



Portfolio Management Strategies and Their Effect on Cash Flow of Listed Insurance Companies in Kenya

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Abstract: Insurance firms typically rely on cash flow to fund investments through portfolio management. However, many companies struggle due to the absence of clearly defined portfolio risk, portfolio size and portfolio asset allocation. Consequently, such firms tend to draw more cash from their operations to fund further investments that leads to insufficient cash reserves, putting firms at risk of financial instability and affecting their ability to meet operational and regulatory obligations. This paper evaluates the influence of portfolio management approaches on cash flow of quoted insurance companies in Kenya. The study employed correlational research design on a target population of six quoted insurance firms at the Nairobi securities exchange. Census method of collecting secondary data from the period 2011-2020 through the document review method was used. Findings indicate that elements of portfolio management have both significant positive and negative effects on cash flow, and that in connection with the agency theory managers can conduct expropriation behaviors by misusing firm cash flows, which hampers effective portfolio management. The study recommends that listed insurance companies allocate resources to viable investment projects that enhance cash generation.

Keywords: portfolio management; cash flow; agency theory; listed insurance firms; pecking order theory

1. Introduction

The insurance industry in Kenya has experienced significant growth over the past decade, with numerous firms expanding their operations and increasing their market share. Hakeem and Bambale (2016) notes that as these companies grow, efficient financial management becomes increasingly crucial, particularly in terms of maintaining sufficient cash flow to support both operational needs and strategic investments. Amahalu and Ezechukwu (2017) stated that Cash flow is a vital resource for insurance firms, as it allows them to cover claims, pay operational expenses, and fund investments aimed at enhancing their portfolio value. Cashflow refer to the quantity of cash and cash equivalent which the company uses to finance the current expenditure and investment commitments as and when they fall due, but does not include non-cash transactions such as depreciation (Iraya & Wafula, 2018).

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Factual information discloses that cash flow is core for the survival of any business, since its insufficiency can lead to subsequent business failure or hinder the firm's growth. It is an instrument which enables firms to make better plans, investment decisions and understand where to productively spend firm's money (Rivero, 2018). Zahid, Shaikh, Khan, Shah and Shaish (2017) notes that portfolio management depends upon its respective cash flows which are essential in the process of mitigation of credit frictions. Most firms with high investment opportunities face the problem of information asymmetry as well as huge level of risk premium while low investment opportunities are more sensitive to investment and cash flows. Hakeem and Bambale (2016) notes that enough liquidity level positively relates with profitability of a company. The frequently used financial ratios which mirror a company's ability to fulfil its current obligations of a firm according to the above author are quick to acid test ratio and current ratios.

Despite the numerous studies that have been conducted by various researchers, Wahome (2017) states that firms with well-managed cash flows experience an increase in how they perform financially, while improper cash flow management leads to financial distress. Subsequently, a company needs to have proper management of cash inflows and outflows. Rahman and Sharma (2020) notes that for a company that is growing speedily, it requires a significant investment in accounts receivable and inventory, which increases its working capital investment and therefore reduces the amount of free cash flow.

The Pecking order theory by Myers (1984), theoretically has been used to elucidate that a hierarchy is followed by managers when considering sources of finance for investment opportunities. Many studies have tried to understand how cash flows relate to the financial performance of listed firms, but the results have been mixed, and researchers still haven't reached a clear agreement on their direct impact. However, plausible relationships have been demonstrated based on study outcomes of Zahid et al. (2017), Wahome (2017), Ogbeide and Akainji (2017), Rahman and Sharma (2020), Wanjiku (2019), Amahalu and Ezechukwu (2017), Eyahuma and Miroga (2020), Ugo and Egbuhuzor (2022), and Abughniema, Hilal Al Aishatb and Hamdanc (2020), all of which studied the association between cashflows and firm financial performance.

