FIRM CHARACTERISTICS AND FINANCIAL PERFORMANCE OF SELECTED MICRO FINANCE BANKS IN KENYA

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ABSTRACT

Microfinance banks are key financial intermediaries due to their ability of providing credit facilities to the unbanked population. The Kenyan Microfinance banking institutions have been undergoing declining run on their financial performances. One of the stable microfinance banks which is Faulu Microfinance was acquired in the year 2013 by Old Mutual holdings. The ROA, NIM and ROE of these banks have been characterized by decreasing figures from the year 2016. Consequently of this poor trend in the financial performance of these banks, this inquiry sought to evaluate firm characteristics effect on microfinance banking institutions finance performance in Kenya. The achievement of this objective is specifically achieved on the basis of; liquidity, management efficiency, credit size and bank age influence on Kenyan microfinance banking establishments finance performance. The theoretical underpinning of the study was Efficiency Structure Theory, Financial Intermediation and Liquidity Management Theory. Descriptively, the study design was applied to thirteen microfinance banks reached through a census sampling approach for the period of 2013 to 2019. Secondary data on the banks operational activities was obtained through secondary data collection pan. The evaluation of the study was made possible through panel and descriptive techniques of analysis where various diagnostic tests were applied. Due ethical standards were adequately followed. The outcome of the investigation noted that with significantly effect, liquidity negatively affected financial performance; management efficiency affected financial performance positively in a manner that is insignificant; credit size possessed inversely affected financial performance but in an insignificant way; and bank age affected the microfinance banks' financial performance in an insignificant but positive way in Kenya. The inquiry suggested that to improve the financial performance of Kenyan banks, the management of microfinance banks should strengthen the management of their liquidity to avoid funds that would be retrieved to the banking circle.

Key words: Firm Characteristics, Liquidity, Management Efficiency, Credit Size, Bank Age and Financial Performance

INTRODUCTION

Worldwide Microfinance banking establishments have experienced rapid growth as well as increase in profitability. Different models of Microfinance banks are being adopted across countries. The increasing exploration for measures to accelerate productivity expansion has been prompted by expanding international concerns over continuous standstill and decrease in financial progress, which has been followed by rampant unemployment, destitution, and the societal problems that have resulted. Entrepreneurship development is one technique that is becoming increasingly important (David & Muendo, 2018). As a result, both developed countries have emphasized this method. Small enterprises are crucial for long-term growth in practically all countries. They were the tools by which swift economic growth and fast industrialisation were accomplished (Kisengo, 2014).

For many African countries, microfinance banks are of utmost significance MFBs as a section of the financial system of the many countries has contributions towards their economic growth and development (Okumu and Oyugi, 2016). This sector has over time witnessed significant evolution helping people to grow their business. Profitability analysis for this sector has been of key importance due to the contribution of the sector in enhancing efficient transfer of risk as well as economic growth (Wanjiru, 2016). Microfinance banks are capable of stimulating small-scale investments from other more unfulfilled economic transactions while earning a value for money by removing funding limits. The effectiveness of these microfinance banks, on the other hand, varies based on some aspects connected to their regulatory oversight. As a result of this, some microfinance banks might collapse and go out of business, whereas others thrive to serve huge amounts of loans (Mwangi, 2016).

Kenya is considered as top ten (10) in the world in terms of stable environments for micro finance business (Economic Intelligence Unit, 2015). In the context of Africa, the Microfinance sector has witnessed tremendous growth over the years. In the context of Africa, Kenya is rated top five (5) with respect to stable micro finance business environments (Economic Intelligence Unit, 2015). Kenya's Microfinance banks witnessed losses which can be dated back to the onset in 2009 when these institutions were registered under the apex regulator that is the central bank. Majority of these microfinance banking establishments had adverse profitability over the years (Otieno, Nyagol, & Onditi, 2016). Within the period 2010, the two (2) Microfinance banks licensed recorded losses (CBK, 2011). The following year, 2011, form the six Microfinance banks that were licensed, three recorded losses (CBK, 2012). The subsequent year which was 2012, from the six MFBs that were licensed, one filed decline. In 2013, drawbacks were also recorded (CBK, 2014). Or the year 2014, two from the nine MFBs licensed registered decrease and in the period 2015, six from the twelve MFBs that were licensed recorded losses (CBK, 2015; CBK, 2016). In general, from the period 2010 to 2016, only two from the thirteen MFBs licensed did not record any losses.

