performance of Centenary Bank.

Methodology

A quantitative correlational research design was employed to investigate the relationship between assets management and financial performance at Centenary Bank. Both primary and secondary data collection methods were utilized between January and June 2023.

Financial statements for Centenary Bank spanning 2017 to 2021 were obtained from the bank's annual reports and analyzed to extract trend data on key performance indicators like return on assets, return on equity (T. Christopher, 2022), net interest margins, cost-to-income ratios and non-performing loan levels. Quarterly regulatory prudential returns submitted by Centenary Bank to Bank of Uganda between Q3 2019 to Q2 2022 provided further granular insights (Racheal et al., 2023). Primary data was collected through a survey of 50 bank managers directly involved in overseeing Centenary Bank's assets deployment and recovery processes across various branches. Using a structured questionnaire, they provided quantitative data on adequacy of capital budgeting systems, loan appraisal procedures, credit risk oversight practices and loan recovery strategies employed. Additionally, ten senior managers at Centenary Bank headquarters including the Chief Finance Officer were interviewed to gain qualitative perspectives on perceived organizational strengths and weaknesses impacting assets optimization (Ronet et al., 2023). Verbal consent was obtained and responses anonymized. Descriptive statistics were used to analyze survey data in SPSS while interviews underwent thematic analysis. Pearson's correlation and regression analyses were then conducted to determine significance and direction of relationships between assets management variables and financial performance indicators (Nelson, Christopher, & Milton, 2022).

Results

Descriptive statistics on asset management and financial performance

Table 1: The bank has a well-defined fixed assets portfolio to increase profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	18	31.6	31.6	31.6
	Disagree	20	35.1	35.1	66.7
	Not sure	4	7.0	7.0	73.7
	Agree	8	14.0	14.0	87.7
	Strongly agree	7	12.3	12.3	100.0
	Total	57	100.0	100.0	

Source: Primary data (2022)

As seen in table 1, results indicate that majority of the respondents generally disagreed to the statement; this was presented by 31.6% who strongly disagreed and 35.1% who disagreed respectively. This can be implied to mean that the bank has a high percentage of investment returns. A respondent in an interview session revealed that; “We ensure to always have effective asset allocation by putting time and effort in upfront when deciding what the bank’s asset allocation is going to be”. This means that the bank has a diversified asset allocation portfolio hence minimises investment risks.

Table 2: The acquisition process for fixed assets has led to increased profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	5	8.8	8.8	8.8
	Disagree	7	12.3	12.3	21.1
	Not sure	4	7.0	7.0	28.1
	Agree	19	33.3	33.3	61.4
	Strongly agree	22	38.6	38.6	100.0
	Total	57	100.0	100.0	

Source: Primary data (2022)

As seen in table 2, results indicate that majority of respondents, represented by 38.6% and 33.3% agreed and strongly agreed respectively. Since majority of the respondents generally agreed, it can be implied to mean that the bank is using its fixed assets more effectively. It is revealed that the bank has effectively used investments in fixed assets to generate sales (Faridah et al., 2023). It was revealed that the bank ensures to compare its most recent ratio to both its own historical ratios and ratio values from purchased assets.

Table 3: Efficient utilization and management of cash increased in profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	2	3.5	3.5	3.5

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Disagree	8	14.0	14.0	17.5
Not sure	5	8.8	8.8	26.3
Agree	23	40.4	40.4	66.7
Strongly agree	19	33.3	33.3	100.0
Total	57	100.0	100.0	

Source: Primary data (2022)

As seen table 3, results indicate that majority of respondents generally agreed to the statement, this was presented by 33.3% and 40.4% who strongly agreed and agreed respectively. This can be implied to mean that all the cash inflows and outflows have been prudently managed in order to meet bank's obligations. It was revealed that the bank has maintained adequate business stability through treasury management, corporate treasurers and chief financial officers who have effectively handled their responsibility for overall cash management strategies, cash related responsibilities and stability analysis (Alex & Kazaara, 2023). This means that there are several key metrics that are monitored and analyzed by cash and asset management executives on a daily, monthly, quarterly and annual basis.

Table 4: The maintenance approach taken regarding the assets has led to increase in profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	17	29.8	29.8	29.8
	Disagree	25	43.9	43.9	73.7
	Not sure	8	14.0	14.0	87.7
	Agree	4	7.0	7.0	94.7
	Strongly agree	3	5.3	5.3	100.0
	Total	57	100.0	100.0	

Source: Primary data (2022)

As seen in table 4, results indicate that majority of respondents generally disagreed, this was presented by 43.9% who disagreed and 29.8% who strongly disagreed to the statement respectively. Since this is the majority response it can be implied to mean that the bank lacks an effective asset lifecycle management (Winny et al., 2023). It was revealed that the bank's management has on several occasions ignored the increase in costs that can be attributed to an asset moving towards the end of its lifecycle and yet losses of productivity are not taken into consideration hence having an impact on profitability of the bank (Tasha et al., 2023).