Studies such as Zahid et al. (2017), Rahman and Sharma (2020), Wanjiku (2019), Ogbeide and Akainji (2017), and Amahalu and Ezechukwu (2017) showed positive significant relationship between cash flows and financial performance using ROE and ROA in measuring financial performance. Wahome (2017) and Abughniema et al. (2020) showed mixed results for the association of cash flows and financial performance of insurance companies. Eyahuma and Miroga (2020) study showed a substantial effect on the connection between cash flow activities and financial performance of Kenya's commercial banks. Iraya and Wafula (2018) reported that the correlation between profit after tax and cash flows from operations was insignificantly low.

Lewellen and Lewellen (2016) noted that cash flows and investment (portfolio management) are actually related, though both the its cause and the strength of the relationship are the topic of discussion. He explained that when cash flow is high, a firm might invest more due to: internal finance being less costly than external funds, the cash available may be overspend by managers in the firm, and these cash flow may basically be correlated with investment opportunities. Kwenda and Vengesai (2018) notes that the Cash flow stream is essential to investors and that Investors pay attention to cash flow for investment decision purposes. They further explain that cash flow is directly gaging the actual strength of a company to fulfil its daily financial obligations. According to them, companies with cash flow uncertainties are associated with high risks, that calls for a high discount rate resulting to a

reduced firm value. With respect to this, companies with strong and steady cash flows are perceived to have greater value compared to those with weaker cash flows. Krueger and Wrolstad (2016) noted that using free cash flows to weight portfolios was the only technique that outperformed equally-weighted portfolios and provided the investor with positive, statistically significant returns. It was similarly found that levels of free cash flows were more significant than trends when using free cash flows to weigh the portfolios.

Ghafoor (2018), states that the management of Cash in business depends on the demand for cash in the company. The purpose of managing liquidity is to uphold a level of funds in the company to maximize the owner's wealth and fulfil the working capital requirements. They noted that Cash levels should be maintained to optimize the balance between costs and cash operating costs thereby ensuring that there are sufficient funds. According to Kantudu and Umar (2021), Firms that are financially constrained tend to underinvest when the cost of raising external funds is high. This constraint owes to capital market deficiencies, resulting to high interest thus the cost of external finance, forces firms to source funds from internal means. In such circumstances, companies with insufficient resources may have to abandon profitable investments. Theoretically, agency theory has been used to explain that the separation of ownership and control brings about agency costs, thereby facilitating overinvestment. Managers in firms with excess CF have an excellent reason to overinvest in such funds (Lewellen & Lewellen, 2016).

Several studies have made efforts to determine the relationship between portfolio management and cash flow of quoted companies and reported inconsistent results. However, conceivable relationships are shown. Some studies attempted to analyse the relationship between cashflows and portfolio management (Bala, 2017; Ghafoor, 2018; Jiang, 2016; Kantudu & Umar, 2021; Krueger & Wrolstad, 2016; Kwenda & Vengesai, 2018; Nugroho, 2020; Rokhmawati, 2019; Serrasqueiro, Sardo & Elisabete, 2019; Wang, Zhu & Hoffmire, 2015). Kwenda and Vengesai (2018) findings showed cash flow volatility negatively and significantly affects projects even for companies with increased cash flows and unrestrained firms. Other studies showed a robust and positive inter connections of cash flow and overinvestment (Ghafoor, 2018; Jiang, 2016; Kantudu & Umar, 2021; Krueger & Wrolstad, 2016; Nugroho, 2020).

