Influence of Financial Management Practices on Performance of Village Community Banks: Empirical Evidence from Arumeru District, Tanzania

Ukende Kingu[1], Joseph Magali[2] and Salvio Macha[1]
[1]Department of Accounting and Finance, The Open University of Tanzania
[2]Department of Marketing, Entrepreneurship and Management,
The Open University of Tanzania
Author corresponding email: joseph.magali@out.ac.tz
DOI: https://doi.org/10.61538/pajbm.v9i2.1899

Abstract
This study examined the influence of financial management practices on the performance of Village Community Banks (VICOBA) in the Arumeru district. The specific objectives were to assess the influence of financial management practices, particularly cash management, accounting information, and internal control, on the financial performance of VICOBA. An explanatory research design was employed, and data were collected via structured questionnaires administered to 136 respondents from different VICOBA groups. A simple random sampling technique was used to determine the sample size. Descriptive statistics and regression analysis were performed in SPSS to analyse the data. The findings revealed that cash management practices, particularly internal control over accounting information, positively and significantly influenced VICOBA's financial performance. The study concludes that cash management, the accounting system, and internal control played a significant role in improving VICOBA's financial performance in Arumeru district, Tanzania. The study recommends that VICOBA leaders and members strengthen their cash management procedures, maintain proper financial records, and enforce internal control systems to improve efficiency. Policymakers and supporting agencies should provide capacity-building programs, training, and technological support to enhance VICOBA's effectiveness.

Keywords: *Financial management practices, performance of village community banks (VICOBA), Arumeru district, Tanzania*

INTRODUCTION

Village Community Banks (VICOBA) are community-based financial institutions that promote savings and access to credit for low-income individuals. Different scholars have defined VICOBA in various ways. Mgongolwa et al. (2023) define VICOBA as self-managed savings and loan groups that provide financial services to members, particularly in rural areas, operating on principles of mutual financial support and financial inclusion.

Shau (2022) describes VICOBA as informal microfinance institutions that facilitate access to small loans for income-generating activities, enhancing economic empowerment for marginalised communities. Rahma and Peter (2024) highlight VICOBA as a grassroots financial institution that focuses on financial literacy, community-based resource mobilisation, and loan disbursement to small-scale entrepreneurs.

Mang'ana et al. (2024) asserted that financial management practices involve planning, organising, controlling, and monitoring financial resources to achieve organisational goals effectively. They include budgeting, financial reporting, risk management, and investment decision-making. Similarly, Akbar et al. (2022) describe financial management practices as a systematic approach to managing financial activities, including capital budgeting, working capital management, and financial statement analysis, to enhance organisational sustainability. VICOBA and self-help financial groups have been instrumental in fostering financial inclusion and economic empowerment, particularly for individuals and small businesses that lack access to formal banking services (Kimiti, 2024). However, these groups face numerous challenges that hinder their financial performance across different regions (Luvingo, 2023).

In developed countries such as the USA, Europe, Canada, and Australia, VICOBA, termed as self-help financial groups, often struggle with regulatory compliance, access to sustainable funding, and digital transformation. Studies indicate that despite their strong financial ecosystems, self-help groups face difficulties in adapting to evolving financial technologies and stringent legal frameworks that limit their operational flexibility (Jupe et al., 2022). African self-help groups, particularly in microfinance settings, face sustainability challenges due to poor financial management, inadequate regulatory oversight, and limited access to external financing. Studies in Nigeria and Ghana indicate that the absence of standardised financial reporting, lack of risk management practices, and weak internal governance structures contribute to financial instability (Agbana et al., 2023; Atatsi et al., 2023). Furthermore, inefficiencies in credit risk management affect loan recoveries and overall financial performance (Otoo, 2024).

In Tanzania, VICOBA serve as a critical financial lifeline for many communities, yet they face significant financial management challenges. Issues such as poor record-keeping, lack of structured accounting systems, and weak internal controls have been documented as major setbacks (Mgongolwa et al., 2023; Luvingo, 2023). The absence of financial compliance mechanisms for VICOBA exacerbates financial risks, leading to

fund misappropriation and limited growth potential (Kihongo, 2005). Arumeru District, like other parts of Tanzania, experiences similar challenges in VICOBA operations. Poor cash management, misallocation of financial resources, and inadequate internal controls are prominent issues affecting the sustainability of these financial groups (Maina, 2023). Studies suggest that without structured financial management practices, many VICOBA in the district struggle to maintain long-term financial stability and support their members effectively (Kimiti, 2024).

The studies have examined the influence of cash management on VICOBA's financial performance, including those by Sewwandhi and Kuruppuarachchi (2021), who assessed the effects of financial reporting, working capital management, and investment decisions on SME performance in Sri Lanka using descriptive analysis and regression techniques. Their findings revealed that financial management practices positively impact SME performance. However, the study did not consider the role of internal control and accounting systems in business success. Rahma and Peter (2024) examined the effects of disciplined budgeting and working capital management on firm performance in Indonesia using correlation and regression analyses. They found that financial planning practices significantly enhance business performance. However, the study did not explore the impact of internal control and accounting systems.

Moreover, studies on the effect of accounting systems on VICOBA financial performance, such as Agbana et al. (2023), investigated the impact of credit risk management on the financial performance of microfinance institutions in Nigeria using content analysis. They found that credit appraisal, loan monitoring, and recovery procedures positively influence financial performance. However, the study did not assess the role of account-based systems in loan performance and focused solely on microfinance institutions rather than on VICOBA. Atatsi et al. (2023) examined the relationship between financial management practices and life satisfaction in Ghana using structural equation modelling. Their findings showed a positive link between financial management and financial satisfaction. However, the study overlooked the role of cash management, internal controls, and accounting systems in financial satisfaction.

Kamau (2021) and Mbogo et al. (2021) investigated the effect of financial management practices on SME financial performance in Kenya using descriptive and regression analysis. Their studies found that working capital management, investment decisions, and financial decisions positively impact

SME financial performance. However, they did not assess the role of internal control, compliance, and accounting systems. Luvingo (2023) investigated the influence of organisational resources on VICOBA performance using descriptive analysis. The study emphasised the role of financial, human, and physical resources in financial performance. However, it did not cover internal control, compliance, or accounting systems.

Despite extensive research on financial management practices in SMEs and microfinance institutions, limited studies focus on VICOBA. (For example, Naseer et al., 2021; Zada et al., 2021) Most empirical studies have emphasised the importance of accounting systems, cash management, and internal controls for financial performance. However, these studies neglect the unique financial structures and challenges of VICOBA. Additionally, theoretical perspectives such as the Pecking Order and Trade-Off theories provide valuable insights into financial decision-making but do not incorporate the role of internal control and compliance, which are critical to VICOBA's financial performance. Furthermore, the existing literature does not comprehensively examine the combined effects of cash management, accounting systems, and internal controls on VICOBA's financial sustainability. While research by Mgongolwa et al. (2023) and Luvingo (2023) acknowledges the importance of financial resource planning in VICOBA, neither fully addresses the roles of structured accounting systems and compliance mechanisms.