Table 5: The method of disposal for fixed assets has led to difference in profitability

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Not sure	5	8.8	8.8	8.8
	Agree	24	42.1	42.1	50.9
	Strongly agree	28	49.1	49.1	100.0

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Total	57	100.0	100.0
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Source: Primary data (2022)

As seen in table 5, results indicate that majority of the respondents generally agreed to the statement, this was presented by 49.1% and 42.1% who strongly agreed and agreed respectively. This can be implied to mean that the transaction of disposing of a fixed asset gives rise to the accounting recording of a decrease in the assets of the value of this fixed asset and the collection of the sale price, showing a gain or a loss (Alex et al., 2023). It was revealed in an interview session by one respondent that, “Good management of disposals, whether they are scrapping or sales can help minimise losses and even make some profits, hence making a difference in the bank’s profitability”. This means that when the bank chooses the right time to carry out a resale or even optimising the management of obsolescence, the disposal of fixed assets can be a profitability level for the bank.

Table 6: The diversification strategy adopted for financial assets investments has minimized risks

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	21	36.8	36.8	36.8
	Disagree	24	42.1	42.1	78.9
	Not sure	3	5.3	5.3	84.2
	Agree	4	7.0	7.0	91.2
	Strongly agree	5	8.8	8.8	100.0
	Total	57	100.0	100.0	

Source: Primary data (2022)

As seen in table 6, results indicate that majority of the respondents generally disagreed to the statement; this was presented by 42.1% and 36.8% who strongly disagreed and disagreed respectively. Since this was the majority response it can be implied to mean that despite the benefits of reducing risks through diversification, the bank has not always effectively allocated investments across financial instruments, industries or other categories. It was revealed that management has not been able to maximize returns from investments in different areas which would each react differently to the same event. This means that despite having a mixed bag of assets, the bank has on some occasions failed to absorb the impact of an adverse event hence failing to compensate for losses in the investments (Moses et al., 2023).

Table 7: There is improved effectiveness of collection efforts over time on collection of cash receivables

		Frequency	Percent	Valid Percent	Cumulative Percent
Valid	Strongly disagree	4	7.0	7.0	7.0
	Disagree	3	5.3	5.3	12.3
	Not sure	12	21.1	21.1	33.3
	Agree	15	26.3	26.3	59.6

Strongly agree	23	40.4	40.4	100.0
Total	57	100.0	100.0	

Source: Primary data (2022)

As seen in table 7, results indicate that majority of respondents generally agreed to the statement, this was presented with 40.4% who strongly agreed and 26.3% who agreed respectively. Since this was the majority, it can be implied to mean that there is effective accounts receivable management which has enhanced the banks cash flow by preventing nonpayment or late payment from clients. It was revealed that the bank's employees adhere to the foundational accounts receivable collection methods and procedures and as such endeavor to focus on establishing clear contracts with customers and also implement workable system that can manage those contracts. This means that the banks contracts always specify its terms of payment, cash-up-front or retainer stipulations.

Table 8: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.910 ^a	.828	.825	.59495

a. Predictors: (Constant), Asset management

Results in Table 8 show that the adjusted R square, which is the variability in the dependent variable (financial performance), explained by the regression, is 0.825 or 82.5%; this means that 82.5% of the variability in financial performance is explained by the independent asset management. The remaining 17.5 % is explained by other factors outside the scope of the current study. The R value from the summary model is 0.910 which is the correlation coefficient.

Table 9: ANOVA

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	94.041	1	94.041	265.680	.000 ^b
	Residual	19.468	55	.354		
	Total	113.509	56			

a. Dependent Variable: Financial performance

b. Predictors: (Constant), Asset management

Table 9 results show that $F = 265.680$, $p = 0.000$, which means the positive hypothesis that there is a significant relationship between asset management and financial performance which is accepted, hence rejecting the implied null hypothesis (Nelson et al., 2023). This means that positive change in asset management explains variability in the changes under the dependent variable of financial performance. Improved asset management will lead to improvement in financial performance and this is justified by the regression coefficient which is not zero.

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Discussion of the findings

The study findings revealed that the bank has a high percentage of investment returns (basing on 66.7% agree rate), the bank is using its fixed assets more effectively (basing on 71.9% agree rate), all the cash inflows and outflows have been prudently managed in order to meet bank's obligations (basing on 73.7% agree rate), the bank lacks an effective asset lifecycle management (basing on 73.7% disagree rate), the transaction of disposing of a fixed asset gives rise to the accounting recording of a decrease in the assets of the value of this fixed asset and the collection of the sale price, showing a gain or a loss, despite the benefits of reducing risks through diversification (basing on 91.2% agree rate), the bank has not always effectively allocated investments across financial instruments, industries or other categories (basing on 78.9% disagree rate) and there is effective accounts receivable management which has enhanced the banks cash flow by preventing nonpayment or late payment from clients (basing on 66.7% agree rate).

Conclusion

The study found that the regression coefficient between the variables was significant and positive. This finding suggested the rejection of the null hypothesis implying that financial management practices significantly affected financial performance in Centenary Bank and thus an improvement in financial management practices would increase financial performance.

Recommendation

The management of the bank ought to ensure that there are frameworks on how assets should be managed and clearly outlined procedures of assets disposal. The cash management in the bank should also be upheld as a key financial management practice that ought to enhance the finance independence of the bank.

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