Serrasqueiro et al. (2019) results indicated that the venture susceptibility to internal cash flows is greater in larger than in the smaller VC-backed SMEs. Rokhmawati (2019) also noted that although lower financially constrained firms had a chance of deciding their source of funding from any sources, they preferred to fund their investment using cash flows due to lower risk. Bala (2017) in his statistical investigation showed that the association of cash flows from operating, financing and investment activities all together or independently, and returns from stocks of investment financial Banks listed at Khartoum Stock Exchange were not statistically significant. Wang et al. (2015) found a negative association between the quality of financial reporting on both under and over-investment. Khaoula (2006) notes that firms face more problems of information asymmetry, thus relying more on internal cash flows to fund investment opportunities, since it is cheap in comparison to external finance. The ability of firms to optimally exploit investment opportunities may significantly depend on the level of financing constraints faced (Amahalu & Ezechukwu, 2017). Gupta and Mahakud (2019) results showed that cash flow positively impacted the expenditure decisions of the company. Ugo and Egbuhuzor (2022) in their study made a recommendation that pharmaceutical companies listed in Nigeria should maintain a viable cash flow management technique which makes such companies more efficient enhancing their financial performance.

Whereas literatures contextualized on the NSE attempted to connect portfolio management activities to cashflow no known global-wide study conceptualized portfolio management on cash flow under Kenyan insurance industry. The consequence of portfolio management on cash flow is yet to be contextualized across listed insurance companies in the NSE. The present study seeks to bridge the gap by examining the effect of portfolio management on cashflows on of listed insurance firms in Kenya.

1.1. Statement of the Problem

In Kenya's listed insurance companies, cash flow is a critical resource used for making investments through portfolio management. However, many of these firms face challenges due to the lack of clearly defined portfolio size, asset allocation, and portfolio risk strategies. As a result, excessive cash is often drawn from business operations to fund further investments, without a structured approach to balancing liquidity and risk. This practice leaves firms vulnerable to cash flow shortages, as they may not retain sufficient liquid assets to meet their obligations. This causes the firms to heighten the risk of financial instability, as companies fail to effectively balance investment growth with cash flow sustainability. This study sought to explore how portfolio risk, portfolio asset allocation, and portfolio size affects the cash flow of quoted insurance firms in Kenya. The findings aim to provide valuable insights for enhancing portfolio management practices and ensuring optimal cash flow retention in the insurance sector.

2. Literature Review

2.1. Theoretical Literature Review

This study was guided by the Agency theory, which was formulated by Jensen and Meckling (1976). Agency theory states that control and separation of powers bring about costs of agency due to conflicts of interest among the firm's owners and the managers. Various scholars who made contributions to the theory are: Fakhroni, Ghozali, Harto and Yuyetta (2018), Lewellen and Lewellen (2016), Kantudu and Umar (2021), Kargar and Ahmadi (2013), and Kenyanya and Ombok (2018). According to Fakhroni et al. (2018) agency problem concerning cash flow indicates that conflicting interest among the managers and shareholders is associated to the company's cash flow, and can lead to managers conducting expropriation behavior by using the company's cash flow. Managers, therefore, take advantage of their interests and cost the company by using its cash flow. Kargar and Ahmadi (2013) contributed to the theory by stating that more internal cash enables managers to avoid market control. In this case, they don't have to rely on a shareholders' agreement, so they can make investment decisions on their own. However, this freedom can sometimes lead to agency costs. According to Lewellen and Lewellen (2016), agency costs are brought about by the separation of powers and control, therefore management may finance projects for their own self-interests, which may promote their own reputation but may not be appropriate to the shareholders of the firm. Kantudu & Umar (2021) contributed to the theory by stating that excess cash at the management's disposal after exhausting all expected investments provides a significant chance for the manager's abnormal behaviour. Agency costs tend to be more common in firms that have steady or high cash flows. They continue to state that the problem of agency cost of CF is a problem of conflict of interest between shareholders and management of the firm related to the firm's usage of its CF. According to Kenyanya

and Ombok (2018), when there is separation between ownership and control, directors usually follow their personal-interest at the expense of value added to shareholders, thus generating agency costs. They state that agency costs arises where the principal is monitoring the expenses experienced by agents, costs incurred when making up contractual agreements between the agent and the principal and the subsequent outstanding loss. While the Agency Cost theory has yet to be indisputably acknowledged, it lays a significant theoretical framework for the current study as it links cashflows and portfolio management since it proposes that agency cost is influenced by cashflows, which has an impact on portfolio management.

