Iosr Journal Of Economics And Finance (Iosr-Jef)
E-Issn: 2321-5933, P-Issn: 2321-5925.Volume 15, Issue 5 Ser. 5 (Sept. – Oct. 2024), Pp 54-73
www.Iosrjournals.Org

Firm Characteristics, Interest Rate And Financial Performance Of Microfinance Banks In Kenya

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Abstract
Microfinance Banks gives the forte to improve the economic activity of low-income individuals and eliminate poverty, resulting in economic progress. However, microfinance's Banks financial performance in Kenya has declined over time. The objective of this study is to investigate firm characteristics, interest rate and financial performance of microfinance banks in Kenya. The study was grounded on buffer capital, efficiency structure and interest rate parity theories. The study research methodology rested on positivism research philosophy. Research design was explanatory non-experimental design. Secondary panel data was utilized. 13 microfinance banks in Kenya were target. Information was gathered using secondary data sources from microfinance banks accounting report from 2016 to 2022. Data was analysed using descriptive and inferential statistics. The study used multiple regressions and Pearson's Product Moment Correlation analysis. All ethical considerations were appropriately observed. Findings indicated that adequacy of capital exerts a notable and direct effect on financial performance, underscoring the importance for microfinance banks in Kenya to prioritize maintaining sufficient capital levels to support their overall stability and financial outcomes. Conversely, quality of asset demonstrates a significant and adverse influence on performance financially, highlighting the need for microfinance banks to enhance their credit assessment processes to ensure the quality of their loan portfolios. The research revealed that efficiency of management has an insignificant direct influence on financial performance of Microfinance banks. To address this, microfinance banks are advised to invest in comprehensive management training programs and capacity-building initiatives to improve operational effectiveness and decision-making processes. Earning ability, on the other hand, exhibits a considerable and direct influence on financial performance. Microfinance banks should thus focus on continuous innovation of their products and services to enhance their earning potential and overall financial outcomes. Liquidity levels exhibit an insignificant and inverse effect on the financial performance outcomes. To mitigate potential risks, microfinance banks should establish comprehensive policies and procedures to monitor and manage liquidity effectively. Interestingly, the study reveals that the connection concerning firm-level attributes and financial outcomes for microfinance institutions in Kenya does not appear to be subject to a substantial moderating influence from interest rate movements. Therefore, the survey recommends that microfinance banks concentrate on improving governance structures, operational efficiency, risk management practices, and asset quality. This can be achieved through capacity-building programs, training initiatives, and adopting best practices from successful microfinance institutions. Strengthening these firm characteristics will enable microfinance banks to enhance their financial performance, irrespective of interest rate fluctuations

Keywords: *Firm Characteristics, Interest Rates, Financial Performance and Microfinance Banks*

Date of Submission: 01-10-2024 Date of Acceptance: 10-10-2024

I. Introduction

Microfinance is a strategy for economic development that entails offering low-income clients, such as micro, small, and medium in size businesses, financial and non-financial services through institutions. A lucrative microfinance sector is crucial for maintaining a healthy microfinance banking system since microfinance is a tool that may be used to combat poverty, but in order to escape it, demand for money must match supply. Lower profits lessen microfinance banks capacity to withstand adverse economic shocks, eventually jeopardizing its solvency (Ndegwa, 2021). The measures that support and stabilize the efficient operation of the banking sector are sound monetary and transparent fiscal policies. A healthy banking system is a symptom of a stable economy, which encourages saving and investment decisions. All of these actions are essential for the banks to run successfully. With their capacity for forecasting and procedures for risk management, banks can cover the risk of losses (Ahmed, Rehan, Chhapra & Supro, 2018). The interest rate is a key monetary regulation instrument as well as a crucial macroeconomic factor that has a beneficial relationship with the development of an economy. The value of capital, or the cost incurred for money utilized over a particular duration, is typically used to describe interest rates. The function of banking institutions as a financial intermediary in economic development activities is crucial, and their effectiveness can have an impact on economic growth. In exchange for their unique financial services compared to other financial organizations, banking institutions levy interest. Depositors contribute the greatest amount of money and are compensated with interest. The distinction among interest received and interest paid is known as the interest margin (Ogundipe, Akintola & Olaoye, 2020).

CAMEL is an evaluation system for onsite bank assessments. The Federal Financial Institutions Examination Council (FFIEC) adopted the CAMEL supervisory evaluation system in 1979, officially known as the Uniform Financial Institutions Rating System (UFIRS). This framework assesses financial institutions based on five key factors: capital adequacy, asset quality, management, earnings, and liquidity. In 1997, sensitivity to market risk was added as the sixth component, leading to the acronym CAMELS. These elements collectively reflect the financial performance, operational stability, and regulatory adherence of financial institutions (Gebregiorgies, 2021).

According to Dogan (2013), firm characteristics are characteristics that are primarily the responsibility of regulators. Examine the firm's capital adequacy, liquidity, management efficiency, and assets. The importance of bank characteristics, particularly those supported by the CAMEL framework, has an impact on microfinance banks. Prior research into the effectiveness of CAMEL ratings revealed that when combined with national statistics, CAMEL rankings can detect and/or predict problems or failing banks (Gasbarro *etal*., 2015). The CAMEL classification system is used by Kenya's Central Bank to assess the sustainability of banking firms (CBK, 2015). The majority of the banking industry that failed during the 2007/08 financial meltdown did so because they lacked the necessary financial fortitude to withstand the crisis's losses (Aswani, 2019).

Globally, microfinance has become an important aspect of development and economic revitalization measures. Microfinance (MF) assists low-income individuals in alleviating poverty, enhancing corporate management, raising output, achieving higher investment revenues, and improving the worth of life for themselves and others in the general public (García-Pérez, Fernández-Izquierdo and Muñoz-Torres, 2020). MFIs typically make minimal loans to those with low incomes persons in the hopes of increasing labor productivity and investment, hence improving their household incomes (Khan, Khan, Fahan, Ali, Khan &Luo, 2020). Microfinance extends past the providing of little loans to Individuals with little earnings, as well as micro and small businesses. Microfinance offers financial services to micro and small-scale business owners, such as insurance, payments, remittances, savings, and money transfers, using market-driven and commercial methodologies (Tasos, Amjad, Awan & Waqas, 2020).

Microfinance in Latin America is an essential aspect of the finance industry and promotes MSEs within integrated systems initiatives like giving modest loans, educating business owners, helping them assess markets, helping them with sales, and offering technical support (García-Pérez, Fernández-Izquierdo& Muñoz-Torres, 2020).The microfinance sector in Latin America contributes to the region's economic dynamism, is an important factor in implementing a process to mitigate the insecurity situation in large segments of the population, creates opportunities, and meets the demand for financial inclusion in the region's poorest sectors. Microfinance plays a vital function in region's economic development, since millions of Latin Americans work to overcome exclusion through tiny productive enterprises. Microfinance institutions in Latin America have greater assets, leverage their capital, and attract more business investment than institutions in other countries (Mrindoko & Pastory, 2022).

In African microfinance are among the most productive in the world, according to the number of debtors and depositors per employee. Microfinance helps create equal possibilities in the economic sector by efficiently alleviating poverty. The value of microfinance in growing the economy has recently taken prominence in economic strategy and planning modification throughout African economies because of its beneficial spillover benefits to spur the efficiency of small businesses/enterprises through the provision of microcredit facilities (Hyeladzira & Ochonogor, 2020).

Kenya has one of Sub-Saharan Africa's most active microfinance marketplaces. It has a broad branch network and a variety of institutional forms to serve the underprivileged. The legislative structure for microfinance is reputable by the 2006 Act of Microfinance and further supported by the 2008 Rules of Microfinance. These acts serve as a comprehensive set of laws, regulations, and supervisory guidelines that govern the operations of microfinance institutions in the country(Association Microfinance Institutions, 2013). Kenya's need for microloans has been prompted by a number of interrelated hurdles to the expansion of the banking and finance industries (Alastair, 2015).These key constraints have been the framework and composition of Kenya's financial and banking sector, the absence of proper guideline and governance required for enhanced quality in banking and finance, and the cautious commercial business practices of profit-focused banking institutions (King'ori, Kioko & Shikumo, 2017).

Financial Performance

One way to measure financial success is an evaluation of how well a corporation earns money utilizing its finances from its primary business model. Additionally, the concept is employed as general gauge of a business's long-term fiscal health. Financial performance is defined by the Business Dictionary (2013) as the measurement of an organization's guidelines and practices' monetary outcomes, which are represented in the organization's returns on investment, earnings per share, real value, and so on (Mahfoudh, 2017). These earnings per share and profit can be generated by a profitable company. A profitable company can generate an adequate return on capital. As a result, a company's financial performance is defined as its ability to use the resources available to achieve sustainable earnings while also strengthening its capital foundation by keeping earnings to guarantee its long-term viability and maximize shareholder fortune (Ndegwa, 2018).

Return on Equity (ROE) is the overall sum of proceeds an organization made virtual to the investment made by owners. In other terms, it relates to the returns on investment that investors expect to receive. When an organization gets a good return on equity, it may be able to generate cash on the inside (Mwangi 2018). According to Khrawish (2011), a firm's ability to make proceeds is therefore improved by having a higher Equity Return. Moreover, the investigation contended that Return on Equity might be calculated as Net Income minus Tax divided by Total Equity Capital. Return on Equity is a quantifier of how much money investors make on their investments. ROE demonstrates how efficiently a bank's managers employ shareholder money. As a result, it stands to reason that the management uses shareholder funds more effectively the greater the Equity Return (Saseela, 2018).