Existing studies on financial management practices in Tanzania have primarily focused on SMEs and MFIs, with limited emphasis on VICOBA (Mang'ana et al., 2023). While research highlights the importance of financial management in enhancing financial performance, it does not adequately address the unique financial structures and management challenges VICOBA faces. Additionally, weak regulatory frameworks and the absence of standardised accounting systems remain persistent issues, limiting VICOBA's ability to assess its financial status and make strategic decisions (Kimiti, 2024; Kilonzo & Dennis, 2015). Therefore, this study was conducted to answer the following research questions: How do cash management practices influence the financial performance of VICOBA in the Arumeru district? How does the accounting information system influence VICOBA's financial performance in the Arumeru district? How does internal control influence VICOBA's performance in the Arumeru district?

Theoretical Literature Review

The study used the Pecking Order Theory (POT), which was developed by Myers and Majluf (1984). The theory explains the preference order that firms

follow when financing their operations, given asymmetric information between internal stakeholders and external investors (Leary & Roberts, 2010). The Pecking Order Theory describes corporate financing behaviours in firms and their inclination towards internal over external financing (Ali et al., 2021). The Pecking Order Theory posits that firms hierarchically prioritise financing sources: first, internal funds (retained earnings); second, debt financing; and lastly, equity financing (Jansen et al., 2023). The rationale behind this preference is to minimise information asymmetry and adverse selection costs associated with external financing (Singh et al., 2025). When external financing is necessary, firms prefer debt over equity to avoid ownership dilution and mitigate market perceptions of overvaluation (Yulianto et al., 2021). The primary variables in the Pecking Order Theory include internal financing, debt, and equity financing (Djabang et al., 2025). Internal financing involves using retained earnings and savings before seeking external funds. Debt financing refers to borrowing through loans or buying bonds. Equity financing, which is the least preferred, involves issuing shares due to ownership dilution and signalling problems (Al-Tamimi, 2024). This study applied the Pecking Order Theory (POT) to examine how financial management practices affect VICOBA's financial performance.

Several recent studies have applied the Pecking Order Theory to analyse financial management in different contexts. Zada et al. (2021) examined financial management practices in SMEs, emphasising the role of internal financing over debt. Naseer and Siddiqui (2021) examined the impact of financial management practices on loan performance, confirming the importance of internal funds relative to external borrowing. Otoo (2024) analysed financial management practices in Ghanaian SMEs, aligning with POT's preference for internal financing. Rahma & Peter (2024) investigated budgeting and working capital management in Indonesia, reinforcing the importance of internal resources.

The Pecking Order Theory has several strengths. It explains firms' real-world financing behaviour, particularly in environments with information asymmetry (Myers, 1984). It is applicable across different financial entities, including microfinance institutions and VICOBA (Momand & Khel, 2025), due to its emphasis on internal resource utilisation. However, the theory also has weaknesses. It assumes that internal financing is always available (Hu & Li, 2022). This may not be the case for financially constrained VICOBA. It does not fully consider the role of financial management practices, such as cash management and internal controls, in enhancing financial stability (Akhtar, 2025).

From a theoretical perspective, the Pecking Order Theory suggests that firms prefer internal financing over external funding due to information asymmetry (Myers & Majluf, 1984). However, this theory does not fully account for how financial management practices, such as cash management and internal controls, impact VICOBA's financial performance (Turyahebwa et al., 2013). Despite its relevance, this theory does not comprehensively address the role of structured accounting systems and compliance mechanisms in mitigating financial mismanagement risks in VICOBA (Syrtseva & Cheban, 2021). The Pecking Order Theory explains financing preferences; it has been underutilised in examining how financial management practices affect the performance of informal institutions like VICOBA (Choi, 2023). This study addresses that gap by applying the theory to assess the impact of practices such as cash management, internal controls, and compliance on VICOBA sustainability.

Empirical literature review

The following sections present an empirical literature review of the roles of cash management, accounting information systems, and internal control in the financial performance of microfinance institutions (MFIs).

Influence of cash management on MFIs' financial performance

Studies on the influence of Cash Management on MFIs' financial performance have been done in various countries. For instance, Nso (2018) in Cameroon, where it was asserted that effective cash management improved MFI coordination, saved costs, and reduced losses and management and staff stress. Fadumo (2017) reported that in Somaliland, poor cash management led to the absence of influence. Yeko. (2019), contextualised accounts receivable and accounts payable and concluded that it influenced the MFI financial performance in Uganda. Remo (2019) indicated that cash management improved Ugandan Centenary Bank's financial performance, mainly when credit, liquidity, and accounts receivable management were managed effectively. Champaca (2024) revealed that cash management did not influence the performance of health firms in Indonesia. Mubweka (2024) established that cash management liquidity, deposit mobilisation, cash budget, and share capital positively and significantly determined the economic performance of Kenyan SACCOS. However, these studies did not assess the influence of accounting systems and internal controls on economic performance. Moreover, none of these studies were conducted in VICOBO, the community MFIs that operate with regulated financial management practices.

Influence of accounting information systems on MFIs' financial performance

Studies that examined the influence of accounting systems on financial performance, such as Tutegyereize (2019), found that accounting information systems provided insights into debt performance, capital structure, assets, and investment planning, thereby enhancing the financial performance of Promotion of Rural Initiatives and Development Enterprises (PRIDE). Mwenda et al. (2024) indicated that accounting system quality positively influenced the MFI financial performance of Kenyan MFIs. Soudani (2013) revealed that the use of accounting systems positively and significantly influenced the financial performance of the service firms in the United Arab Emirates. Al-Hattami (2025) found that the quality of accounting system information, service, and the digital accounting system application, as well as perceived usefulness, influenced financial performance indicators in Yemen. Nurida (2025) indicated that public sector accounting, accountability, and transparency positively and significantly influenced the performance of the Aceh Government organisation in Indonesia. Chiruza (2023) showed that data collection, storage, and retrieval had a positive and significant influence on MFIs' financial reporting in the Democratic Republic of Congo. The literature indicates that studies did not assess how cash management and internal control influence MFIs' financial performance. Moreover, the studies focus on MFIs that are not VICOBA, as well as non-MFIs such as service companies, service sectors, and public companies.

Influence of Internal control and MFIs' performance

Studies on the influence of internal control on financial performance, such as Ngari (2017), indicated that financial control practices, including internal checks, financial document authorisation, and financial payment approval, positively influenced economic performance in Kenya. Umaru (2023) revealed that the control atmosphere and risk management positively and significantly improved the performance of microfinance banks, explained by control activities, information, and communication in NigeriaUmaru (2023) revealed that the control atmosphere and risk management positively and significantly improved the performance of microfinance banks, explained by control activities, information, and communication in Nigeria. Nandaula (2022) showed that monitoring activities, the control environment, and communication had no significant influence on MFIs' performance in Uganda.