Statement of the Problem

Identifying business features and its impact on microfinance bank financial performance is critical for management and stakeholders in the industry, such as the supervisory authorities and the public. Various criteria that impact performance in micro finance organisations have been identified by corporate finance on the connection of business factors and performance (Atsango, 2018). Kenya's microfinance bank is recognised as among Africa's finest good and effective institutions. This is attributable to institutions' participation in loan collection for corporate and societal improvements, which has propelled Kenya's expansion in the economy. Regardless of the microfinance shining example, financial performance has harmed the organization's reputation and diminished its efficiency, causing tension amongst relevant parties (Ngugu, 2020).

The Microfinance banks in Kenya have been experiencing poor run on their financial performances (Mwenda, 2018). One of the stable microfinance banks which is Faulu Microfinance was acquired in the year 2013 by Old Mutual holdings. The ROA and ROE of these banks have been characterized by decreasing figures from the year 2016. The depletion of profitability is of high concerns due to

threat of financial instability which it poses as it increases banks' uncertainties relating to balance sheet (Kenya financial stability report, 2017). In February 2016, ROE and ROA were 27.3% and 27% respectively. In June 2017, ROE was reported at 21.2% and ROA at 17.6%. Over the years, the financial performance of MFBs has been that of a fluctuating trend. In June 2020, Kenya Microfinance Banks had a total loss of ksh1 billion which indicates a decrease of 30% from in return on assets and equity from ksh 0.7 billion in the same year 2020 (Central Bank of Kenya, 2020). MFBs had decreasing financial performances of 13.6% in August in return on assets and equity, thereby forcing these institutions into restructuring of Ksh1.12 trillion (38 %) loan book of Sh2.9 trillion. The return on assets and equity (profits) of Microfinance banking sector recorded a turn down before tax of 17.2% to Sh134.1 billion in June 30, 2020 driven by 11.9% increment in expenditure to Ksh404.1 b in 2020, June as a result of bad debt charge increase of 150.8% (Central Bank of Kenya, 2020). The microfinance banks accounted for a joint loss before tax of Ksh.622 million, Ksh.1.4 billion and Ksh.339 million in 2017, 2018 and 2019 respectively out of which 4 banks documented profits with 9 banks having registered losses as Kenya Women Microfinance Bank PLC occupies the position of the main loss making contributor reporting a loss before tax of Ksh.525 million (CBK, 2019). For instance, SMEP microfinance banks limited recorded a fall in net interest margin in 2015 of 0.22% from 0.24% in 2014 which further declined to 0.16% in 2016. Faulu microfinance banks limited also documented a reduction in NIM from 0.10% in 2014 to 0.08% in 2018. Additionally, Uwezo microfinance banks limited had a decline of 0.17% in 2018 from 0.25% in 2016 in NIM while Kenya Women microfinance banks limited noted a decrease in NIM of 0.19% in 2019 from 0.22% in 2017 (AMFI, 2017; 2018; 2019).