Return on Assets (ROA) is the size of the financial success of the company. An institution's assets return (ROA) is computed as the proportion of income to assets total. Asset Return (ROA) gauges the bank's capacity to spawn earnings from its assets. ROA simply shows how efficiently the firm's assets are being used to produce income. Additionally, ROA demonstrates the capacity of a business to produce extra revenue while utilizing all its available resources. The business is more efficient at using its resources when ROA is higher (Wekesa, 2021). This study used ROA to measure financial performance. Mwangi (2020) examined firm characteristics and profitability, using ROA as its measures. ROA serves as an indication of an institution's management effectiveness in generating income from all organizational resources. Therefore, an increasing ROA indicates that the institution is well-organized in resources utilization. Macharia (2019) also using ROA as measure for financial performance, explained that it is necessary to provide a basic approach that would provide plans to remunerate managers and achieve firm's goals. ROA also explains how firms generate income and become profitable.

Firm Characteristics

The intrinsic elements that contribute to a bank's financial soundness are firm characteristics. According to Kandiru, Gachunga, Muturi and Ogutu (2015), firm attributes are the organizational and socioeconomic factors that make up the corporate context of the company. Additionally, one of the most important aspects of an institution that might affect efficiency is its firm characteristics (Ondigo, 2016). The managerial and demographic factors that make up the internal environment of the business are seen as firm characteristics. The internal business enterprise's knowledge- and information-based capabilities and processes are among the factors determining corporate characteristics (Mwebia, 2017). The CBK Banking Survey of 2018 lists firm characteristics indicators to include asset quality, capital sufficiency, liquidity, management effectiveness, and earning potential.

Capital adequacy as the first indicator of firm characteristics shows the effectiveness and capability of banks to measure and manage their risks (Almazari & Alamri, 2017). The amount of capital that banks take losses to protect themselves from economic shocks should they arise is referred to as adequate capital (Musyoka, 2017). The financial regulators are reassured that the banking industry is not jeopardized or lessened by a little problem within a lone bank or cluster of institutions through the assessment of a bank's capital, and the public is assured that the monies of depositors are secure. Additionally, it guarantees a bank's security, aids in reducing the danger of liquidation, and funds the risk of credit that a firm is required to take on in a typical commercial loan. The greater the primary resources, or foundation, the greater the number of loans and advances the Bank might make

overall and to specific people (Aliu, Abdullahi & Bakare, 2020). According to Fatima (2014), adequate principal ensures that a bank has the right amount of principal for business expansion and that its net assets are enough to protect it from insolvency during financial downturns.

Asset quality is the second feature of a firm's characteristics that involves evaluating the company's assets to make it simpler to decide the extent and kind of risk of credit connected with its activities. Asset quality is one of the micro prudential parameters that influence a bank's stability and profitability. It alludes to the opposite side of the balance sheet of a banking institution and emphasizes the quality of the loans that give the bank funding (Abata, 2014). It is 7 out of 25 fundamental guidelines for good banking supervision. Sustaining strong asset quality demands rigorous loan issuing that must be evaluated and compliance with banking regulations. Insufficient quality of assets has an impact on financial success and the stability of the banking industry as a micro factor of profit (Lucky & Andrew, 2018). The financial system stability typically determines how well an economy performs financially. In order to achieve bank soundness and stability, banks need to maintain high-quality assets because stable finances are a result of high-quality assets (Wafulu, 2020).

The loan portfolio is the most valuable asset of MFIs, according to Nelson (2011), it is the loan asset that contributes to returns generation. The loan assets quality determined profits.

Managerial efficiency is the third feature of firm characteristics. It demonstrates how efficient bank management can maintain mobilized deposits, assets, capitals, shareholder funds, employees, inventories, assets, and so on to generate profit (Ihenetu 2017). Profits are made by banks by efficiently and effectively channeling these resources to the most productive ventures. Management efficiency, according to the Uniform Financial Institution Rating System (1997), is the management's way to recognize, evaluate, and regulate the risks of a bank's actions, as well as to guarantee secure, sound, and effective compliance with legislative requirements. It is the most important single component of Camel rating because the success of banks is dependent on it (Amachree & Iheanyi, 2020). Management efficiency demonstrates how well a manager combines management team spirit, leadership ability, and other factors to improve production (Cakir, 2020).

Earnings ability, being the fourth feature of firm characteristics in the current investigation, refers to a bank's capability to generate profits that would allow it to expand, stay viable, and raise capital. The main function of earnings capacity, from the perspective of the bank's regulator, is to mitigate losses and increase the bank's capital (Magoma, Mbwambo, Sallwa & Mwasha, 2022). Any organization that deals with money strives to increase profits, and since commercial banks are constantly competing with one another, a successful bank will typically attract more clients than its opponent. Currently, a commercial bank that consistently generates profits is considered financially solid (Banking Survey, 2018). A bank's earning capacity is assessed using a variety of metrics, including loan income over loan, deposit cost over deposit and loan income over deposit cost. Banks have traditionally relied on income from interest-based sources, however income diversification has been observed over time in published reports of various listed banks.

Liquidity as the fifth indicator refers to banks' capacity to finance the growth of their asset holdings and fulfill their obligations to depositors when they become due without sustaining intolerable losses (CBK, 2018). Given that liquidity is intended to fund the purchase of resources, satisfy rapid drawings, conduct lending in the short term, and promote the opening of new performance networks, balancing the liquidity responsibilities of a bank is a difficult task. The regulator recognized a number of ratios to be employed in testing and limit the likelihood of liquidity risk because this may result in liquidity issues (Idama *et al*., 2014). The most frequently utilized ratios are Overall liquid assets compared to all assets, loans sum to all deposits, and liquid assets total to liabilities total. In identifying potential liquidity stressors that could restrict the financial institutions' capacity to earn broad income levels and possibly expose the financial institution to setbacks, it is reasonable that banking institutions evaluate liquidity consistently and develop methods for acquiring or financing liquidity specifications, particularly all through unexpected conditions (Ndegwa, 2018). This necessitates that banking institutions pertain liquidity stress tests on an as-needed basis. These liquidity tests aid in the creation of backup strategies for dealing with liquidity issues. A mandatory minimum of twenty percent of all obligations pertaining to deposits, maturing obligations, as well as immediate obligations must be retained in liquid resources, according to CBK (2013) standards (Maina, 2021).

Interest Rate

Interest is the cost assessed on borrowed funds or credit (D'Alberto, 2018; Aluoch, 2020). According to Keynes (1973), interest is the reward an entity obtains for not holding cash. In addition to imposing fees on advance payments and loans granted to borrowers, banks also remit interest on funds saved with them. The difference between these two rates of interest defines the interest spread and is a key component of the revenue stream for microfinance institutions (Waweru & Miroga, 2019). One of the elements that might impact a bank's degree of profitability is the interest rate environment. Interest rates are displayed as percentages of the cash borrowed from outside sources, the amount of profit a depositor makes at the bank, or the amount of expenses a stock investor incurs. Interest rate changes boost revenue and boost bank profits (Nurfadillah, Setiadji, Paminto

& Azis, 2023). Bank profitability is significantly impacted by pressure on bank interest margins caused by low interest rates nor intense rivalry amongst institutions. Small banks are more adversely impacted by interest rate risk than national banks constitute. Banking institutions with more risky loans as well as high rates of interest to attain profitability demonstrate a beneficial link (Das &Uppal, 2021). The majority of financial institutions hinge on the efficiency of loaned assets as a means of revenue and profit; interest income has favorably impacted the level of profitability. When economic growth is struggling, the central bank may opt to reduce interest rates, which might ultimately damage the institution's capacity to offer loans and its profitability, which is the primary determinant for guaranteeing financial stability (Campmas, 2020).

Interest rates have an influence on the optimal and productive management of inventories that contain the assets and liabilities of financial firms since they are a natural part of the operational setting for institutions (Akims *etal*., 2020). The rates of interest set by Kenya's top regulator affect how well the operations of banks since microfinance are governed by Central Bank regulations. Underlying interest rates often have an impact on how financial institutions conduct their business, which provides rationale for using interest rates as the moderating factor (Kweyu, 2022). Interest rate is a variable that affects the economy as a whole, especially microfinance (whether as investors or borrowers) as they deal majorly on provision of loans. Greater interest rates boost the return on investors' assets, thereby influencing the use of interest rate as the moderating variable for the current investigation. However, interest rates can rise to levels that discourage businesses and people from borrowing, causing the borrowing side of the bank to struggle. Also, as interest rates expand, the banking sector's profitability improves. This is partly because increased interest rates are usually a sign of a thriving economy (Hall, 2023). Interest rates was assessed in this study by utilizing central bank rate.

Kenyan Microfinance Banks

Kenya has most active microfinance marketplaces in Sub-Saharan Africa. It has a variety of established structures and a sizable branch subdivision to assist the underprivileged (Teeboom, 2019). However, Kenya has just recently begun to regulate microfinance activities. Innovations have been made possible by the lack of regulation, which made it simple to establish institutions without obstacles like minimum capital requirements. In this context, the microfinance business has prospered. The microfinance in Kenya is controlled by the Microfinance Act of 2006 and the Microfinance (Deposit Taking Institutions) guidelines, which were issued in response (Aswani, 2019). The Microfinance Act went into existence on May 2nd, 2008. Existing microfinance organizations that wanted to be able to accept deposits from customers and members of the public submitted license applications (CBK, 2019). The Microfinance Act's principal goal is to govern the institution, conduct, and operation of Kenyan microfinance via certifying and oversight. According to research by CBK (2021), Kenya now has 13microfinance banks in operation. Customers can obtain financial services from microfinance banks to expand and build their enterprises with the aim of turning a profit.