Tchuigoua et al. (2024) indicated that there is a significant, negative relationship between the quality of internal control and abnormal loan loss

provisions. They assessed how the quality of internal controls influenced earnings management using global MFI data. Sub-Saharan Africa, East Asia and the Pacific, Eastern Europe and Central Asia, Latin America and the Caribbean, and the Middle East and North Africa. Ibrahim et al. (2017) found that internal controls, particularly the control environment, risk assessment, control activities, information, communication, and monitoring, positively and significantly influenced the financial performance of health institutions in Ghana. Channar et al. (2015) found that internal controls, particularly the control environment, risk assessment, control activities, information and communication, and monitoring, influenced the performance of commercial banks in India, as measured by return on equity, return on assets, and the profit after tax index. The literature indicates that these studies did not assess the influence of cash management and the accounting system on the performance of the commercial banks in India. Most studies were done in organisations that are not MFIs. For MFIs, the studies were not conducted in VICOBA. Therefore, the literature indicates that studies assessing the influence of cash management, accounting systems, and internal controls on VICOBA's performance are missing.

METHODS

Research Design

Based on Saunders et al. (2019), this study adopted a positivist research philosophy to test hypotheses using empirical data. This approach ensures reliability and replicability, making it suitable for studies that seek to test predefined hypotheses and derive generalisable findings. The study employed a deductive research approach, which is well-suited for testing hypotheses derived from established theories and empirical studies (Okoye et al., 2024). The study also employed an explanatory design to test causal relationships, thereby ensuring the objectivity, replicability, and generalizability of findings on cash management, internal controls, and accounting systems, as recommended by Duckett (2021). A cross-sectional approach was employed to collect data at a single point in time, offering a cost-effective and efficient method for analysing causal relationships and testing hypotheses relevant to policy and practice (Bisung & Elliott, 2018).

Area of the Study

Arumeru District in Tanzania has been selected because not only did 32% of the VICOBA borrowers fail to repay their loans on time, but also there was a challenge of leaders' embezzlement of funds and favouritism in loan disbursement (Luvinga, 2025). VICOBA in the district also faced financial management challenges, including poor cash management, weak internal

controls, and inadequate accounting systems, which threaten its sustainability and performance (Mgongolwa et al., 2023). Inefficient cash management practices lead to liquidity issues that affect loan disbursements and repayments, ultimately reducing members' confidence in these financial groups (Luvingo, 2023). These issues affect loan operations and reduce member confidence.

Study Population, Sample Size, and Sampling Technique

The study targeted 220 VICOBA leaders in Arumeru District, Tanzania, based on official data indicating a high number of active groups. These leaders, involved in financial decision-making, provided insights into management practices across both urban and rural VICOBA, allowing for a comprehensive understanding of diverse economic challenges. The sample size was calculated using Yamane's formula, i.e., n $N/(1+e^2)$, where n is the sample size, N is the Population, and e is = sampling error, which is approximately 0.05 for social science. The computed sample size was 133. However, to overcome the non-response challenge, as recommended by Hasibuan et al. (2023), the sample size was increased to 10 respondents. Therefore, the total sample size was 143. However, only 136 questionnaires were returned, yielding a response rate of 95.1%. According to Lund (2023), this was highly acceptable.

As recommended by Noor et al. (2022), the study used simple random sampling to ensure equal selection and representativeness. Through this method, VICOBA leaders' chairpersons, secretaries, and treasurers, whose roles in financial decision-making provided the data for the study. Therefore, anyone who was in the office during the survey participated in the study. Simple random sampling minimises bias, is cost-effective, and supports the study's aim of assessing VICOBA's cash management, internal controls, and accounting systems.

Data Collection and Analysis

In this study, primary data were collected using a structured questionnaire, which is easy to administer and less expensive, thereby ensuring accurate and reliable data (Lund, 2023). Also, to ensure the collection of reliable and relevant data, this study utilised a well-structured. Closed-ended questions were developed, and a 5-point Likert scale assessed respondents' perceptions of the variables related to the specific objectives (Rahmah & Peter, 2024). The variables and indicators of the questionnaires were adopted from previous scholars as summarised in Table 2.

As per Sarstedt and Mooi (2018), data screening, missing-value checking, and outlier detection were performed before data analysis. Initially, screening and handling missing values were performed manually. The data were coded using the available questionnaire codes and entered into SPSS version 27 for analysis. The missing values and outliers were later identified by analysing the minimum, maximum, and mean values of the variables. The descriptive Table showed that there were no missing values and outliers. This technique was recommended by Zhou et al. (2022). The linearity plot (Figure 1) also shows that there are no outliers in the model.

Descriptive statistics were used to analyse respondents' demographic patterns, including sex, age, marital status, educational attainment, and work experience, as well as general information on educational practices in the study area. Quantitative data on study variables, including the account system, internal control, compliance, and cash management, were analysed using multiple linear regression to test relationships among variables. Interpretations of the findings were based on model summaries, ANOVA statistics, regression coefficient tables, and correlation coefficients. The multiple regression model below was used;

$Y = \beta o + \beta 1X1 + \beta 2X2 + \beta 3X3 + \varepsilon$

Whereby Y = Financial management practices

Bo=Constant

$\beta 1, \beta 2, \beta 3$ = Regression coefficients

X1=Account system, X2=Internal control X3=Cash management, ε =Error term

To ensure the validity of the regression analysis, several key assumptions must be met. Linearity assumes that the relationship between the independent and dependent variables is linear, which was assessed using scatter plots (Bansal & Singh, 2023). Normality requires that the error terms follow a normal distribution, which was checked using histograms (Field, 2017). Homoscedasticity assumes that the variance of the error terms remains constant across all levels of the independent variables, which was evaluated using scatter plots (Wooldridge, 2020). Multicollinearity was tested using the Variance Inflation Factor (VIF) and tolerance value. The value for accepting the data was less than 10 for VIF and greater than 0.1 for tolerance.

Data Validity, Reliability, and Research Ethics

In this study, validity was enhanced by ensuring that the variables were derived from prior studies and theory. Moreover, VICOBA, financial experts, and supervisors reviewed the questionnaire before data collection. The

researcher pre-tested the questionnaire with 15 VICOBA members who were not the study's respondents to assess the relevance of the questions, thereby validating and improving the questionnaire. The reliability of the research tool was assessed using Cronbach's alpha. For data acceptance, Cronbach's Alpha should be ≥ 0.70 (Emerson, 2024). Table 1 presents the results of the reliability test, with all variables having a Cronbach's Alpha of 0.7 or higher, indicating that the research tool was reliable.

The importance of research ethics was considered during this research, as recommended by Kaplan et al. (2023). The researcher obtained clearance letters from the Open University of Tanzania and Arumeru District prior to data collection. The researcher also ensured anonymity, confidentiality, and privacy of the research participants. Consent was sought before collecting data from respondents, and if a respondent was unwilling, the researcher discarded their data. The researcher also avoided data fabrication, falsification, and plagiarism.