2.2. Empirical Studies

Studies conducted revealed a direct relationship between portfolio management and cash flow. That the level of investment realized by firms requires a suitable amount of cash. This means that investments done by firms depend on the cash flows available (Wahome, 2017). Zahid et al. (2017) investigated the association between cash flow and investments of 167 Pakistani non-financial manufacturing companies trading at Karachi Stock Exchange during the period 2004-2013. Tobin's Q was adopted to capture the investment opportunities. A panel regression model was used to examine the influence of cash flow, sales on investment and Tobin's Q. It was found out that in cases of increased investment opportunities companies, the association of cash flow and investment were significant and positive, while under reduced venture opportunity companies, this relationship was also insignificant and positive. Zahid et al. (2017), investment depends upon its respective cash flows which are essential in the process of mitigation of credit frictions. Firms pursuing high-growth ventures often encounter issues of unequal information and elevated risk levels. Conversely, those with limited investment prospects usually experience a stronger link between their investment decisions and available cash flow. Kwenda and Vengesai (2018) studied the relationship between variability of cash flow and behavior of investments in African listed firms. Descriptive statistics was used, and correlation analysis done. A dynamic model for panel data was applied and analyzed by assessing the variations that occurred within the system. Generalized technique of Moments valuation method on 815 African non-financial firms that were listed. The findings showed that volatility of Cash flow had a significant and negative relationship on investments even for companies with much cash flows and unrestrained volatility cash-flow firms were correlated with mean low African investment firms. These results also showed that cash flows are not the only important factor influencing decisions on investment, but also unpredictability of the cash flows which had a substantial comporment on levels of investment for companies in African.

Kantudu and Umar (2021) conducted research on the Free Cash Flow and Investment Efficiency of Manufacturing Companies quoted in Nigeria. The research intended to determine the connection between efficiency of investment and free cash flow of quoted manufacturing companies. The population of the study consisted of all quoted manufacturing companies in Nigeria. In addition, a purposive sampling method was used to select forty-eight companies covering the period from 2008 to 2018. Hence, it revealed a robust and positive association existing between overinvestment and free cash flow.

Krueger and Wrolstad (2016) researched Portfolio Allocation Using Free Cash Flows and Other Methods. The study aimed at examining methods to allocating investments in common stock within a portfolio. Stocks from companies listed in the Dow Jones Industrial Average (DJIA) were selected as

the sample. Out of the thirty firms in the DJIA, twenty-three remained part of the index throughout the 2000–2010 period. Portfolio allocations were revised each year using data from the preceding year to structure portfolios for the following period. The levels method and trend method were used for integrating fundamental company information into the venture process for the period 2001 to 2010. The results showed that using free cash flows to the weighted portfolio approach was the sole method that achieved better results than the equal-weighted portfolios, yielding positive and statistically significant returns for investors.

Jiang (2016) studied the relationship between the tenure of the CEO's and efficiency of firm's investments. The study focused on examining how the tenure of CEO's influences efficiency of a firm's investment. The population of the study included 5420 CEOs that took office between 1980 and 2009 and a sample for the years 2008-2014 of the A-share companies was considered. A cross-section model was used in this study. The study conclusions indicated that over-investment raises as the firm's cash flow generated internally.