Former credit-only microfinance institutions must make a wide range of changes in order to transition from a wholly deregulated state to full banking regulations. The guidelines by CBK (2008) outlined the following proportions: a baseline capital adequacy proportion of 20 percent; a confine on anonymous source loans that should not surpasses 2percent of total assets and ought to be enclosed on totality; a fundamental equity of 10 percent of overall capital quality value was calculated risk modified off financial assets; a central equity of 8 percent of overall deposit obligations; and overall principal of 12 percent of overall risk adjusted returns investments and furthermore risk modified off financial assets. Regulations and policymaking become important because these financial institutions must make sure they maintain adequate thresholds of cash flows in order for them to pay their immediate debts that are necessary for the regular operation of businesses and avert harsh penalties from the supervisory authority for non-compliance.

Statement of the Problem

The financial performance of microfinance banks in Kenya is vital in translating the stated goals into actual outputs and the intended results. Each structure and institution in the world work hard to guarantee that they implement policies and measurements that will boost their efficiency and effectiveness (Kamau, 2020). The effectiveness of financial performance of microfinance banks is crucial in promoting wealth creation, local and international investment, the reduction of inequality, and the creation of jobs. Microfinance banks provide an extensive array of financial products and services that encompass money transfer, small and micro scale firms (SMEs) in both rural and urban locations, as well as economically active poor and low-income individuals, can access savings credit facilities and micro-insurance (King'ori *et al*., 2017). These SMEs account for 80 percent of the nation's GDP and fill employment gaps. When evaluating how effectively an organization takes advantage of the chances presented by the business setting to strengthen the revenue figures reported during a specific financial cycle, firm characteristics are crucial (Lin *et al.,* 2022). While CBK has historically used the CAMEL Model as a yardstick to evaluate Kenya's microfinance banks' financial results (CBK, 2019), the microfinance banks' financial standing has declined over time. As per Central Bank of Kenya's banking sector supervisory

account, losses at the 13 microfinance banks increased by 561% in 2020 compared to 2019, from Sh339 million to Sh2.2 billion respectively. In 2015, MFBs returns on shareholders were at 5 percent. This was the only year within the study's scope that the banks made significant returns. Since then, shareholders have made negative returns from microfinance investments;-3.2 percent in 2016, -5.5 percent in 2017, -13.8 in 2018, -3 percent in 2019, -28 percent in 2020.Additionally, the ROA of Microfinance banks as at 2017 was -0.9%, it became worse in 2018 when it hit -5.5%, it had little improvement in 2019 at –0.4%, -3.8% and -0.96%in the year 2020 and 2021respectively (CBK, 2022).Hence, it is necessary to evaluate how firm characteristics (CAMEL) affects the Kenyan banks performance that provides microfinance services financially.

Studies have been executed on firm characteristics and financial performance. Bhattarai (2021) studied how capital adequacy ratios affects the performance of Nepalese money deposit banks financially, and disclosed that the core capital ratio and total capital fund ratio both have a favourable impact assets returns and equity returns. Imo (2021) established the link among financial assets and Nigerian money deposit bank performance and found that financial assets have a beneficial and notable impact on deposit money bank. Getachew, Varaprasad, and Abebe (2019) identified factor used to predict financial performance and default likelihood for particular Ethiopian commercial banks. The investigation's result revealed that earnings ability had a noteworthy influence on banks performance financially as measured by asset returns and equity returns. These studies showed noteworthy association but was based on money deposit banks and also carried out in different countries, thereby providing a contextual gap. Kiemo, Muturi, and Mwangi (2019); Nguyen (2021); Bolarinwa, Akinyele, and Vo (2021) examined firm characteristics and performance financially using generalized method of moments, Altman's Z-Score plus Model, generalized method of moments (SGMM) and stochastic frontier analysis (SFA) demonstrating a methodology gap as this study used panel regression model. Among the advantages of this approach are a clearer understanding of the connection between every single factor and the result (Weedmark 2018). In addition, some studies were conducted at different time periods (Sile, Olweny, & Sakwa (2019); Wuryani, Handayani, & Mariana (2021); Akinola (2022)), this also assist in identifying contextual gaps, as this study was carried out from 2016 to 2022.Nguyen (2021) examined money deposit banks' financial soundness, but this investigation examined banks that offers microcredit services financially. Odekina, Gabriel, and Solomon (2019) studied how capital sufficiency, credit risk, and operational efficiency affects the Nigerian banks performance. These studies demonstrated conceptual gaps.

From the aforementioned studies, different moderating factors like interest, exchange rates and internal control adequacy were used to analyze their studies. Therefore, this study closed the research gap by examining how firm characteristics with interest rate as a moderating variable affects the financially performed Kenya's Microfinance Banks to ensure the effective use of resources and assist in mobilizing financial resources for the advancement of economic growth and development.

Objective of the Study

Main Objective was to delve into firm characteristics influence on the Kenyan performed microfinance banks' financially. The specific objectives were to: to explore how capital adequacy affect these banks performance financially; investigate asset quality effect on these banks that performed financially; determine how managerial efficiency effect on performance of these banks financially; examine the way earnings ability affect these banks Performance financially; establish the effect of liquidity on financial performance of microfinance banks in Kenya; and to explore the moderating effect of interest rate of the relationship between firm characteristics and financial performance.

Research Hypotheses

The study was guided by the following hypotheses.

H_{01}: Capital adequacy has no significant effect on the financial performance of Microfinance Banks in Kenya.

H_{02}: Asset quality has no significant effect on the financial performance of Microfinance Banks in Kenya.

H_{03}: Managerial efficiency has no significant effect on the financial performance of Microfinance Banks in Kenya.

H_{04}: Earnings Ability has no significant effect on the financial performance of Microfinance Banks in Kenya.

H_{05}: Liquidity has no significant effect on the financial performance of Microfinance Banks in Kenya.

H_{06}: Interest rate has no significant moderating effect on the relationship between firm characteristics and financial performance of Microfinance Banks in Kenya.

II. Literature Review

Theoretical Reviews

The following theories anchored the current study that relating the firm characteristics and financial performance of Microfinance Banks in Kenya. The theories are: Buffer Capital theory, Efficiency Structure theory and Interest Rate Parity theory. Buffer Capital Theory was first presented by Calem and Rob in 1999. The premise

postulates that banks may find motivation to increase capital and lower risk after attaining the minimum regulatory capital ratio in order to reduce the chance of any regulatory penalty related to violation of capital requirements (Kohler, 2015). However, in order to build up and expand their capital base, undercapitalized banks may take on more risks in the hope of greater projected profits (Diamond &Rajan, 1999). As a result, it is a means by which the operations of banks are affected by the risks linked to decreased capital levels. By promoting the construction of countercyclical buffers, regulations and standards pertaining to the creation of appropriate capital buffers aim to reduce the pro-cyclical lending landscape (Milne &Whalley, 2001). Banks may be equipped to keep a "cushion" of excess capital to lower the possibility of descending beneath the defined statutory Capital needs, should their adequacy ratio be flexible. Contrarily, a breach of the capital standards is seen by the monetary authorities as a breach of the law on banking and is not allowed (Calem& Rob, 1999). Capital is generally more dependable, credible, and especially advantageous for long-term strategic planning. As a result, the banks' capacity to collect enough deposits protects their capital base from being depleted (Choi, 2017).

The idea sheds light on the fundamental effect of excess capital retained by banks over and above the required minimum. The buffer is the amount of capital that banks have in excess of the minimum required capital declared. Lotto (2017) states that while banks with suitable levels of capital buffers aim to maintain their capital buffer, banks with little investment buffer levels endeavor to reach the required level. By acting as buffers against negative shocks, these higher capital levels lessen the likelihood of bank collapse. Banks add capital to maintain their buffer levels when portfolio risk rises, which is related to the determinant of adequacy of capital and bank performance financially (Ochei, 2013). As a result, banks with lower levels of capital hold more risk and have less ability to withstand shocks, which is a crucial part of adequate capital. The buffer capital theory is relevant to the present investigation as it sheds light on the fundamental effect of excess capital retained by banks over and above the required minimum. Therefore, Buffer Capital Theory supports the connection between adequate capital and financial success.

Demsetz (1972) put out the efficiency structure theory which states that structure influences performance in the sense that market power due to entrance restrictions or tacit collaboration leads to concentration and increased profitability. The X-efficiency along with scale efficiency assertions are the foundations of the two assumptions that make up the theory. Base to the X-efficiency hypothesis, establishments with excellent leadership and processes reduces costs and increase revenue, moving the banking institution closer to its ideal practices as well as the lower limits price slope (Fisseha, 2015). The scale-efficiency hypothesis is based on the claim that certain banking institutions are able to ramp up their activities in an efficient way, which leads to lower expenses. Particularly, decreased expenses result in greater profitability and, eventually, a faster rate of expansion for the size of effective banking institutions. According to the efficiency structure theory, both the decisions taken internally by bank management and the broader decisions about policies made by banks are reflected in the portfolio mix, profitability, and returns to shareholders of a bank. According to this hypothesis, both internal and external factors have an impact on banks (Ang&Longstaff, 2013). However, how these characteristics are handled has an impact on how banks operate in general. The premise of the efficiency theory is that the best output may be achieved through scale of economies. As a result, optimum efficiency in operation is attained at a degree of production where all potential scale economies are effectively used (Niresh, 2012). According to the Efficient Structure hypothesis, institutions that effectively control and use information technology abilities are able to lower their operating costs, which in turn lead to higher return on investment (Mirzaei, 2012).