Furthermore, the few large banks account for about 80 to 90% share of profitability while the remaining share is attributed to the small and mid-sized MFBs (CBK, 2017). Notably, the capacity of absorbing high losses and loan restructuring is lower in Microfinance Banks as compared to commercial banks. This therefore is a major concern to all stakeholders in the financial sector. However, this field of study has witnessed little attention as most of the studies conducted have been focused on commercial banks. Using commercial banks in Kenya, Kamande, Zablon and Ariemba (2014) examined banking distinct component effect on financial performance in Kenya from 2011 to 2015. It was found that capital adequacy posses a strong good correlation that has substantial impact on financial performance, asset quality had a weak but positive effect that is significant on financial performance, management efficiency had weak positive that is significant on financial performance, earning ability had weak significant positive correlations with financial performance while liquidity also had a weak positively significant effect on Kenya's commercial banks financial performance.

Similarly, Religiosa and Surjandari (2021) analyzed liquidity, company risk, leverage and capital adequacy ratio effect on the earning management of Indonesian banking companies. Liquidity and capital adequacy affect inversely the earning management of Indonesian banking companies. Capital adequacy moderated effectively on the link between earning management and liquidity. Barus, Muturi, Kibati and Koima (2017) analysed management efficiency effect on Kenya's savings and credit societies' financial performance. The revelation of the survey exposed management efficiency to have significantly influenced on Kenya's savings and credit societies financial performance. Ikapel, Namusonge and Sakwa (2019) assessed the financial management effect on

Kenya's financial performance of commercial banks. Using descriptive technique of analysis, it was exposed that management efficiency and commercial banks financial performance has a positive and strong connection. Haryati, Burhany and Suhartanto (2019) investigated bank performance and bank age on Islamic banks profitability. Using Partial Least Square of the structural equation modelling, it was denoted that bank age insignificantly affect profitability. This investigation is towards assessing the impact of firm characteristics on financial performances of Microfinance banking establishments in Kenya.

Objectives of the study

The overall aim of this research is to evaluate the effect of firms' characteristics on financial performance of Kenyan Micro Finance Banking establishments.

Specific objectives

i. To assess the effect of liquidity on financial performance of Microfinance Banks in Kenya.
ii. To establish the effect of management efficiency on financial performance of Micro Finance Banks in Kenya.
iii. To determine the effect of credit size on financial performance of Micro Finance Banks in Kenya.
iv. To examine the effect of bank age on financial performance of Micro Finance Banks in Kenya.

THEORETICAL REVIEW

Efficiency Structure Theory

Demesetz (1973) developed the efficiency hypothesis. According to the hypothesis, managerial efficiency increase, reduces the amount of firms' credit risk. In managing the risk associated with firms' performance, the firms employ a certain level of efficiency in their structure to maximally obtain profitability from the organizational operations. Accordingly, operational efficiency results into firms' risk reduction with optimal productivity. X-efficiency and scale efficiency are the main features of the hypothesis.

Finance performances of micro finance banking establishments is enhanced through their functional and management efficiency structure which reduces the rate at which such banks are affected by market performance risks. X-efficiency of the theory connotes lower cost structure of the firms' operation which enhances profit optimization. Furthermore, scale-efficiency principle denotes the operation of some microfinance banks which have advantage over a large number of other banks due largely to lower cost of operation. In this case, microfinance banks operating on a lower cost scale are better efficient than those with higher costs thereby leading to maximum profits (Ngungu & Abdul, 2020). Abdo and Onour (2020) posited that microfinance banks' managerial efficiency results into operational expenses reduction. However, banks with better efficiency, manage better

their resources for optimum performance. This theory therefore demonstrates how microfinance banks operational efficiency is better managed for optimum financial performance in Kenya.

Agency Theory

Jensen and Meckling's research were the one to mention the agency (1976). The agency theory is a business approach in which one individual, the agent, works on best interests of the other, the principle. The agent has the job of guaranteeing that the Principal's objectives are met (Duckworth & Moore, 2010). As a result, the agent must bridge the gap amongst its own and the principal's interests. The agent, in this instance a banking business executive, seems to be in control of the company's products and must make the best utilization of them in order for the company to be productive. According to Laffort and Martimost (2008), agency theory is necessary since managerial actions affect the firm's financial performance, which includes all stakeholders.