3. Methodology and Results

The study employed a correlational research design to achieve its stated objectives. This design involves the use of statistical methods to examine the strength and direction of relationships between variables, (Kenya & Ombok, 2018). Secondary data were utilized, drawn from all six insurance companies listed on the Nairobi Securities Exchange (NSE), using a census approach. The collection of data involved document review to gather information relevant to the study variables, covering the period from 2011 to 2020. The study conducted Unit root tests on key elements of portfolio management including portfolio risk (measured by the variance of returns), portfolio size (measured by the value of stocks), portfolio asset allocation (measured by the proportion of asset value to total investment and cash flow (measured by cash and cash equivalents). Secondary data obtained from audited and published financial statements, which are prepared in accordance with Generally Accepted Accounting Principles (GAAP), were deemed dependable since their preparation follows globally recognized accounting principles, conventions, and standards. The reliability of secondary panel data depends on its stationarity. To verify this, a unit root test—specifically the Levin, Lin, and Chu (LLC) test was carried out to assess whether the variable series were stationary or non-stationary. The results of the LLC test, as shown in Table 1, reveal that all variable series became stationary at the first difference (indicating the absence of unit roots) at the 5% significance level.

Table 1. Unit root test for the variables

Method	Statistic	Prob.**	Cross-sections	Obs
Null: Unit root (assumes common unit root process)				
Levin, Lin & Chu t*	-5.26892	0.0000	1	60
Null: Unit root (assumes individual unit root process)				
Im, Pesaran and Shin W-stat	-5.50714	0.0000	1	60
ADF - Fisher Chi-square	48.3243	0.0000	1	60
PP - Fisher Chi-square	48.6108	0.0000	1	60

Table 1, represents the Levin-Lin-Chu test and Im, Pesaran and Shin test which indicated $p \leq 0.05$ for all the variables. Therefore, all the statistical results were found to be significant at their respective

levels. This indicates that the null hypothesis, which stated that the variable series possess a unit root, was rejected.

Model specification

The following panel data regression model was mathematically tested. For each model and where applicable:

$$CF_{it} = \alpha_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \mu_{it} + \epsilon_{it}$$

X1, X2, X3 were portfolio size, portfolio asset allocation and portfolio risk respectively

CF= cash flows, i= Insurance firms (1-6) t= Time (2011-2020)

α = is the regression constant, μ_{it} = The unobservable individual heterogeneity., ϵ_{it} = the error term

The study used inferential statistics analysis such as correlation analysis and regression analysis to test null hypotheses. The statistical tests were at the significance level of 5%.

4. Result and Discussion

Descriptive statistics on the variables was conducted to provide the summary on the measures of central tendency, measures of dispersion and Jarque Bera test to show the kurtosis and skewness of the data variables.

Table 2. The descriptive statistics for the study variables, specifically the elements of portfolio management and cash flow

	Portfolio		Asset	
	Portfolio Size	Allocation	Portfolio Risk	Cash flow
Mean	7.389622	0.707290	0.515408	6.622952
Median	7.403900	0.749098	0.332750	6.627415
Maximum	8.065260	1.528306	2.590160	7.235220
Minimum	5.998410	0.060482	0.000910	6.077470
Std. Dev.	0.345819	0.312081	0.485982	0.275461
Skewness	-1.033673	0.436049	1.751139	0.171772
Kurtosis	6.236153	3.223583	7.079124	2.548275
Jarque-Bera Probability	36.86651	2.026356	72.26302	0.805195
	0.000000	0.363063	0.000000	0.668581
Sum	443.3773	42.43738	30.92447	397.3771
Sum Sq. Dev.	7.055851	5.746264	13.93455	4.476833
Observations	60	60	60	60

Table 2 The results indicate that the mean portfolio size is 7.389622, with maximum and minimum values of 8.065260 and 5.998410, respectively. Since portfolio size was measured based on the value of stock holdings, this suggests that, on average, listed insurance firms on the NSE maintain a portfolio size valued at approximately 7.389622 stocks. The skewness coefficient of -1.03367 indicates that the majority of firms possess portfolio sizes higher than the mean value. This mean value equivalences consistently with that of Li (2022), who noted that the ideal portfolio size should be restricted between 6 to 12 stocks. This mean value however contradicts that of Kimani and Aduda (2016) who noted that a well performing portfolio should hold between 16 and 20 stocks and Kisaka, Mbithi, and Kitur (2015) who noted that optimal portfolio size lies between 18-22 stocks. The findings