According to the Efficiency Structure Theory, managerial effectiveness and bank stability are related. The theory's postulates contend that greater amounts and ultimately consistency result from enhanced scale efficiency (Alchian&Demsetz, 1972). Efficiency helps banks achieve the lowest costs and highest profits, which leads to better profitability. As a result, management effectiveness also leads to an increase in market share and better market concentration (Lotto, 2017). The banking industry, including banks, operates higher in terms of everyday operations and interactions based on how productive companies are. As stated by Demsetz (1973), the efficient structure hypothesis (hereinafter the ES hypothesis) states that as effective companies thrive in the face of intense market rivalry, expanding to take on a wider footprint, a larger market share, and higher profits. Consequently, the market gets increasingly focused. According to this idea, a market grows more concentrated as it gains efficiency, hence counter-concentration policies produce unneeded distortions in the economy. The preposition is pertinent to this research due to the fact that the managerial effectiveness as well as financial performance connection with regard to financial enterprises is supported by the efficiency structure hypothesis. Increased financial performance of banking organizations is a direct result of higher managerial efficiency levels, and vice versa. Therefore, this theory supports managerial efficiency on performance financially.

Keynes (1936) authored Interest Rate Parity Theory. The idea states that variations in the interest rates of a nation's currency relative to its foreign counterparts that participate in international trade are what cause modifications to the nominal rate of interest. The premise of the argument is that there are differences in interest rates in domestic and international economies. The parity requirement is predicated on the idea that, in the absence of market activity for the sale or purchase of currencies, discrepancies in interest rates between two distinct

currencies can be explained by a discount or premium for the foreign currency's forward rate of exchange (Bhole & Dash, 2002). This notion states that parity exists and is necessary for dealing with money. Banks need to charge interest on debts in order to stay in business and efficiently carry out their role as intermediaries. The rate of interest imposed on loans therefore often influences the banks' financial performance. Higher rates of interest guide to greater profitability, whereas lower rates lead to a smaller profit margin and consequently worse financial performance of banking institutions.

A theoretical state known as covered interest rate parity is one in which there is a balanced linkage concerning interest rates and the present-day and projected currency values of two nations. The covered interest rate parity scenario removes the chance of future contract arbitrage, which is prevalent among countries with different interest rates. Covered interest rate parity is a non-arbitration requirement that could be utilized in the international exchange markets to calculate the forward foreign rate of exchange. The requirement further stipulates that investors can hedge foreign exchange risk or unexpected variations in exchange rates. Uncovered interest rate parity was developed by Keynes (1923) and is currently the foundation among numerous macroeconomic theories. A projected loss from the euro's decline against the dollar must offset any more return on euro deposits if uncovered interest rate parity is present and an investor is unconcerned about choosing between two money cash deposits (for example, euros and US dollars). On the other hand, any decline in return on euro deposits needs to be compensated for by a projected increase in value due to the euro's strengthening relative to the dollar. Since risk neutrality is assumed in the strictest form of uncovered interest parity, risk premiums need to be exactly zero. This suggests that the expected appreciation of a currency should match the dissimilarity in the current rates. The hypothesis is applicable to this investigation as it offers perspective into future exchange rate changes. Any perceived instability or changes in a country's economic strength could lead investors to relocate cash, resulting in variations in exchange rates. The theory supports the interest rate moderator on the link amongst firm attributes and financially performed firms.

Empirical Review

Zubairu, Adamu, and Usman (2022) studied how business characteristics and interest rates affects the financial performance of Unilever Nigeria Plc. For the investigation, an ARDL model (Autoregressive Distributive Lag) was employed. The results demonstrate that dividend policy has no discernible impact on the company's financial success, whereas capital structure and management effectiveness have a large beneficial impact. Likewise, the investigation indicated that interest rates significantly harm a company's financial success. The study utilized ARDL model, but, this used panel model of regression. The investigation focused on Unilever Plc in Nigeria while this investigation was on MFIs in Kenya given the study focused on banking institutions.

Mukasekuru and Munene (2022) assessed how lending rate policies affected Rwanda's commercial banks' financial success. The researcher employed a descriptive study design using two mixed approaches, such as a quantitative and qualitative technique, during the data gathering process. Information for the study was gathered from I&M bank. A sample of 99 people was chosen from the 132 people who made up the entire targeted group using the stratified random sampling approach. Based on Pearson correlation, it has been determined that there is a considerable connection amongst lending interest rate and performance financially. The aim of this investigation was to investigate how lending rate affects financial performance, whereas the currently investigated interest rate effect of moderation on the link amongst firm attributes and performance financially. The investigation based on Rwanda's commercial banks, using the Pearson correlation method. This investigation was based on Kenya's microfinance banks due to the monopolistic competition of banking institutions, using the panel regression estimation technique.

Hassan and Oyedele (2022) studied how interest rates affect Nigerian listed financially performed commercial banks from 2008-2020. The sample size consists of the 10 banks that were listed as of December 31, 2020. The sampled annual reports were used to extract the panel data. Utilizing Pooled Regression, findings uncovered that Interest Rate notably and unfavorably impact the financial performance of the sample institutions. The investigation explored how interest rate impact performance whereas the investigation current aim is to explore the impact of interest rates' moderating influence on the link amongst company attributes and performance. Pooled Regression was utilized for the previous investigation, a similar panel regression method was used for the present investigation.

Imo (2021) studied Nigerian commercial bank performance and financial assets. UBA Plc Annual Report served as the source of secondary data for the evaluation period, which was published on December 31, 2018. The findings were subjected to linear regression which revealed a substantial and favorable correlation exists concerning cash equivalents and DMBs investment returns. Additionally, it stated that return on equity and DMBs equivalents in banks are favourable and noteworthy, and that those financial assets have a notable link with Nigeria's deposit money bank performance. The investigation explored the linkage between financial assets and bank performance in Nigeria, this investigation used the CAMEL model to determine its effect in Kenya's Microfinance banks.

Ngungu and Abdul (2020) investigated the effects a company attributes on the banks of Kenya's nonperforming loans. The moderating effect of interest rates was investigated in connection to the characteristics of the enterprises and the non-performing loans of Kenyan banks. This study used a causal approach to design. 40 banks that were open from 2013 to 2017 were the target market. The panel regression outcome unraveled that the influence of liquidity on the non-performing loans of Kenyan money deposit banks was minimal. Loans that are non-performing were notably impacted by adequacy of capital. Commercial banks in Kenya's non-performing loans were notably affected by bank size. The study's results also indicated that interest rates had no discernible impact on the association amongst company features and loans that non-performed. The investigation targeted Kenya's that offered commercialized services. This investigation was carried out on Kenya's microfinance banks. The investigation period was 2013-2017, this investigation period was 2016-2022.

Al Zaidanin (2020) analyzed the effects of earnings ability on the success of 13 Jordanian deposit money banks financially from 2013-2019. The primary data were collected from the Jordanian money deposit banks released financial records that have been audited. The study focused on the effects of earnings ability on profitability using the model of fixed effect regression. Findings, the equity ratio to assets total has a robust unfavourable link with ROE and ROA. The aforesaid investigation focused on money deposit banks in Jordan and measured earnings ability as equity to total assets. The present investigation focused on Kenya's microfinance banks and measure earnings ability as loan income to deposit cost.

Mennawi (2020) unraveled how liquidity risk affect Sudanese Islamic banks performance from 2008-2018. Panel regressed on 13 banks, the outcome revealed that risk of liquidity had a favourable and notable influence on performance. Similar to the previous investigation, this investigation employed panel regression technique of analysis. However, the investigation was performed in Sudan, but this investigation was performed in the context of Kenya's microfinance bank. Moreover, the study used time period from 2008 to 2018, on the foundation that bank policies around the world improve every year, this study used the time period from 2016-2022.

Li, Musah, and Osei (2020) examined the link amongst liquidity and the sustainability of Ghana's listed non-financial enterprises from 2008 to 2017, 15 entities published annual reports provided panel data for the investigation. Tests for causality, heteroscedasticity, co-integration, serial correlation, cross-sectional dependence, and unit root were run first. The results of the generalized least squares (GLS) regression uncovered that, when evaluated via the ratio of cash flow, liquidity had a modestly favorable impact on ROE but a considerable negative influence on firms' ROE. Finally, a causality test revealed that, Other than Current Ratio and ROE, which have bidirectional connection surrounding them, no other causal relationship between the other variables was discovered. The investigation utilized ROE to compute performance; this investigation utilized ROA. The investigation was conducted for Ghana's non-financial establishments. This present investigation was based on Kenyan microfinance banks.

Getachew, Varaprasad, and Abebe (2019) studied earnings ability affects the financial performance of particular Ethiopian deposit money banks. Eight commercial banks, one of which is a public sector bank were selected on the basis of their longer than ten-year operational history. The investigation used a quantitative research method. For the study, bank financial statements from 2005 to 2016 were examined using panel data. E-views 9 software was utilized for the regression analysis. The investigation's unveiled that earnings ability had a noteworthy effect on money deposit banks' performance measured by ROE and ROA. Similar to the previous investigation, this investigation employed panel regression technique of analysis. However, the investigation was based on Ethiopia, this investigation was based on Kenya due to variation in market structure and competition as well as legal and regulatory frameworks.

Odekina, Gabriel, and Solomon (2019) studied how managerial efficiency affect performance of Nigeria's DMBs. For the investigation estimation technique, the random effect of panel regression analysis was used. The investigation recognized that operational adequacy and credit risk had notable and unfavorable effect on the financially performed Nigeria's banks. Similar to the previous investigation, this investigation employed panel regression technique of analysis. However, the research was conducted on deposit money banks in Nigeria, and the outcomes cannot be applied to Kenyan microfinance banking due to variations in client segments, operations, risk profiles and regulatory frameworks.