It is the company's responsibility to create sound financial selections that will result in higher yields and profits. A bank's managerial executive can participate in projects that can provide a greater return on equity in the greatest advantage of its shareholders. This permits the company to develop and flourish, providing that the company's overarching goal is met and that the desired objectives are respected. Revenue, according to Alchian and Harold (2011), enhances synchronicity between top managers, directors and shareholders. The fundamental concept to management behavior has been termed as agency theory.

The crux of the investigation is to establish that organisation makes the best use of the company's core competencies in order to accomplish organizational growth. A financially sound company may readily vary its asset divisions to reduce risk and make large acquisitions with larger potential rewards. To improve the efficiency of their operations, reduce expenses, and raise revenue, solid institutions participate in current research and science. Most businesses have a separation of management as well as operation, therefore administrators are accountable for properly running the organization on representation of the stakeholders and owners in order to accomplish performance. To add value to efficiency, management ought to have self-control in selecting the appropriate investing choices and enhance performance; this will provide space for development and progress.

Liquidity Preference Model

The hypothesis was postulated by Keynes in 1939. This model is of the opinion that banks hold funds in order to meet up with financial obligations as the price of bonds falls so as to avoid unacceptable losses. The public holds liquid funds as a result of market prevailing conditions. Guthua (2013) posited that banks capacity to increase asset funding to meet obligations devoid of incurring unacceptable losses or risk that could damage the banks reputation is key to the optimum performance of the banks. Kiplagat and Kalui (2020) described liquidity risk as a situation where players in the market are unable to convert stocks into immediate liquid cash. This situation could be as a result of liquidity squeeze in the market and infrastructural inefficiencies.

Microfinance banks are confronted with diverse risk that affects their financial performance; thus, the risk associated to liquidity could lead to under performance of the bank's financial state (Kiplagat & Kalui, 2020). Therefore, the liquidity of banks is managed in such a way that financial performance can be ensured. Sufficiency in banks liquidity makes it possible for microfinance banks to perform their intermediation role effectively thereby guaranteeing maximum operational efficiency. This is to enhance their short and long term liquidity obligations settlement. The theory supports microfinance banks liquidity for optimum Kenyan banks' Performance.

Empirical literature Review

Liquidity and Financial Performance

From 2008 to 2018 using Sudan's Islam banks, Mennawi (2020), investigated how liquidity, credit, and financial leverage risk affected the performance. 13 banks in Sudan were used with the application of panel regression techniques. Liquidity insignificantly impacted on Sudan Islamic banks' financial performance. Credit and financial leverage risk impacted significantly and inversely on financial performance of Sudan Islamic banks. Liquidity to total assets ratio, liquidity risk positively and significantly impacted on finance performances of Sudan Islamic banking institutions. Sudan was the center of the investigation while microfinance banks finance performances in Kenya was the center piece of this investigation. The survey time period was from 2008-2018, this study time scope was from 2013 to 2019.

Religiosa and Surjandari (2021) analyzed liquidity, company risk, leverage and capital adequacy ratio effect on the earning management of Indonesian banking companies starting around 2014-2018. Multi-regression was utilized and the outcomes of the survey exposed that company Risk positively and significantly affect the earning management of Indonesian banking companies. Liquidity and capital adequacy affect inversely the earning management of Indonesian banking companies. Capital adequacy moderated effectively on the link between earning management and liquidity. Conclusively, liquidity, capital adequacy, company risk and leverage role in earning management execution be re-observed. The outcome of the investigation is not going be utilized to Kenya as it was done in Indonesia. This existing study was carried out on microfinance banks in Kenya taking into account their financial performance.