reveal that the mean portfolio size is 7.389622, with maximum and minimum values of 8.065260 and 5.998410, respectively. Since portfolio size was measured based on the value of stock holdings, this indicates that, on average, listed insurance firms on the NSE maintain portfolio sizes valued at approximately 7.389622 stocks. The skewness coefficient of -1.03367 suggests that most firms have portfolio sizes above the mean value. This mean value aligns closely with those reported in previous empirical studies on investment portfolios of financial institutions, implying consistency in portfolio valuation across similar firms with 0.68 in their allocation to fund age. However, it contradicts that of Ombima and Njiru (2018) who reported a mean of 4.12. The results presented in Table 2 further indicate that the average portfolio risk is 0.515408, with maximum and minimum values of 2.590160 and 0.00091, respectively. Portfolio risk was measured using the variance of returns, implying that, on average, listed insurance firms on the NSE experience a portfolio risk level of 0.515408. The skewness coefficient of 1.751139 suggests that the majority of listed firms have portfolio risk values lower than the mean. the mean of 0.515408. These results contradict that of Amayo (2018), Ndyagyenda (2020), and Iraya and Wafula (2018) who presented a mean of 3.6 for portfolio risk. Additionally, the mean of cashflows in Table 2 is 6.622952 with the highest and lowest being 7.235220 and 6.077470 respectively. Cash flow was measured using cash and cash equivalents and this means that on average, cash flow of quoted insurance companies in NSE is 6.622952. The skewness value of 0.171772 indicates that most listed insurance firms have their cash flows oscillating around the mean of 6.622952.

Table 3. Correlation Analysis

Correlation		Portfolio size	Portfolio asset allocation	Portfolio risk	Cash flow
Probability					
Portfolio size		1.000000			

Portfolio asset allocation		0.515681	1.000000		
		0.0000	-----		
Portfolio risk		-0.161254	0.087777	1.000000	
		0.2184	0.5048	-----	
Cash flow		0.483978	0.007962	-0.264238	1.000000
		0.0001	0.9519	0.0413	-----

Table 3 shows values of 0.0080, -0.2642 and 0.4839, for the relationship between portfolio asset allocation, portfolio risk and portfolio size on cash flow operationalized by cash and cash equivalents respectively. These values indicate positive correlation between portfolio size and portfolio asset allocation but negative correlation for portfolio risk on cash flow. That is, portfolio asset allocation and Portfolio size increase as cash flows increase for the NSE-listed insurance companies, while a negative correlation for portfolio risk implying that 26.42% increase in portfolio risk leads to a 26.42% decrease in the cashflow of listed insurance firms at the NSE.

The objective of the study was to analyze the impact of Portfolio Management on the Cashflow of listed insurance firms at NSE, Kenya; The researcher conducted regression with cash flow as the dependent variable and portfolio management as independent variable.

Table 4. Multiple Linear Regression

Dependent Variable: Cash flow

Included observations: 60

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	3.231314	0.741809	4.355989	0.0001
Portfolio Size	0.489543	0.104663	4.677340	0.0000
Portfolio Asset Allocation	-0.261936	0.114903	-2.279624	0.0265
Portfolio Risk	-0.078835	0.064057	-1.230701	0.2236
R-squared	0.331833	Mean dependent var		6.622952
Adjusted R-squared	0.296038	S.D. dependent var		0.275461
S.E. of regression	0.231118	Akaike info criterion		-0.027435
Sum squared resid	2.991273	Schwarz criterion		0.112188
Log likelihood	4.823055	Hannan-Quinn criter.		0.027179
F-statistic	9.270455	Durbin-Watson stat		1.134265
Prob(F-statistic)	0.000045			

Table 4 provides results on the effect of portfolio management on the cash flow of listed insurance firms.