Table 1: Reliability Statistics (Cronbach's Alpha)

Construct	Items	Cronbach's Alpha
Cash Management (CM)	2	0.781
Accounting Information (AI)	2	0.812
Internal Control (ICC)	2	0.768
Financial Performance (FP)	3	0.843

Source: Field Data (2025)

Variables and measurements

The variables and measurement levels for the study are outlined in Table 2. The Table shows the indicators for independent and dependent variables. The measuring scales are also presented in Table 2. The variables were measured using 5-Likert scales ranging from 1 (strongly disagree) to 5 (strongly agree).

Table 2: Variables and measurements

Variables	Measurement Indicators	Source	Type of Scales
Cash Management (CM)	1. Cash Flow Adequacy 2. Cash Control 3. Cash Accountability 4. Cash Conversion Efficiency	Nso (2018); Champaca (2024); Mubweka (2024).	5-Point Likert scales
Accounting Information System (AIS)	1. Relevance 2. Reliability 3. Comparability 4. Timeliness 5. Consistency	Mwenda et al. (2024); Al-Hattami (2025); Nurida (2025).	5-Point Likert scales
Internal control (IC)	1. Risk management 2. Compliance 3. Operational efficiency 4. Financial integrity	Ibrahim et al. (2017); Nandaula (2022); Tchuigoua et al. (2024).	5-Point Likert scales
Organisational Performance (OP)	1. Profitability 2. Productivity 3. Market Share 4. Operational Efficiency 5. Employee Satisfaction	Channar et al. (2015); Remo (2019); Tutegyereize, (2019);	5-Point Likert scales

Source: Empirical Literature Review (2025)

RESULTS AND DISCUSSION

The subsequent sections present and discuss the study's findings.

Demographic Characteristics of Respondents

The findings show that the majority (29.4%) of respondents were aged 25–34, followed by 35–44 (25.7%). This indicates that VICOBA attracted mostly economically active age groups. More females (55.9%) than males (44.1%) participated, reflecting greater involvement of women in VICOBA activities. The relatively balanced gender distribution suggests that both men and women actively participate in VICOBA in Arumeru District. This balance is important for decision-making, leadership roles, and equitable access to financial services. Gender diversity may also influence financial practices, as previous studies suggest men and women may approach cash management and compliance differently. Luvinga (2025) found that the majority (90%) of VICOBA clients in the Arumeru district were aged 15-35 years.

Most respondents had attained at least a diploma (27.9%), indicating that VICOBA members have sufficient literacy to understand financial systems.

Respondents 'education levels ranged from primary education to postgraduate studies. A higher proportion of educated members suggests that VICOBA participants are capable of understanding and implementing financial management practices. Education enhances members' ability to maintain accounting records, comply with internal control measures, and participate in financial decision-making. Members with higher education are also more likely to adopt innovative financial strategies that improve financial performance. Luvinga (2025) indicated that the majority of VICOBA clients (45.6%) in the Arumeru district had primary and secondary education.

Membership duration ranged from less than 1 year to more than 6 years. The majority of respondents (36.8%) had been members for 4–6 years**,** while 32.4% had been members for 1-3 years. A significant proportion of members with 1-3 and 4–6 years of experience suggests a mix of new and moderately experienced participants. Longer membership is associated with better understanding of financial management practices, higher trust among members, and more consistent loan repayment behaviour. Luvinga (2025) revealed that 92.2% of the VICOBA clients in the Arumeru district had experience of one year or less.

Table 2: Demographic Information

Age Category	**Frequency**	**Percentage**
18–24	22	16.2
25–34	40	29.4
35–44	35	25.7
45–54	28	20.6
55 and above	11	8.1
Education Level		
Primary	28	20.6
Secondary	34	25.0
Diploma	38	27.9
Bachelor's Degree	27	19.9
Postgraduate	9	6.6
Membership Duration		
Less than 1 year	18	13.2
1–3 years	44	32.4
4–6 years	50	36.8
More than 6 years	24	17.6

Source: Field Data (2025)

Regression Assumptions Testing

The study used the PP-plot to test the regression assumptions of normality, linearity, and Homoscedasticity as recommended by Bansal and Singh (2023). Normality, linearity, and Homoscedasticity were tested using the plots (check Figure 1, Figure 2, and Figure 3 in the appendix): the plots show that the normality assumption has been met since Figure 2 is bell-shaped. Moreover, the linearity assumptions have been fulfilled because all the variables fall almost on a straight line. Furthermore, the homoscedasticity assumption is supported by the scatter plot (Figure 3), which shows no pattern. Multicollinearity was tested using VIF and tolerance values (Table 4 in the appendix). The Tolerance and VIF coefficients for cash management, accounting system, and internal control are all above 0.1 and below 5, respectively, as recommended by Sikakwe et al. (2024), indicating no multicollinearity in the regression model.

Results from the regression model

The regression model (Table 3) presents the findings on the influence of the financial management practices on VICOBA's financial performance. The findings (Table 3) indicate that $R^2 = 0.540$ means that the three independent variables (cash management, accounting information system, and internal control) explain 54% of the variance in financial performance. The ANOVA test for regression showed that F (41.872 $p < 0.001$. This result indicates that the overall regression model was statistically significant and that the independent variables jointly predicted VICOBA's financial performance. All predictors were statistically significant ($p < 0.05$) and positively influenced financial performance. Cash management had the most substantial effect ($\beta = 0.318$), followed by accounting information ($\beta = 0.276$) and internal control ($\beta = 0.271$).

Table 3: Ordinary Least Squares Regression results

Predictors	OLS regression findings
Constant	0.892(0.000) ***
Cash Management	0.318(0.000) ***
Accounting System	0.276(0.046) **
Internal control	0.271(0.002) ***
R^2	0.540
Adjusted R^2	0.529
F statistics	41.872 (0.000) ***

Source: Field Data (2025)

Note: **, *** Symbolise statistical significance at the 5% and 1% levels of confidence, respectively. Parentheses figures present the computed probability coefficients.

The influence of cash management on the financial performance of VICOBA

The regression results indicated that cash management had a positive and significant effect on financial performance ($\beta = 0.318$, $p < 0.001$). This means that effective cash flow management, timely handling of shortages, and liquidity planning significantly enhanced VICOBA's sustainability and operational efficiency. These findings are consistent with those of Rahma and Peter (2024), who emphasised that strong cash flow management improves liquidity and reduces financial risks, thereby strengthening financial performance. Similarly, Mang'ana et al. (2023) argue that small financial groups that prioritise effective cash management are better able to meet short-term obligations and ultimately sustain their operations. In this study, cash management emerged as the strongest predictor of financial performance among the three practices examined. This highlights its central role in ensuring that VICOBA maintains sufficient liquidity, avoids financial distress, and sustains its lending capacity. The findings are also consistent with Nso (2018), who indicated that cash management positively and significantly influenced the profitability of MFIs in Cameroon. The findings asserted that effective cash management improved MFI coordination, saved costs, and reduced losses and management and staff stress. Mubweka (2024) established that liquidity, deposit mobilisation, cash budget, and share capital positively and significantly determined the economic performance of Kenyan SACCOS. However, Fadumo (2017) revealed that cash management in MFIs in Somaliland was poor. Therefore, the findings indicated that cash management did not significantly influence MFI performance in Somalia. Similarly, Champaca (2024) revealed that cash management did not influence the performance of health firms in Indonesia.