Management Efficiency and Financial Performance

Ngumo, Collins and David (2017) examined the influential factors of Kenya's Microfinance banks' financial performance. Descriptive design with the application of secondary data was utilized for a period of 2011 to 2015 on 7 microfinance banks. Regression and correlation were applied for analysis significant and positive relationship was found among firm size, operational efficiency, capital adequacy and financial performance. Credit risk and liquidity risk were inversely and insignificantly related to Microfinance banks financial performance in Kenya. It was concluded that firm size, capital adequacy, operational efficiency and microfinance banks financial performance in Kenya were said to have direct relationship. Having considered the study in Kenya, the survey was focused on the determinants of MFBs' financial performance, whereas this study considered bank

age as one of the key factors affecting microfinance banks' financial performance in Kenya. The study employed descriptive design; this survey employed explanatory research design.

Ikapel, Namusonge and Sakwa (2019) assessed the financial management effect on commercial banks in Kenya's financial performance for the period of 2008 to 2017, especially on those banking institutions quoted on NSE. Utilizing descriptive technique of analysis, it was exposed that management efficiency and commercial banks financial performance has a positive and strong connection. The observation noted that, efficiency management should be adopted by Kenya's commercial banks to enhance their performance. In specific terms, banks should adhere to the requirement provided by the apex banks with the adoption of adequate technology to improve their performance. Although, the study was on management efficiency of commercial banks, it isolated other factors that are key towards realization of commercialized banking performances. The existing investigation attempted to extend by delving into microfinance banks financial performance. The study time scope was from 2008- 2017, while this study was from 2013-2019.

Credit Size and Financial Performance

Mennawi, (2020) examined the liquidity, credit and financial leverage risk effect on the performances of Islamic banking in Sudan for the timeframe of 2008 - 2018. 13 banks in Sudan were used with the application of panel regression techniques. Liquidity insignificantly impacted on finance performances of Sudan Islamic banks. Credit and financial leverage risk impacted significantly and inversely on financial performance of Sudan Islamic banking establishments. The proportion of assets liquidity to total assets, liquidity risk significantly positive impacted on financial performance of Sudan Islamic banks. The investigation utilized Sudan Islamic bank as its target demographic while Kenyan microfinance banking establishments' financial performance was the concentration of the examination.

Saleh and Afifa (2020) examined with evidence from emerging markets the effect of liquidity risk, bank capital credit risk for the period 2010 and 2018. Generalized method of moment was employed where bank capital, credit risk and liquidity risk significantly impacted on emerging markets' banks probability. The study was based on the Basel requirement criteria in both the profitability of local and foreign banks efficiency for risk minimization exposure. Emerging markets are the targeted demographic of the investigation whilst this research was on Kenyan micro finance banks financial performance. Generalized method of moment was employed in the study, explanatory research design was utilized in this study.