Kiemo, Muturi, and Mwangi (2019) investigated the capital sufficiency effect on Kenyan money deposit banks' financial stability. Capital to risk weighted assets total was utilized for capital adequacy, whereas stability of finance was measured for non-manufacturing enterprises using Altman's Z-Score plus Model. The investigation based on 39 Kenyan money deposit banks within 2000 and 2015. Secondary information obtained from money deposit banks' financial statements. The GMM model, which was driven by stepwise dynamic panel regression, was used. According to the Altman's Z-Score plus Model for non-manufacturing firms, adequacy of capital had notable beneficial influence on the financial stability of Kenya's banks. The previous investigation hinged on Kenyan money deposit banks, while microfinance institutions were the center because microfinance is

described by financial instability. Similar to the previous investigation, this investigation employed panel regression technique of analysis.

Ngeno (2019) identified the link flanked by adequate capital frame and Kenyans DT-Saccos financial feat. On 111 deposit-taking Saccos, an evocative survey plan was implemented. The study used correlational and regression analysis techniques. Risk management, credit control, internal funding, managerial aptitude, and portfolio selection were found to have a direct impact on Kenya's DT-SACCOs' financial success. Furthermore, the result revealed that outside funding had adverse financial success impact. This investigation based on DT-SACCOs in Kenya's Nairobi County, conversely, the current investigation concerted on Kenyan MFIs. Risk management, credit control, internal funding, managerial aptitude, and portfolio selection were also variables utilize in the investigation, with the CAMEL model being used in this investigation. Also, the previous investigation used correlational regression as the investigation employed panel regression usage.

III. Research Methodology

Research Philosophy

The body of information that significant presumptions and biases of an investigation are founded is referred to as research philosophy (Cooper & Schindler, 2016). There are two extremes to research philosophies; that which is known to be true (epistemology) and that which is assumed to be true (doxology). Research therefore, purposes to transform what is assumed into things known. In this light, research philosophies are categorized into two main types: positivist and interpretivist or antipositivist (Hughes &Sharrock, 1997**)**.

Positivist philosophy involves the objective observance and description of a phenomenon. Here, it is believed that reality is stable thus, phenomena can and ought to be ignored and clarification ought to be repeated. In positivist research, the reality is manipulated with variations in the independent variable in order to ascertain consistencies and build relationships among part of the integral components of the social world. Then, estimates would be established on the previous observations and explanations of truths and their inter-relationships. Interpretivist philosophy is basically subjective research. Here, the researcher studies a phenomenon in its natural setting and affecting it. The interpretivist research though acknowledges that there may abound several interpretations of reality, the interpretations are in themselves a part of the exact knowledge being pursued. The positivist philosophy served as the study's guidance since it depends on quantitative observations that result in statistical analysis. Also, the current investigation follows the positivist philosophy since it intends to ascertain the relationships between the different constituents of firm attributes and Kenyan microfinance banks' financial performance.

Research Design

Research design, as per Kothari (2004), is a general strategy that directs research activities. It demonstrates the organization of the study. It instructs the researcher on how to respond to inquiry-based inquiries. In order to generate meaning, it ties together the crucial elements of the research (Maxwell, 2012). The current study applied the design of explanatory non-experimental research as it was basically be involved with the evaluation of the link between firm attributes and Kenyan microfinance banks' financial performance using statistical analysis. This design was based on the quantitative approach. This approach best suits the present research since the recommendations proffered were tied to the conclusions that would arise from the statistical analysis to be done. The quantitative approach is necessary since numbers are used to represent the information of firm attributes as well as financial performance.

Empirical Model

Panel regression model is a depiction of the physical connections amongst the research variables (Saunders *et al.,* 2009). In order to provide better observations for time series and cross-sectional information, the panel regression model was applied in the investigation. This is because it enables the exclusion of theoretical factors and facilitates the comparison of organizations over time (Kothari, 2004).Based on the theoretical (Stakeholders, liquidity preference, financial intermediation, Buffer Capital, efficiency structure, and Interest Rate Parity Theory) explanations of the link amongst firm attributes and financial performance, the present investigation adopted the following model in its analysis of the impact of firm attributes on financial performance.

Direct Effect Model

$FP_{it}= \beta_0 +\beta_1 CA_{it}+\beta_2 AQ_{it} +\beta_3 ME_{it} + \beta_4 EA_{it} + \beta_5 LQ_{it} + \varepsilon it$

Where:

FP= Firm Performance, CA =Capital Adequacy, AQ= Asset Quality, i= Bank , ME=ManagerialEfficiency, EA=Earnings ability, t= Time period , LQ= Liquidity, B_0=Constant, B_{1-5}=Beta Coefficients ε= Error term

Moderating Effect Model

When an intervening variable affects the link amongst an explanatory and a dependent variable, this is referred to as a moderation effect (Hayes &Mathes, 2009). According to Kraemer, Stice, Kazdin, Offord, and Kupfer (2001), the Whisman and McClelland moderation test was used to evaluate the moderating impact in this study. In order to ascertain how the interest rate modifies the link amongst the firm attributes and financial performance:

Step One

$FP_{it}= \beta_0+\beta_1 FC_{it} +\beta_2 IR_t +\varepsilon$

Step Two

$FP_{it}=\beta_0+\beta_1 FC_{it}+\beta_2 IR_t+\beta_3 FC*IR_t +\varepsilon$

Where: FP= Financial Performance, t= Time period, IR= Interest rate , i= Bank , FC= Composite of firm characteristics, *****= Interaction term , β_1 to β_3= Coefficients

ε= Error term

A moderating impact of the moderating variable is present when the value of the interaction terms is statistically significant, but not when it is zero or statistically insignificant (Whisman& McClelland, 2005).

Table 3.1 Moderation Tests Decision Criteria

Table 3.1 presented the diverse criteria used for testing the moderation effects.

Scenario	Model One	Model Two	Conclusion
One (1)	β_2 is revealed to be significant	β_2 is insignificant	Interest rates are not moderators
Two (2)	β_2 is revealed to be significant	β_3 is significant	Interest rates are moderators

Source: Whisman and MacClelland (2005)

Target Population and Sample Design

A population, in accordance with Mugenda and Mugenda (2013), is a collection of items having comparable observable traits. Every whole group that complies with a set of requirements is referred to as a population (Creswell & Creswell, 2017). In this investigation the target populace was the 13 microfinance Kenyan banks. This formed the individual

Thirteen microfinance banks were examined as part of the project, which used census. Census data offer a reliable depiction of the population and more precise findings that are in accordance with Hakim (2012). Therefore the 13 Kenya's Microfinance banks were the sample size of this investigation and used time period from 2016-2022because significant developments occurred during this period in the areas of technology, legislation, and policy relating to Kenya's financial sector. The number of bank acquisitions, mergers, and receiverships that have happened during this time frame also indicates that the banking sector is undergoing turmoil.

Data Collection Instrument

The investigation utilized panel data given that it can be examined, uses less resources, as well as renders panel data analysis simple (Saunders *et al*., 2009). It also aids in identifying patterns, drawing connections, and directing additional variable analysis in research (Alvin & Campbell, 2005). Panel data generally refer to information that includes time series observations of several variables (Hsiao, 2010). Consequently, two dimensions minimum are involved in observations in panel data: the cross-sectional aspect (noted by subscript i) and the temporal aspect (observed by subscript t). It also refers to a grouping of variables acquired from several data, assembled over regular time intervals (Eric, 2019). As recorded in financial records of the banks, CBK and KNBS the information was obtained for the years 2016 to 2022.

IV. Results And Discussions

Descriptive Analysis

Fundamentally, descriptive analysis summarizes and describes the main characteristics, patterns, and trends present in the collected data. It involves organizing, presenting, and interpreting information in a significant way to gain a better understanding of the research variables. The outcome documented and explained the statistics of the factors as it relates to mean, standard deviations as well as the minimum and maximum values. The outcome obtained is uncovered in Table 4.1.

Table 4.1: Descriptive Results

Variable	Obs	Mean	Std. Dev.	Min	Max

Financial Performance	92	-.0737226	.1173981	-.58382	.04661
Capital Adequacy	92	.1484116	.2665131	-.97581	.83645
Asset Quality	92	41.9104	170.4347	0	1600
Managerial efficiency	92	-.3325	1.72238	-14.88	3.56
Earning Ability	92	3.428668	7.537151	-4.365	53.52632
Liquidity	92	.8423913	2.079836	.1	20.05
Interest Rate	92	9	.6718548	8.25	10

Source: Study Data (2024)

The outcome exposed noted that the performance financially mean average value of -0.0737, with a deviation of 0.1174standard. The inverse mean detailed that, on average, microfinance banks in Kenya have a slightly below-average financial performance. Nonetheless, the standard deviation of .1174 indicates moderately low variability around the mean. The least value of -.58382 and the highest value of .04661 provide the range within which financial performance varies. A report from the Association of Microfinance Institutions in Kenya (2019) indicated that the average return on assets (ROA) within the microfinance sector ranged between 3% and 5%. The average capital adequacy ratio stands at 0.1484, with a standard deviation of 0.2665. This positive average suggests that, generally, microfinance banks in Kenya maintain a favorable capital adequacy ratio. A higher capital adequacy ratio suggests that banks have a stronger ability to absorb financial shocks and meet regulatory requirements. The deviation of 0.2665 on standard suggesting some inconsistency around the mean. The least value of -0.97581 suggests that certain banks exhibit lower levels of capital adequacy, whereas the highest value of 0.83645 signifies that there are banks with higher capital adequacy levels A report by the Association of Microfinance Institutions in Kenya (2019) showed that the average capital adequacy ratio for the microfinance sector was around 20-25%. The bank has set a minimum capital adequacy ratio of 10% for microfinance institutions (CBK, 2013).