The influence of the accounting information on the financial performance of SACCOS

The regression results showed that accounting information had a positive and significant effect ($\beta = 0.276$, $p < 0.001$). This implies that well-maintained accounting records and transparent reporting systems contribute to VICOBA's improved financial performance. This finding supports the work of Sooryasena and Palihena (2020) and Zada et al. (2021), who established that reliable accounting systems enhance transparency, accountability, and decision-making in community-based financial institutions. When VICOBA adopts effective accounting practices, it reduces the risk of mismanagement, builds trust among members, and, in turn, improves loan repayment rates and operational efficiency. Although its contribution was slightly lower than cash management, accounting information still played a significant role in

ensuring financial sustainability. This shows that VICOBA, which uses standardised accounting procedures, is better positioned to demonstrate financial accountability and attract greater member participation.

The findings align with Soudani (2013), who found that the use of accounting systems positively and significantly influenced the financial performance of service firms in the United Arab Emirates. The study concluded that e-accounting systems promoted reliable financial reporting and reliable feedback. Al-Hattami (2025) revealed that the quality of accounting system information, service, and the digital accounting system application, as well as perceived usefulness, influenced financial performance indicators in Yemen. However, Permatasari et al. (2025) reported that the accounting system did not affect the financial performance of Small and medium-sized enterprises in Indonesia.

The influence of the internal control on the performance of VICOBA in the Arumeru district

The regression results confirmed that internal control and compliance had a positive and significant influence ($\beta = 0.271$, $p < 0.001$). The findings suggest that VICOBAs that strictly enforce control mechanisms and regularly conduct compliance audits are more likely to reduce fraud, improve accountability, and strengthen overall performance. This aligns with Zada et al. (2021), who found that strong internal controls minimise financial mismanagement in small financial institutions. Similarly, Mang'ana et al. (2023) emphasised that compliance audits promote trust and ensure adherence to financial procedures, which enhances performance. Although its effect was weaker than that of cash management and accounting information, internal control and compliance still play a critical supporting role in building a transparent financial culture. It ensures that funds are safeguarded, loan repayments are monitored, and accountability mechanisms are upheld.

The findings align with Ngari (2017), who found that financial control practices, including internal checks, financial document authorisation, and financial payment approval, positively influenced economic performance. Umaru (2023) revealed that the control atmosphere and risk management positively and significantly improved the performance of microfinance banks, with the effects explained by control activities, information, and communication in Nigeria. Nandaula (2022) revealed that risk assessment positively and significantly affected MFIs' performance in Uganda. The findings showed that monitoring activities, the control environment, and communication had no significant influence on MFIs' performance in

Uganda. However, Abisola (2022) found that internal control did not affect the performance of commercial banks in Nigeria.

CONCLUSION

The study concludes that VICOBA's financial performance in Arumeru District is significantly determined by the effectiveness of its cash management, accounting information systems, and internal controls. Cash management was the most influential factor, underscoring the importance of monitoring liquidity and cash flow. Accounting systems played a vital role in ensuring transparency and accountability, while internal control and compliance safeguarded resources and promoted trust. Collectively, these practices accounted for more than half (54%) of the variation in financial performance, underscoring their importance in enhancing financial performance and, hence, the sustainability and efficiency of VICOBA.

Practical implications

The study recommends that VICOBA leaders and clients demonstrate effective cash management, comprehensive accounting information systems, and robust internal controls to enhance VICOBA's financial performance. The findings prompt VICOBA groups to implement organised financial management practices, including maintaining appropriate records, improving cash flow monitoring, and enforcing accountability. The municipal staff responsible for VICOBA should ensure regular monitoring.

Policy implications

The study emphasises that local authorities should design policies and training programmes that shape financial management practices among VICOBA clients. The study calls on policymakers to highlight and enforce VICOBA's economic practices. Policymakers should ensure that policies on cash management, accounting systems, and internal controls are amended promptly. The policymakers should regularly assess cash management, the accounting system, and internal controls to enhance VICOBA's financial performance.

Theoretical contribution

The study extends the application of the Pecking Order Theory to community-based MFIs. The study revealed that VICOBA can improve their financial performance by prioritising proper cash management. Effective cash management is essential to enhancing cash availability at VICOBA, which is necessary for loan provision and the payment of operational costs. An appropriate accounting system improves cash accountability and, hence,

the VICBA financial performance. The internal control ensured that all activities were under control, reducing operational risk and thus promoting economic performance. The literature review indicates that previous studies have focused on VICOBA's effects on loan repayment, challenges, and livelihood. Therefore, this study filled previous gaps by examining how the Perking Order Theory was applied to assess how cash management, the accounting system, and internal control promoted the financial performance of VICOBA, a community-based microfinance group. The literature review indicates that the Perking Order theory has been used in organisations with prescribed financial systems, such as the health sector, commercial banks, and other formal public and private organisations.

THE LIMITATIONS OF THE STUDY

Despite the valuable insights this research offers, several limitations must be acknowledged. The study may be limited by its geographic coverage, as it focuses on only one district. Moreover, the study covered only three variables, leaving many others unaddressed. The study is also limited to quantitative analysis. Future studies should expand the study to more districts in Tanzania and beyond, include additional variables, and adopt a mixed-methods approach. Comparative studies between VICOBA and other financial institutions may yield more valuable results.

REFERENCES

Abisola, A. (2022). The nexus between bank size and financial performance: Does internal control adequacy matter? *Journal of Accounting and Taxation*, *14*(1), 13–20.

Agbana, J., Bukoye, J. A., & Arinze-Emefo, I. C. (2023). Impact of credit risk management on the financial performance of microfinance institutions in Nigeria: *A Qualitative Review. Open Journal of Business and Management, 11*(5), 2051-2066.

Akankunda, B. (2014). *Financial management practices, competitive advantage, and loan performance of MFIS in Uganda*. A Master's Thesis, Makerere University Business School, Kampala, Uganda.

Akbar, A., Jiang, X., & Akbar, M. (2022). Do working capital management practices influence investment and financing patterns of firms? *Journal of Economic and Administrative Sciences*, *38*(1), 91–109.

Akhtar, T. (2025). Cash holdings in the MENA region: Evidence from the trade-off model, pecking order theory, and agency theory. *Future Business Journal*, *11*(1), 1–18.

Al-Hattami, H. M. (2025). The Impact of Digital Accounting Systems on Financial Performance in the Banking Sector: Advancements in the Digital Era. *International Journal of Intelligent Information Technologies, 21*(1), 1–19.