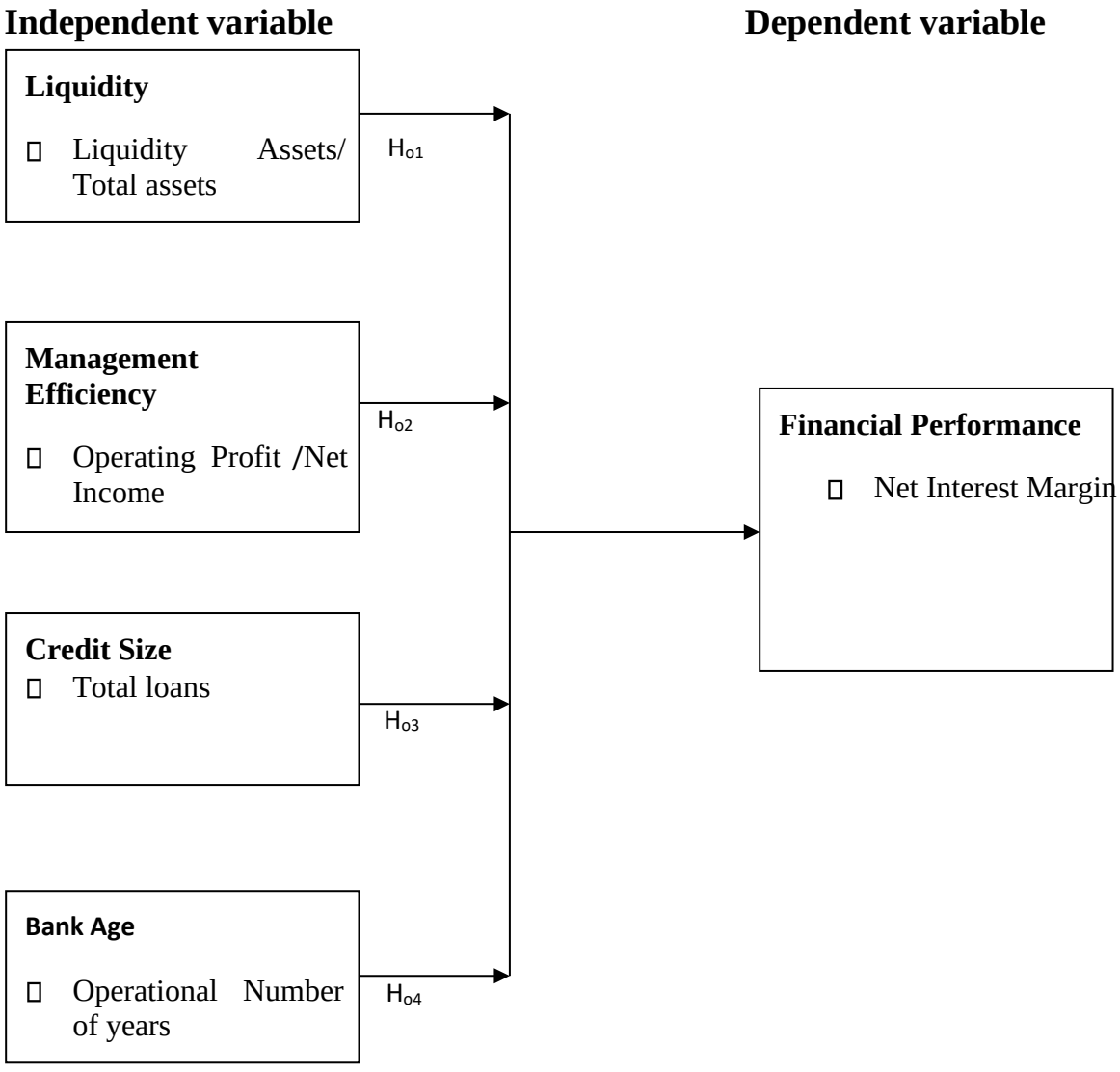
Bank Age and Financial Performance

Haryati, Burhany and Suhartanto (2019) investigated bank performance and bank age on Islamic banks profitability. The study used purposive sampling to arrive at 12 public Islamic banks for the period of 2015 to 2017. Using Partial Least Square of the structural equation modeling, it was denoted that bank age insignificantly affect profitability, whereas Non-Performing Financing significantly influenced profit sharing. Even though Cost to Income and Financing to Deposit was significantly exposed on profit sharing. The profit sharing significantly influenced banks' profitability. The survey was carried out on Islamic banks while the existing research was assessed

on Kenya's microfinance banks. The inquiry utilized purposive sampling; this research used census sampling technique.

Saadallah and Salah (2019) examined banking finance impact at normal interest rate on financial performance of small business for the period of 2013 to 2016. Using quantitative approach on the data of 90 small business firms in Egypt without loans, Return on Assets, Loan Volume, Net Profit Margin and Return on Equity was the independent variables while firm age and firm leverage were the control variable with Financial Performance Indicators (ROE, NPM and ROA) as the dependent variable. The product of the survey demonstrated that loan volume inversely and significantly impacts on small business financial performance, inverse and significantly effect of firm leverage to small business financial performance was indicated while firm age insignificantly impacted on small business financial performance in Egypt. The study concentrated on small businesses in Egypt whereas this research focused on Kenyan financial performance. The study assessed banking finance impact at normal interest rate on financial performance, this research aimed at investigating firm characteristics effect on financial performance of microfinance banking establishments were bank age is one of its independent variable.