Based on the model: $CF_{it} = \alpha_{03} + \beta_{31}X_{1it} + \beta_{32}X_{2it} + \beta_{33}X_{3it} + \mu_{it} + \epsilon_{it}$, the results fitted on the model reveals that: $CF_{it} = 3.2313 + 0.4895X_{1it} - 0.2619X_{2it} - 0.0788X_{3it}$. The results show significant positive effect between portfolio size and cash flow at 0.4895 at P value $0.0000 < 0.05$ positive and significant. The C value shows that 3.2313 would be the predicted value of cash flow if the values of portfolio size, portfolio asset allocation and portfolio risk were held at zero. Additionally, Table 4 shows a value of -0.2619 for portfolio asset allocation, which implies that a unit increase in portfolio asset allocation would result to 26.19% decrease in cash flow. The P value 0.0265 implies that there is a negative significant relationship between portfolio asset allocation and cash flow. Further, Table 4 shows coefficient value of -0.0788 for portfolio risk, implying that a unit increase in portfolio risk would yield 7.88% decrease in cash flow, and a P value of 0.2236 implying a negative but insignificant effect between portfolio risk and cash flow. Further, Table 4 presents the coefficient of determination value ($R^2 = 0.3312$ which shows that portfolio management contributes only 33.12% to cash flow. The findings robustly support the Agency Theory. According to Fakhroni et al. (2018) agency problem regarding the cash flow states that a conflict of interest between the managers and shareholders is related to the firm's cash flow, and could lead to managers conducting expropriation behavior by utilizing the firm's cash flow that would not result to proper portfolio management. Kargar and Ahmadi (2013) contributed to the theory by stating that more internal cash enables managers to avoid market control, in this situation, they do not need the shareholders' agreement and they are free to decide about the investments at their will which results to agency costs. The negative significant relationship confirms the relationship between portfolio asset allocations and cashflow. When insurance firms do their resource allocations to different investment vehicles, cash has to be used, thus increasing portfolio asset allocations will lower the cash flow levels of a firm.

Results in Table 4 are consistent with findings by Kantudu and Umar (2021) in examining the Free Cash Flow and Investment Efficiency of Listed Manufacturing Companies in Nigeria, the study established that there is a positive and robust relationship between free cash flow and overinvestment. Jiang (2016) in analyzing the relationship between CEO's tenure and their firm's investment efficiency, his study revealed that over-investment increases with the firm's internally generated cash flow. Additionally, Krueger and Wrolstad (2016) on determining Portfolio Allocation Using Free Cash Flows and Other Methods, found out a positive, statistically significant returns. Furthermore Nugroho (2020) in conducting an analysis of cash holding on investment cash flow sensitivity in Indonesia, found out that cash holding has a positive and significant effect on investment-cash flow sensitivity. Ghafoor (2018) who in examining the Effect of Cash Flows on Investment studies, also showed a positive relationship between cash flows and overinvestment. Furthermore, Kwenda and Vengesai (2018) who conducted a study on the association between cash flow variability and investment behavior of African listed firms and his findings revealed that cash flow volatility has a significant negative effect on investment even for companies with higher cash flows and unconstrained firms. The null hypothesis, H_{03} , which was formulated that there is no significant relationship between portfolio management and cashflow of listed insurance firms in Kenya, is therefore not supported by findings in the present study. It therefore implies that cash flows have a significant effect on portfolio management.

5. Conclusion and Recommendation

From this study, it's evidenced that there is a positive and negative significant effect between portfolio management elements and cash flow. These findings also robustly support the Agency Theory. The agency problem regarding the cash flow states that a conflict of interest between the managers and shareholders is related to the firm's cash flow, and could lead to managers conducting expropriation behavior by utilizing the firm's cash flow that would not result to proper portfolio management. It is recommended that the listed insurance firms in the NSE should allocate resources in viable projects that will generate more cash that increases their financial performance. It is also apparent from the study that multiple other factors may affect the cash flow of insurance firms in Kenya. Therefore, insurance companies should analyse internal and external environments and make the necessary adjustments on operations and decisions.

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