Ali, M. R., Ahmed, R. A., Tisha, R. T., & Islam, M. A. (2021). Does the financing behaviour of SME entrepreneurs of Bangladesh follow the capital structure theory? An investigation into Pecking Order Theory. *International Journal of Financial Engineering*, *8*(01), 2050037.

Al-Tamimi, N. A. A. H. (2024). The impact of capital structure on financial performance using the pecking order theory: an analytical study of a sample of agricultural companies listed on the Iraqi stock exchange for the period (2010-2022). *Al-Qadisiyah Journal for Administrative and Economic Sciences*, *26*(2), 94–107.

Atatsi, E. A., Azila-Gbettor, E. M., Akuma-Zanu, H., & Mensah, C. (2023). Financial management practices and life satisfaction: Mediating effect of financial satisfaction. *Cogent Education, 10*(2), 2251746.

Austin, P. C., White, I. R., Lee, D. S., & van Buuren, S. (2021). Missing data in clinical research: a tutorial on multiple imputation. *Canadian Journal of Cardiology*, *37*(9), 1322-1331

Bansal, S., & Singh, G. (2023). Multiple linear regression-based analysis of weather data: assumptions and limitations. In *International Conference on Advanced Communication and Intelligent Systems* (pp. 221–238). Cham: Springer Nature Switzerland.

Bisung, E., & Elliott, S. J. (2018). Improvement in access to safe water, household water insecurity, and time savings: A cross-sectional retrospective study in Kenya. *Social Science & Medicine*, *200*, 1–8.

Champaca, M. (2024). Measuring Fintechâ€™s Health: Cash management and risk on firm performance. *Jurnal Aplikasi Manajemen*, *22*(2), 575-585.

Channar, Z. A., Khan, M., & Shakri, I. H. (2015). Internal control effectiveness & its relationship with financial performance. *IBT Journal of Business Studies, 2*(2), 92–107.

Channar, Z. A., Khan, M., & Shakri, I. H. (2015). Internal control effectiveness & its relationship with financial performance. *IBT Journal of Business Studies, 2*(2), 92–107.

Chiruza, P. B. M. (2023). Effect of the accounting information system on the quality of financial reporting in selected microfinance institutions in the Democratic Republic of Congo. *Revue Internationale du Chercheur*, *4*(4), 866–890.

Choi, W. D. (2023). Do the firms utilise market timing? Capital structure of restaurant firms by pecking order and market timing theories. *Journal of Quality Assurance in Hospitality & Tourism*, *24*(1), 101–120.

Djabang, P., Shubita, M., & Konstantopoulou, A. (2025). Pecking-order theory's impact on the financing of small- and medium-sized enterprises (SMEs) in the UK. *International Journal of Organisational Analysis*. DOI: https://doi.org/10.1108/IJOA-09-2024-4788

Duckett, L. J. (2021). Quantitative research excellence: Study design and reliable and valid measurement of variables. *Journal of Human Lactation*, *37*(3), 456–463.

Emerson, R. W. (2024). Validity and Reliability. *Journal of Visual Impairment & Blindness*, *118*(4), 280–281.

Emerson, R. W. (2024). Validity and reliability. *Journal of Visual Impairment & Blindness*, *118*(4), 280-281

Fadumo, A. A. (2017). *Cash management and performance of microfinance institutions in Hargeisa, Somaliland* (Doctoral dissertation, Kampala International University).

Hasibuan, A. S., Dewi, R., & Damanik, H. (2023). Description of sleep quality in patients with chronic obstructive pulmonary disease at Imelda Pekerja Indonesia general hospital, Medan. *Jurnal Kesehatan, Rekam Medis dan Farmasi (JUK-Medifa)*, *1*(02), 83-90.

Hettihewa, S., & Wright, C. S. (2011). Microfinance Programs in Developed Countries: An Appraisal of the Australian, Canadian and US Experience. In *Oman 2011 International Business Conference: Business and Society in the Middle East: Opportunities and Challenges in the Third Millennium* (pp. 21–23).

Hu, M., & Li, X. (2022). The reasons that younger homeowners are less likely to become entrepreneurs: The role of capital constraints. *Journal of Regional Economics*, *1*(1), 68-82.

Ibrahim, S., Diibuzie, G., & Abubakari, M. (2017). The impact of internal control systems on financial performance: The case of health institutions in the Upper West Region of Ghana. *International Journal of Academic Research in Business and Social Sciences*, *7*(4), 684–696.

Jansen, K., Michiels, A., Voordeckers, W., & Steijvers, T. (2023). Financing decisions in private family firms: a family firm pecking order. *Small Business Economics*, *61*(2), 495-515.

Jupe, A., Kosta, E., & Bakiasi, A. (2022). The role of financial management practices in the financial performance of small and medium

enterprises in Albania. *Journal of Business and Economic Development, 7*(4), 117–122.

Kamau, M. N. (2021). *Determinant of financial performance of micro and small dairy sector enterprises in Kiambu County* (Doctoral dissertation, KCA University).

Kaplan, B. A., Gilroy, S. P., DeHart, W. B., Brown, J. M., & Koffarnus, M. N. (2023). Data handling: ethical principles, guidelines, and recommended practices. In *Research ethics in behaviour analysis* (pp. 191–214). Academic Press.

Kilonzo Jennifer, M., & Dennis, O. (2015). Financial management practices on the growth of small and medium enterprises: A case of manufacturing enterprises in Nairobi County, Kenya. *IOSR Journal of Business and Management*, *17*(8), 65–77.

Kimiti, A. (2024). The effects of VICOBA services on SME performance in Tanzania: The case of Kinondoni District. *The Accountancy and Business Review, 16*(5), 22-36

Leary, M. T., & Roberts, M. R. (2010). The pecking order, debt capacity, and information asymmetry. *Journal of Financial Economics*, *95*(3), 332–355.

Lund, B. (2023). The questionnaire method in systems research: An overview of sample sizes, response rates and statistical approaches utilised in studies. *VINE Journal of Information and Knowledge Management Systems*, *53*(1), 1–10.

Luvinga, K. C. (2025). Loans Disbursement and the Underlying Challenges among Women's Village Community Banks (VICOBA) in Meru District of Arusha, Tanzania. *Advances in Social Sciences Research Journal*, *12*(04), 270–279.

Luvinga, K. C. (2025). Loan disbursement and the underlying challenges among women's village community banks (VICOBA) in Meru District, Arusha, Tanzania. *Advances in Social Sciences Research Journal*, *12*(04), 270–279.

Luvingo, C. F. (2023). *The influence of organisational resources on the performance of village community banks in Iringa Municipality* (Doctoral dissertation, The Open University of Tanzania).

Maina, S. G. (2023). *The role of corporate communication in promoting a savings culture among the youth in Nairobi County: Stima Sacco Case Study* (Doctoral dissertation, University of Nairobi).