The mean asset quality is 41.9104, with a reasonably high deviation of 170.4347 from standard. The wide range of values suggests significant variability in asset quality among microfinance banks in Kenya. However, the relatively high standard deviation of 170.4347 suggests considerable variability in asset quality among the banks. The least value of 0 indicates that some banks have no asset quality issues, while the maximum value of 1600 indicates the presence of banks with relatively poorer asset quality. A report by the Association of Microfinance Institutions in Kenya (2019) showed that the average non-performing loan (NPL) ratio for the microfinance sector was around 8-10%. The Central Bank has set guiding principle for microfinance institutions to maintain prudent lending practices and manage asset quality risks (CBK, 2013). The mean managerial efficiency is -0.3325, with a relatively high deviation of 1.7224 from standards. The negative mean suggests that, on average, microfinance banks in Kenya may face challenges in terms of managerial efficiency. The deviation of 1.7224 on standard indicates substantial variability in managerial efficiency scores. The smallest value of -14.88 and the greatest value of 3.56 demonstrate the range within which managerial efficiency varies across the studied banks in Kenya. A report by the Association of Microfinance Institutions in Kenya (2019) indicated that the average operating expense ratio for the microfinance sector was around 15-20%.

The mean earning ability is 3.4287, with a deviation of 7.5372standards. The positive mean suggests that, on average, microfinance banks in Kenya have positive earnings ability. However, the wide standard deviation indicates substantial variability in this variable among the banks. The value of smallest amount365 implies that some banks may face challenges in generating earnings, while the value of ceiling 53.52632 indicates the presence of banks with higher earning ability. The outcome corroborates Ndung'u (2018) who unveiled that earnings ability is crucial for ensuring the long-term viability of the sector and its ability to provide credit to underserved populations. The mean Liquidity value is 0.8424, with a standard of 2.0798deviations. The positive mean explains that, on average, microfinance banks in Kenya have a positive liquidity position. A higher liquidity level suggests a greater ability to meet short-term obligations. The value of 0.1minimum and the value of 20.05 maximum show the range within which liquidity varies across the banks studied. A report by the Association of Microfinance Institutions in Kenya (2019) indicated that the average liquidity ratio for the microfinance sector was around 35-40%. The interest rate mean is 9, with a standard of 0.6719deviations. This variable represents the average interest rate offered by the central banks to the microfinance banks in Kenya. The lowest value of 8.25 and the utmost value of 10 demonstrate the range within which interest rates are observed. The outcome aligns with Central Bank of Kenya (2020) that the interest rate range of 8.25-10% suggests that the central bank is actively supporting the microfinance sector to provide credit at relatively lower rates, thereby enhancing financial inclusion.

Correlation Analysis

The result of the correlation analysis was presented which explore the relationships between various variables (firm characteristics, interest and performance financially) in Kenyan banks that operates microfinance.

The correlation analysis provides insights into the degree and direction of associations between different factors, offering a comprehensive understanding of their interrelationships.

Table 4.2: Correlation Analysis Results

	Financial Performance	Capital Adequacy	Asset Quality	Managerial efficiency	Earning Ability	Liquidity	Interest Rate
Financial Performance	1.0000						
Capital Adequacy	0.3778*	1.0000					
Asset Quality	-0.2061	-0.0040	1.0000				
Managerial efficiency	0.3824*	-0.0101	0.0641	1.0000			
Earning Ability	0.2033	-0.0208	-0.0491	0.0688	1.0000		
Liquidity	-0.0297	-0.0079	0.0162	0.0109	-0.0262	1.0000	
Interest Rate	-0.0594	0.2274*	-0.1489	-0.1103	0.0927	-0.1470	1.0000

Source: Study Data (2024)

The outcome unveiled that capital adequacy has positive coefficient of 0.3778 suggesting a moderate positive linkage with financial performance significantly. This connotes that higher capital adequacy levels can contribute to improved financial performance, as the bank has a stronger financial cushion to withstand adverse events. The uniformity in the results is evident in Kiemo, Muturi, and Mwangi (2019); Nguyen (2021); and Bhattarai (2021). Asset quality has a negative coefficient of -0.2061 which implies a weak negative relationship with financial performance insignificantly. This suggests that a deterioration in asset quality, such as a higher number of non-performing loans, may have a slight adverse impact on the bank's overall financial performance. The divergence of the results is associated with Sile, Olweny, and Sakwa (2019);Auma (2021) and Imo (2021). The outcome could be accredited to the studies difference. Managerial efficiency has a positive coefficient of 0.3824 suggests a weak positive relationship with financial performance significantly. This implies that more efficient management practices can contribute to better financial performance by optimizing resource allocation and reducing operational inefficiencies. The alignment of the outcome is noted with Nyakieni (2022) and Ahmed, Majeed, Thalassinos, and Thalassinos (2021). The earning ability has a coefficient of 0.2033 suggesting a weak positive bond with financial performance insignificantly. This implies that a higher earning ability may have a slight positive impact on the bank's overall financial performance, but other factors might have a more significant influence. The results agree with Al Zaidanin (2020). Liquidity has a coefficient of -0.0297 which indicates a very weak negative and insignificant relationship with financial performance. This implies that liquidity levels have minimal impact on the banks overall financial performance. The outputs diverge from Mennawi (2020); Li, Musah, and Osei (2020); Religiosa and Surjandari (2021) and Alqemzi (2022). These differing outcomes may be attributed to the utilization of different contextual measurements in the respective studies. Interest rate has a positive and insignificant coefficient of 0.2274 that suggests a weak positive link with financial performance. The results are consistent with Ngungu and Abdul (2020) and Hassan and Oyedele (2022).

Regression Analysis

Regression analysis serves as a powerful statistical tool that delves into the intricate connections between different variables, enabling the gauging of the independent factors effect on the explain factor. Specifically, when delving into the influence of distinct firm characteristics on the MFBs performance financially in Kenya, regression analysis provided a means to estimate and comprehend the magnitude of these effects. Regression analysis was considered a valuable tool to quantify and analyze this relationship. Kameri-Mbote (2009); Masinde and &Wawire (2014); and Gitau and Kariuki (2019) have all applied this method in the context of Kenyan MFBs.

Direct Effect Results

The following section presents the outcomes of our analysis, focusing on the direct effects of different variables on the financial performance of Kenyan microfinance banks. This section provides valuable insights into the specific influences and magnitudes of these variables, revealing their direct impact on the MFBs' financial performance. The outcome of the direct effect estimation is depicted in Table 4.9.

Table 4.9: Direct Effect Results

Financial Performance	**Coef.**	**Robust Std. Err.**	**z**	**P>z**	**[95% Conf.**	**Interval]**
Capital Adequacy	.2057054	.0464991	4.42	0.000	.1145688	.296842
Asset Quality	-.0001047	.0000114	-9.19	0.000	-.000127	-.0000823
Management Efficiency	.0008969	.00078	1.15	0.250	-.0006318	.0024256
Earning Ability	.0210291	.0028961	7.26	0.000	.0153529	.0267053

Liquidity	-.0699751	.0483036	-1.45	0.147	-.1646485	.0246982
_cons	-.0562888	.0342782	-1.64	0.101	-.1234728	.0108953
R-Square	0.4465					
Wald chi2(5)	254.76					
Prob> chi2	0.0000					

Source: Study Data (2024)

The outcome presented in Table 4.9 displayed a coefficient for the constant term as -0.0562888, indicating the estimated financial performance when every independent factors are zero. However, the constant term is not significant (p-value = 0.101) at conventional significance levels of 0.05. The R-squared value of 0.4465 indicates that the firm characteristics included in the regression model explain just about 44.65% of the discrepancy in financial performance. The statistically significant Wald chi-square value of 254.76, accompanied by a remarkably low p-value of 0.000, showcases the significance of the model. These results emphasize the collective influence of firm characteristics on the performance of Kenyan microfinance banks financially.

The findings exposed capital adequacy influence on the performed banks financially in Kenyawhich was establish to be positively significant, with a coefficient of 0.205. This suggests that for every unit surge in capital adequacy, a corresponding estimated increase of 0.205 units is anticipated in the financial performance of these banks. The 0.000 as the p-value of the coefficient, suggesting that adequacy of capital significantly affect performance financially and positively. Unveiled by the outcomes, asset quality inversely (-0.0001) affect financial performance, demonstrating that a one-unit improvement in asset quality is associated with an estimated decrease of 0.0001047 units in financial performance. The estimate is significant (p-value = 0.000), suggesting that better asset quality is associated with improved financial performance.

The outcome linked to management efficiency positively (0.0008) affect performance of the banks financially, but not significant (p-value = 0.250) at conventional significance levels. This suggests that management efficiency insignificant affect the financially banks that performed. This implies that a hike in the efficiency of management would amount into 0.0008 units in financial performance. Uncovered by the result, earning ability positively (0.0210) affect performance financially, indicating that a one-unit increase in earning ability is associated with an estimated increase of 0.0210 units in financial performance. The coefficient is said to be significant (p-value = 0.000), suggesting that higher earning ability is linked with improved financial performance. Liquidity is discovered to inversely (-0.0699751) affect these banks performance financially, but insignificantly (p-value = 0.147) at the conventional significance levels. This suggests that liquidity insignificantly affect Kenyan microfinance banks financial performance. Therefore, a unit surge in liquidity would results in 0.0699declines in the financial performance.

Step One Moderation Effect

The initial stage of conducting moderation analysis in regression involves incorporating an interaction term between the independent variable (firm characteristics) and the moderator factor (interest rate) into the regression model. This interaction term encompasses the combined effect of both factors on financial performance and enables the evaluation of moderation. As discussed by Dawson (2014), the first step entails generating the interaction term by multiplying the independent factor by the moderator determinant. This interaction term represents the product of the two variables, capturing their interactive influence. By including the interaction term within the regression model, subsequent procedures such as coefficient interpretation and statistical significance testing can be performed to comprehend the moderation effect and its implications for the bond concerning firm characteristics and finance performance. Consequently, the outcome of the first step in moderation analysis is recorded in section 4.10.

Table 4.10: Step One Moderating Effect Results

ROA	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FirmXtics	-.0003777	.00032	-1.18	0.238	-.001005	.0002495
Interest Rate	-.0126537	.0148754	-0.85	0.395	-.0418088	.0165015
_cons	.0410444	.1366619	0.30	0.764	-.226808	.3088969
R-Square	0.0438					
Wald chi2(2)	1.84					
Prob> chi2	0.3989					

Source: Study Data (2024)

With the inclusion of the moderator in the model, the intercept represents the baseline level of financial performance when firm characteristics and interest rate are zero. In this case, the intercept is positive (.0410), but it is not significant ($p > 0.05$). Therefore, the intercept does not provide evidence of a significant effect on ROA. Additionally, the R-squared value of 0.0438 signifies that the model explains only a small proportion of the

variance in financial performance. The moderation outcome unveiled a decline in the $R^2$when compared with the outcome from the direct effect model.

The coefficient for firm characteristics is negative (-.0003777), there seems to be a potential connection concerning an increase in firm characteristics and a decrease in the performed banks financially. However, the coefficient associated with this relationship does not reach statistical significance at the conventional threshold ($p > 0.05$). Consequently, the evidence available is insufficient to assert that firm characteristics significantly impact on the banks performance financially. Additionally, the coefficient for the interest rate reveals a negative value of -0.0126537. This suggests that as interest rates rise, there is an associated decline in the banks that financially performed. However, similar to the firm characteristics, the coefficient is not significant ($p > 0.05$). Therefore, there is not enough evidence to suggest that interest rates importantly affect the banks' performance financially.

Step Two Moderation Effect

As per the proposal put forth by Aiken and West (1991), the subsequent stage of moderation analysis entails integrating the interaction term that combines the independent factor and the moderator factor into the model of the regression. This interaction term represents the combined impact of both factors on the explained variable and enables the evaluation of moderation. By including the interaction term, the model considers the interactive influence of the regressors and the moderator variable on the outcome. By including the interaction term, Johnson and Smith (2018) noted that the specific influence of the moderator variable on the linkage relating to the explanatory factor and the explained factor can be examine. This step helps to understand how the moderator variable strengthens or weakens the relationship, providing insights into the conditional factors effects that independently affect the regress and. Therefore, considering the outcome from this survey, the output is depicted in Table 4.11.

Table 4.11: Step Two Moderating Effect Results

ROA	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
FirmXtics	.0182408	.0312595	0.58	0.560	-.0430268	.0795083
CBR	-.0035477	.0212739	-0.17	0.868	-.0452437	.0381483
FirmXticsCBR	-.0022555	.0037877	-0.60	0.552	-.0096794	.0051683
_cons	-.0327085	.1839348	-0.18	0.859	-.3932141	.3277971
R-Square	0.0392					
Wald chi2(3)	2.15					
Prob> chi2	0.5416					

Source: Study Data (2024)

Upon examining Table 4.11, it becomes evident that the constant coefficient, which measures the intercept term's impact on the financially performed banks, carries a negligible value of -0.0327. Furthermore, the insignificance of this coefficient is confirmed by the p-value of 0.859. The intercept does not hold any substantial influence on the performance of the banks financially under investigation. Additionally, the R-Square value of 0.0392 reveals that the factors included in the model describe a mere 3.92% of the variability observed in the banks' performance financially. This modest R-Square value indicates that the selected variables have limited explanatory power in this context. Therefore, there was a reduction in the $R^2$from that which was obtained in the first step of the moderation effect. The evaluation of the model's performance continues with the Wald chi2 statistic, which yields a value of 2.15. The resultant p-value of 0.5416 suggests that collectively, the factors insignificantly contribute to explaining the financially performed banks. This is further avowed by the p-value higher than the conventional 0.05 level of significance level, noting insignificance in the model's overall explanatory capacity.

The output unveiled that firm characteristics exhibit a positive effect of 0.0182 on the performance of these banks' finances. Nonetheless, upon closer examination, it becomes apparent that this influence is insignificant, as confirmed by the p-value of 0.560. Consequently, it can be concluded that firm characteristics, as represented by FirmXtics, do not hold a noteworthy influence over the performance of these banks financially. Similarly, the analysis indicates an inverse bond regarding the interest rate and financial performance, with a coefficient of -0.0035. However, like the previous finding, this effect is deemed irrelevant, with a p-value of 0.868. Therefore, it can be inferred that the interest rate insignificantly impact the banks performance financially. Furthermore, investigating the interaction term FirmXtics CBR, it is observed that its coefficient is negative, measuring -0.0022555 in relation to financial performance. However, similar to the previous findings, this coefficient is not significant. Hence, there is insufficient proof to suggest that the interest rate significantly affects the bond of firm characteristics with performance of the banks financially.

Hypothesis Testing and Discussion of Findings

The survey conducted hypothetical test and discusses the outcomes regarding firm characteristics effect on the bank's financial performance. The survey assesses the significance and direction of the relationships concerning the independent variables (Firm characteristics and interest rate), the interaction term (Firm characteristics*interest rate), and the explained factor (financial performance. Through hypothesis testing, the survey determines whether the variables have significant effect on the banks performance financially. The discussion of the implications of the findings and their alignment or deviation from our initial expectations was evaluated.

Stating from the precise objective which determined the effect of capital adequacy on Kenya's banks' performance financially, the premise alludes that capital adequacy insignificantly affect financial performance. Owing to the precise outcome attached to this objective, the null hypothesis is rejected, implying that capital adequacy significantly affect the Kenyan banks' performance financially. A higher level of capital adequacy indicates that microfinance banks have a stronger financial base, which enables them to withstand financial shocks, meet regulatory requirements, and maintain stability. The outcome could be linked to a well-capitalized microfinance bank that is better positioned to attract deposits, secure financing, and fund its lending activities. This allows the bank to provide sufficient credit to borrowers, which positively impact its profitability and overall performance financially. The consistency of the outcome is noted in the work of Kiemo, Muturi, and Mwangi (2019) who uncovered that capital adequacy had a notable beneficial effect on the financial stability of Kenya's money deposit banks. Nguyen (2021) noted that there was a favourable association amongst the capital adequacy ratio and the Vietnamese money deposit banks' financial soundness. Bhattarai (2021) unveiled that capital ratio favourably affect return on asset.

Deducing from the course of the survey which sought to analyze asset quality effect on Kenyan performance of microfinance banks financially, the hypothetical notion asserted that asset quality insignificant affect the performed banks financially. In view of the outcome, the null claim is discarded implying that asset quality has important effect on the Kenyan performance of microfinance banks financially. The output could be accredited to high levels of NPLs that has resulted in increased provisioning expenses and losses for microfinance banks. Allocating resources to cover potential losses from non-performing loans has reduces the profitability and overall performance of the institution financially. The aligning of the outcome is tied to Sile, Olweny, and Sakwa (2019) brought to light impact of significant of asset quality on the performed banks financially. Similarly, Auma (2021) discovered a substantial influence of asset quality on their financial performance. Imo (2021) disclosed that financial assets have a notable link with Nigeria's deposit money bank performance.

Precision of the survey sought to evaluate the effect of management efficiency on the bank's performance financially in Kenya. The hypothetical claim said that management efficiency insignificantly affect performance financially amongst microfinance banks in Kenya. The unveiling outcome observed that insignificantly and positively affects performance financially in the banks in Kenya thus leading to the null statement non-rejection of no significant. The outcome could be linked to the measurement of management efficiency in this analysis which may have limitations. The specific metrics or indicators used to assess management efficiency may vary, and the chosen measures may not fully capture the complexity and nuances of management practices within microfinance banks hence producing inconsequential financially performed banks effects in Kenya. Notably, the outcome corroborates with Odekina, Gabriel, and Solomon (2019) exposed that operational efficiency had insignificant impact on the financial performance of Nigeria's commercialized banking institutions. Contrarily, Nyakieni (2022) unfolded that the performance financially of Kenyan banks and managerial efficiency has a substantial equilibrium relationship. Ahmed, Majeed, Thalassinos, and Thalassinos (2021) noted that management efficiency, and bank diversification had notable and beneficial effects on NPLs. The dissimilarity in the outcomes of the surveys could be connected to the fact that these studies were performed in different context with some utilizing different measurements.

Effect of earning ability was evaluated on the performed Kenyan microfinance banks financially. The hypothetical statement which followed from the aforementioned is that earning ability has non-significant performance of the banks' financial effect. Drilling from the outcome of the survey, earning ability significantly affect the banks; performance financially thus resulting in the null assertion rejection. The outcome could be accredited to the strong earning ability of the microfinance bank which has generated higher interest income from its loan portfolio, which is a primary revenue source for these institutions. This allows them to cover operating costs, provisioning expenses, and generate profits. A higher earning ability contributes to improved profitability and overall financial performance. The outcome is consistent with Barus (2017) concluded that earnings ability had a notable and beneficial impact on the performance of SACCOs financially. Getachew, Varaprasad, and Abebe (2019) discovered that earnings ability had a noteworthy impact on money deposit banks' financial performance. Nonetheless, Al Zaidanin (2020) unveiled that earning ability insignificantly affect ROA. The differing outcomes could be linked to the variables measurement which could produce varying levels of significant on the dependent factor.