Mang'ana, K. M., Ndyetabula, D. W., & Hokororo, S. J. (2023). Financial management practices and performance of small and medium-sized agricultural enterprises in Tanzania. *Social Sciences & Humanities Open, 7*(1), 100494.

Mbogo, M., Jimmy, M., & Olando, C. (2021). Effect of budgeting practices on the financial performance of manufacturing small and medium enterprises in Nairobi County, Kenya. *Journal of Language, Technology & Entrepreneurship in Africa*, *12*(1), 84–110.

Mgongolwa, B. O., Wiketye, E., & Mpogole, H. (2023). Factors affecting fund management among village community banks (VICOBA): A case of registered VICOBA in Iringa Municipality. *International Journal of Finance and Accounting*, *2*(1), 62-77.

Momand, H., & Khel, F. A. (2025). The effects of current debt in capital structure on refinancing decisions of firms: evidence from PSE-100 non-financial firms. *Academia International Journal for Social Sciences*, *4*(2), 1817-1829.

Mubweka, M. N. (2024). *Cash management practices and financial performance of deposit-taking savings and credit cooperative societies in Kisumu County, Kenya* (Doctoral dissertation, Kenyatta University).

Mwenda, M. M., Ithai, J., & Waweru, G. (2024). System quality of accounting information systems and the financial performance of microfinance institutions in Meru County, Kenya. *Journal of African Interdisciplinary Studies*, *8*(8), 226–237.

Myers, S. C., & Majluf, N. S. (1984). Corporate financing and investment decisions when firms have information that investors do not have. *Journal of Financial Economics*, *13*(2), 187–221.

Umaru, K. A. (2023). *Internal Controls System, Managerial Ability and Performance of Microfinance Banks in Kwara State* (Master's thesis, Kwara State University).

Nandaula, M. L. (2022). *Internal Control Systems and Performance of Microfinance Institutions in Uganda: A Case Study of Kabale Municipality* (Doctoral dissertation, Kabale University).

Naseer, N., & Siddiqui, D. A. (2021). *The impact of financial management practices and competitive advantage on the loan performance: The Mediating Role of Intellectual Capital (Human, Relational and Social).* Available at SSRN 3943063.

Ngari, G. M. (2017). The effect of internal controls on the financial performance of microfinance institutions in Kenya. *International Academic Journal of Economics and Finance*, *2*(3), 112-140.

Nso, M. A. (2018). Cash management techniques and their relationship to the profitability of microfinance institutions. *International Journal of Economics, Commerce and Management*, *6*(5), 468-481.

Nurida, P. D. (2025). Implementation of Sharia economic legal principles to improve the accounting system of Sharia microfinance institutions in Aceh. *Al-Mubin: Islamic Scientific Journal*, *8*(1), 241-248

Okoye, K., & Hosseini, S. (2024). Understanding dependent and independent variables in research experiments and hypothesis testing. In R Programming*: Statistical Data Analysis in Research* (pp. 99–107). Singapore: Springer Nature Singapore.

Otoo, F. N. K. (2024). Assessing the influence of financial management practices on organisational performance of small-and medium-scale enterprises. *Vilakshan-XIMB Journal of Management*, *21*(2), 162–188.

Permatasari, D., Mohammed, N. F., Shafie, N. A., & Sánchez-del-Río-Vázquez, M. E. (2025). Technological, organisational, and environmental determinants of cloud accounting system usage in Indonesian SMEs. *Journal of Nusantara Studies (JONUS)*, *10*(2), 566–589.

Rahmah, R. A., & Peter, F. O. (2024). The impact of financial management practices on firm performance: A study of the manufacturing sector in Indonesia. *Involvement International Journal of Business*, *1*(1), 1–13.

Remo, A. (2019). Cash management and financial performance of commercial banks in Arua district, a case of Arua Hill Division Centenary Bank (Bachelor Thesis, Kampala International University).

Sarstedt, M., & Mooi, E. (2018). Regression analysis. In *A concise guide to market research: The process, data, and methods using IBM SPSS Statistics* (pp. 209–256). Berlin, Heidelberg: Springer Berlin Heidelberg.

Saunders, M., Lewis, P., & Thornhill, A. (2019). *Research methods for business students*, 8th Edition, England: Pearson Education Limited.

Sewwandhi, G. D. C. K., & Kuruppuarachchi, Y. D. R. (2021). Impact of microfinance on financial performance of SMEs: with Special Reference to Kurunegala District in Sri Lanka. *The Journal of ARSYM*, 2(1), 180–193.

Singh, K., Pillai, D., & Rastogi, S. (2025). Pecking order theory of capital structure: empirical evidence for listed SMEs in India. *Vision*, *29*(1), 35–47.

Sooriyakumaran, L., Thrikawala, S. S., & Pathirawasam, C. (2022). A study on the association of financial management practices and performance of small and medium enterprises (SMEs), background: A working paper. *International Journal of Research and Innovation in Social Science*, *6*(1), 166–179.

Soudani, S. N. (2013). The impact of implementing the e-accounting system on financial performance, with an emphasis on internal control systems. *Research Journal of Finance and Accounting*, *4*(11), 17–28.

Syrtseva, S., & Cheban, Y. (2021). Accounting compliance: An institutional approach to ensure the quality of accounting information of the enterprise. *Baltic Journal of Economic Studies*, *7*(2), 210–218.

Tchuigoua, H. T., Mufur, D. N., & Nya, M. T. (2024). Internal control quality and earnings management. Lessons from microfinance institutions. *International Journal of Banking, Accounting and Finance*, *14*(3), 347-369.

Turyahebwa, A., Sunday, A., & Ssekajugo, D. (2013). Financial management practices and business performance of small and medium enterprises in western Uganda. *African Journal of Business Management, 7*(38), 3875-3885

Tutegyereize, P. (2019). Accounting information systems and the financial performance of financial institutions in Uganda. A case study of Pride Micro Finance Kabalagala Branch in Kampala (Bachelor's Thesis, Kampala International University).

Wangai, P. M., & Mungai, J. N. (2019). Financial management practices and loan performance of microfinance institutions in Starehe Constituency, Nairobi County, Kenya. *International Academic Journal of Economics and Finance, 3*(3), 117–135.

Yeko, M. (2019). Cash flow management and financial performance of Tororo cement, eastern Uganda (Bachelor Thesis, Kampala International University).

Yulianto, A., Witiastuti, R. S., & Widiyanto. (2021). Debt versus equity: Open innovation to reduce asymmetric information. Journal of Open *Innovation: Technology, Market, and Complexity*, *7*(3), 181.

Zada, M., Yukun, C., & Zada, S. (2021). Effect of financial management practices on the development of small-to-medium-sized forest enterprises: Insights from Pakistan. *GeoJournal*, *86*(3), 1073-1088.

Zou, L., Wang, Z., Hu, J., & Dong, H. (2022). Partial-node-based state estimation for delayed complex networks under intermittent measurement outliers: A multiple-order-holder approach. *IEEE Transactions on Neural Networks and Learning Systems*, *34*(10), 7181–7195.

APPENDICES

Raw Data

Table 4: Regression Results

Model Summary

Model	R	R^2	Adjusted R^2	Std. Error of Estimate
1	0.735	0.540	0.529	0.422

Table 4.17: ANOVA Results

Model	Sum of Squares	df	Mean Square	F	Sig. (p)
Regression	22.341	3	7.447	41.872	0.000
Residual	19.067	132	0.144		
Total	**41.408**	**135**			

Regression Coefficients

Variable	B	Std. Error	Beta	t	Sig.	Collinearity Statistics	
						Tolerance	VIF
Constant	0.892	0.212	—	4.21	0.000		
Cash Management (CM)	0.318	0.081	0.322	3.93	0.000	0.318	3.142
Accounting Information (AI)	0.276	0.073	0.298	3.78	0.000	0.406	2.461
Internal Control (ICC)	0.241	0.068	0.266	3.54	0.001	0.421	2.375

Source: Field Data (2025)

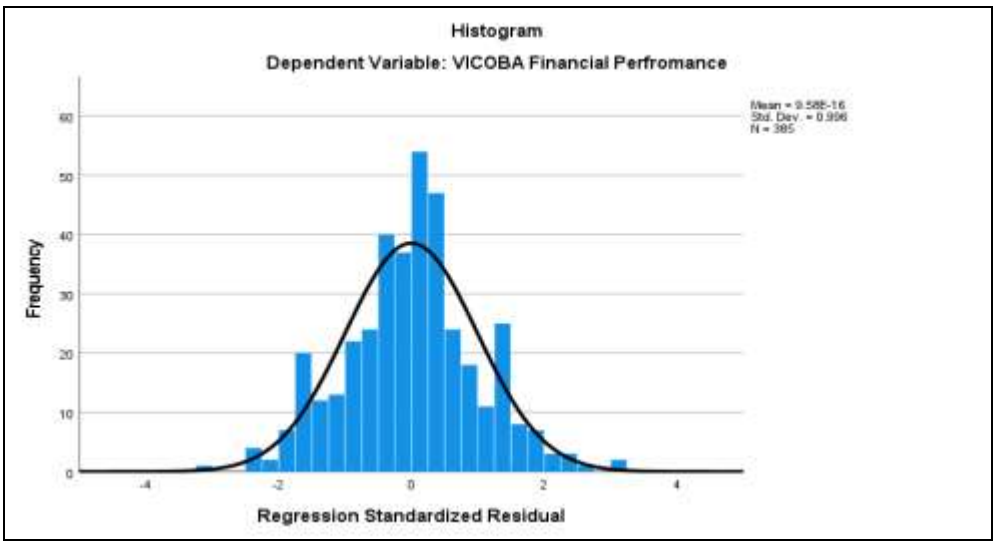

Figure 1: Normality Assumption

Source: Field Data (2025)

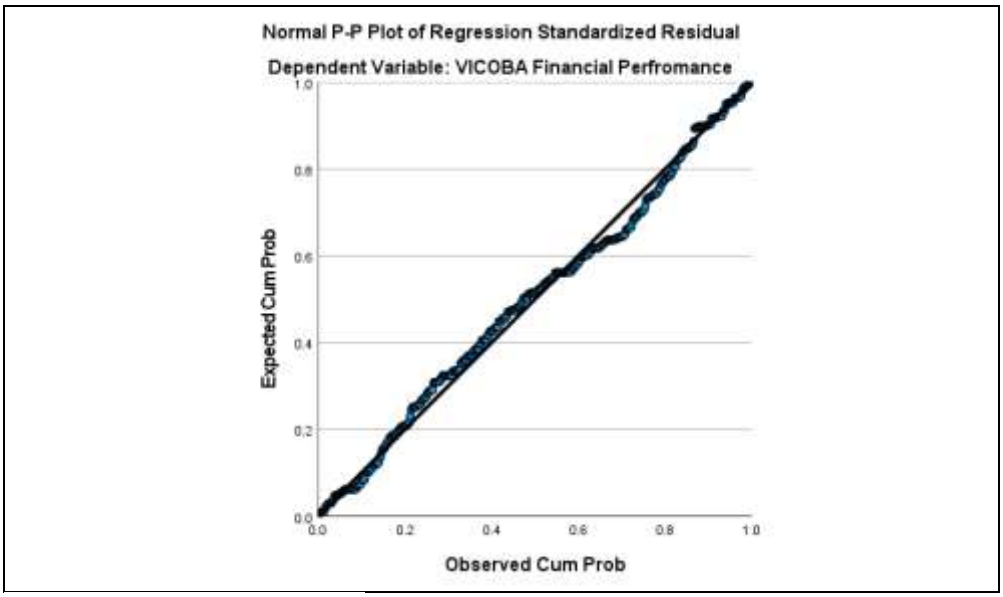

Figure 2: Linearity Assumption
Source: Filed Data (2025)

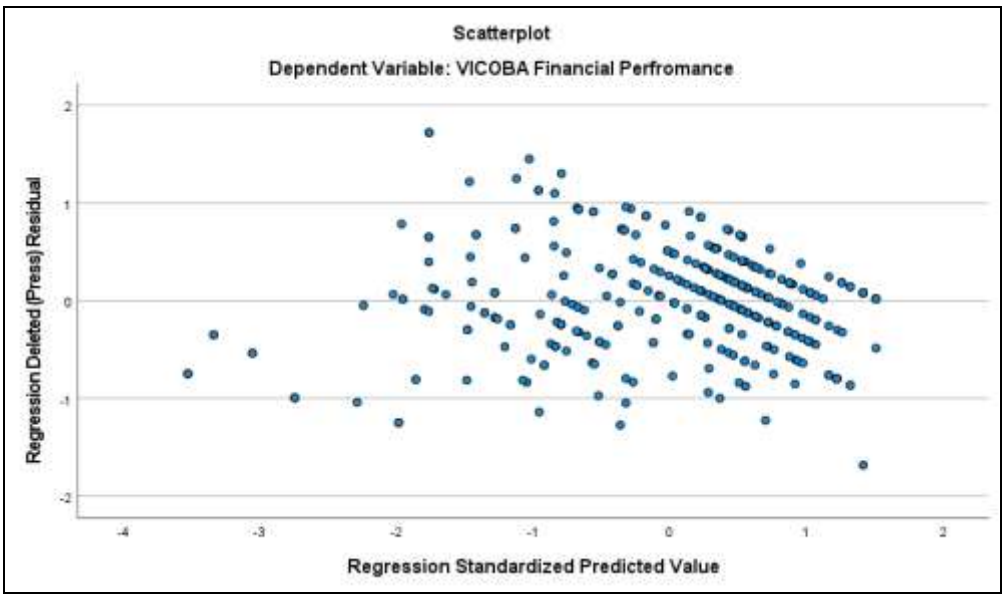

Figure 3: Homoscedasticity Assumption
Source: Field Data (2025)