The liquidity effect was analyzed on Kenyan financially performed banks. The theoretical statement which followed from the objective is that liquidity insignificantly affects the financially performed banks. In consonant with this, the outcome depicted that liquidity insignificantly affected the financially performed banks hence resulting to the retention of the null claim. The output could be linked to the fact that other possible factors such as asset quality, earning ability, or management efficiency have a more dominant influence on the performance of microfinance banks in Kenya financially. These factors may overshadow the impact of liquidity in the context of this analysis rendering the effect of liquidity insignificant on the banks' performance financially. The outcome disagrees with Mennawi (2020) who revealed that liquidity risk had a favourable and notable influence on the Sudanese Islamic banks' performance. Li, Musah, and Osei (2020) who disclosed that liquidity significantly impact on ROE. Religiosa and Surjandari (2021) indicated that liquidity had a notable inverse impact on banking companies' earnings management. Alqemzi (2022) concluded that financial performance is favourably and notably impacted by liquidity risk management. The differing outcomes may well be related to the different relative measurements utilized in the studies.

The survey evaluated the moderating effect of interest rate on the relationship concerning firm characteristics and Kenyan financially performed microfinance banks. The hypothetical statement the emerged from the objective is that interest rate insignificantly moderates the bond concerning firm characteristics and Kenyan microfinance banks financial performance. The output displayed that interest rate insignificantly moderate the nexus concerning firm characteristics and the financially banks performance leading to the acceptance of null statement. The outcome could be as a result of the insignificance of the negative moderating effect suggests that the impact of interest rates on the link of firm characteristics with financially banks performance may vary across different microfinance banks or within different segments of the industry. The specific characteristics, strategies, and operational models of microfinance banks can influence the bond relating firm characteristics with financial performance, potentially overshadowing the moderating effect of interest rates. The outcome aligned with Ngungu and Abdul (2020) who noted that interest rates had no discernible impact on the association amongst company features and money deposit banks non-performing loans of Kenya. Hassan and Oyedele (2022) concluded that that Interest Rate notably and unfavourably impacts the financial performance of the sample institutions. Nevertheless, Zubairu, Adamu, and Usman (2022) noted that interest rates significantly harm a company's financial success. Mukasekuru and Munene (2022) observed a considerable connection amongst lending interest rate and financial performance. The varying outcomes could be attributed to the different context the survey was performed.

V. Conclusions And Recommendations

Conclusions

The investigation put forth investigated firm characteristics effect on the Kenyan financially performed microfinance banks as the major objective. With reference to the precise interest to the survey, capital adequacy, asset quality, management efficiency, earning ability and liquidity effect on Kenyan microfinance banks' performance financially.

With the objective of examining the impact of capital adequacy on the performed microfinance banks financially, this study revealed a significant and positive bond with the two factors. The findings highlight that capital adequacy plays a crucial role in determining the banks performance financially. Hence, the conclusion arrived is that maintaining adequate capital levels is essential for promoting favorable financial outcomes within the microfinance sector in Kenya. Therefore, microfinance banks with higher levels of capital tend to exhibit better financial performance. A strong capital base enables microfinance banks to withstand adverse economic conditions, absorb potential losses, and maintain the confidence of depositors, investors, and regulators.

Through an exploration of the objective focused on the impact of asset quality on the financially banks performance in Kenya, the findings revealed a noteworthy and significantly inverse effect on their financial performance. Consequently, the survey concluded that asset quality serves as a critical determinant of the financially banks performance. This suggests that the quality of assets held by these institutions plays a pivotal role in shaping their overall financial well-being and profitability.

The survey investigated management efficiency effect on the Kenyan microfinance banks' performance financially. Owing to this objective, the outcome of the survey provided that management efficiency positively in an insignificantly affect financial performance of these banks. Drawing the survey conclusion on this outcome, there is an insignificant effect of efficiency management on the performance of Kenyan banks financially. This demonstrates that, in the context of Kenyan banks, efficiency management does not significantly impact on the overall financial health and profitability of these institutions.

Earning ability effect was determined on the performed banks financially of Kenyan banks that offered microfinance. Relating to the stated objective, its unveiled significant positive effect of earning ability on the financial performance. Regarding this, the survey draw a conclusion that earning ability of the banks significantly

affect the performance of these banks financially in Kenya. This outcome suggests that the ability of these banks to generate earnings plays a crucial role in determining their financial health and profitability.

Liquidity effect was investigated on the financially banks performance of Kenyan microfinance banks. The outcome connected to this objective is that liquidity negatively and insignificantly affect Kenyan financially performed banks. The conclusion is that, in the context of these banks, liquidity levels do not significantly impact on their overall financial health and profitability. This finding does not discount the importance of maintaining appropriate liquidity levels in microfinance banks. However, in the specific context of this study, the results suggest that liquidity may not be a primary driver of financial performance for Kenyan microfinance banks.

The investigation also evaluated the moderating effect of interest rate on the Kenyan microfinance banks' financial performance. Outcome unraveled displayed that interest rate moderate insignificantly and negatively affect the affiliation concerning firm characteristics and performance financially. The study concludes that the rate of interest has a moderating insignificant effect on the linkage of firm characteristics with the financial performed Kenyan microfinance banks. This finding suggests that the impact of firm characteristics on performance financially is not significantly influenced by changes in interest rates in the context of these banks.

Recommendations

In view of the survey outcomes, the recommendations of the survey were provided to suit these outcomes, particularly, factors that demonstrated significant effect on the financial performed Kenyan banks. The research unveiled that capital adequacy significantly and positively affects financially performed Kenyan microfinance banks. In view of this, Microfinance banks in Kenya should prioritize maintaining adequate capital levels to support their financial performance and overall stability. This includes meeting regulatory capital requirements and considering internal capital targets that exceed the minimum thresholds.

The outcome unveiled a significantly inverse effect on the banks' performance financially. Microfinance banks should focus on enhancing their credit assessment processes to ensure the quality of their loan portfolios. This includes thorough evaluation of borrowers' creditworthiness, effective collateral management, and ongoing monitoring of loan repayment behavior. Implementing robust risk management practices would help identify and mitigate potential credit risks. The survey outcome provided that management efficiency positively in an insignificantly affect financial performance of these banks. The banks should to invest in comprehensive management training programs and capacity-building initiatives. These programs should focus on developing leadership skills, strategic planning, risk management, and operational efficiency. By providing managers with essential resources and expertise, it can actively facilitate the improvement of decision-making procedures, leading to an overall augmentation in financial outcomes.

The outcome unveiled that earning ability significantly in a positive way affect the financially performed banks. Microfinance banks should focus on continuously innovating their products and services to enhance their earning ability. This may involve developing new loan products, introducing value-added services, or exploring partnerships that provide additional revenue streams. By meeting the evolving needs of their target market, microfinance banks can increase their earning potential. The outcome connected yielded that liquidity negatively and insignificantly affect Kenyan microfinance banks' financial performance. Microfinance banks should establish comprehensive policies and procedures to monitor and manage liquidity effectively. This includes setting appropriate liquidity ratios, conducting stress testing, and developing contingency plans to ensure the availability of funds during periods of increased liquidity demands.

Outcome unraveled displayed that interest rate moderate insignificantly and negatively affect the linkage concerning firm characteristics and the banks that performed financially. Microfinance banks should concentrate on improving aspects such as governance structures, operational efficiency, risk management practices, and asset quality. This can be achieved through capacity-building programs, training initiatives, and adopting best practices from successful microfinance institutions. By strengthening these firm characteristics, microfinance banks can enhance their financial performance irrespective of interest rate fluctuations.

Contribution to Knowledge

This survey makes significant contributions to the existing knowledge body concerning the relationship regarding firm characteristics with financially performed Kenyan microfinance banks. Firstly, it expands upon the current literature by examining the effects of firm characteristics and financially performed banks within this specific context. Secondly, it explores a previously unexplored aspect, namely, the moderating role of interest rates in the linkage concerning firm characteristics and performance financially. Thirdly, the research goes beyond purely academic analysis, offering valuable insights that have implications for both theory and practice. It enhances the theoretical foundations of relevant theories while also providing practical implications for policymakers and microfinance bank management. Lastly, the study broadens the applicability of existing theories that connect firm characteristics and financial performance, demonstrating their relevance and adaptability to the unique landscape of Kenyan microfinance banks.

This study developed a robust conceptual framework that establishes a connection relating firm characteristics with the performance of Kenyan microfinance banks financially. By conducting rigorous empirical analysis, it provided a deeper understanding of the directional relationships among these factors. The research generated new insights into how these factors interact with each other. It also contributed to the existing knowledge by formulating and testing hypotheses that examine the impact of firm characteristics on financial outcome. Importantly, the investigation statistically validated the null hypothesis, indicating that interest rates do not moderate the link concerning firm characteristics and outcomes financially. Additionally, the study derived an empirical model that encompasses the investigated factors, serving as a valuable tool for future research and potential applications in policymaking.

Suggestions for Further Studies

This survey examined how characteristics of firms impact the financial outcomes of Kenyan microfinance banks. While the findings offered valuable insights specific to this particular context, there are still opportunities for further research. Particularly, future studies could explore firm characteristics effect on diverse types of firms in Kenya, such as those in the manufacturing, agricultural, and commercial banking sectors. Additionally, additional research could delve into the reasons why liquidity and efficiency of management appeared insignificantly on performance financially. Such investigations could lead to a deeper understanding and the development of more robust models.

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