Conceptual Framework



Source: Researcher (2023)

Research Design

The study applied explanatory design technique to capture firms' characteristics effect on microfinance banks' financial performance keeping in view, the precise objective of the study, as the design explain the behaviour of one variable which is affected by the explanatory parameters.

Target Population

The inquiry's population consisted of the whole microfinance banks operational and registered for the 2013 to 2019. Based on this, thirteen (13) microfinance banks licensed and operational for the study period was considered in the study.

Data Collection Instruments

The instrument which the study employed included yearly financial reports of microfinance banks and microfinance banks' audited financial documents. However, a secondary data plan was employed to obtain information based on the study specific objectives.

Data Analysis and Presentation

This research incorporated the use of descriptive as well as inferential approach when testing the study information. The mean, standard deviation, minimum and maximum observation was captured in the descriptive analysis while correlation and panel regression analysis made up the inferential statistics. This entails the method the researcher used in reaching conclusion from an investigated phenomenon. Information retrieved from the study sources was analysed using inferences. The statistical significance of the study was arrived at using regression techniques while the degree of the variables association was determined using correlation techniques of analysis.
The panel regression analysis was supported by STATA software.
The following defines the panel empirical model that was utilized in the investigation:

$NIM_{it} = \beta_0+\beta_1 LI_{it}+\beta_2 MGEF_{it}+\beta_3 CRESIZE_{it} +\beta_3 BANKAGE_{it} +\varepsilon$

Where:
NIM = Net Interest Margin of bank i at time t
LI = Liquidity of bank i at time t
MGEF = Management Efficiency of bank i at time t
CRESIZE = Credit Size of bank i at time t
BANKAGE = Bank Age of bank i at time t
B_1 - β_4 = Coefficient of the Estimates ε = Stochastic term

RESEARCH FINDINGS AND DISCUSSIONS

Table 1: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min.	Max.
Financial Performance	72	0.1379	0.0694	-0.0071	0.2696
Liquidity	72	0.2213	0.1288	0.0625	0.6989
Management Efficiency	72	3.0496	8.3014	-33	53.5263
Credit Size	91	3618.5	7316.7	0	26051
Bank Size	91	3.4945	2.6930	0	10

Source: Study Data (2023)

The survey's products, which are shown in Table 1, showed that financial performance has a mean average of 0.1379 percent. This is in accordance with the standard deviation of microfinance banks' financial performance, which is represented at 0.0694. This demonstrated that the survey's results varied between the minimum and maximum ratios of -0.0071 and 0.2696. The microfinance banks' liquidity showed a mean value of 0.2213. The 0.1288 standard deviation number indicates that bank liquidity varied among the microfinance banks' observations. The variance showed that the survey's results did not deviate from the minimum and maximum values of 0.0625 and 0.6989. The data used to measure management efficiency had a relatively high amount of volatility, with a mean value of 3.0496 and a standard deviation that matched that of 8.3014. The data used lie between -33 and 53.5263, with respect to both minimum and maximum values. The findings in Table 4.1 showed that the average credit size was 3618.5. The result showed that 7316.7 was able to detect the variation in the data, indicating that all of the data used to portray the credit size of the microfinance banks runs between 0 and 26051 as lowest and maximum values. The banks used in the survey have an average age of 3.4945, ranging with a dispersion of 2.6930 in terms of years of operation. 0 and 10 were utilized as the study's minimum and maximum values, according to the range of numbers used to represent bank age as aligned by the product of Nyabaga and Matanda (2020) and Ezechukwu and Nestor (2017) studies.

Regression Analysis

Panel regression analysis was used to assess the relationship between dependent (financial performance and independent variables (liquidity, management efficiency, credit size and bank size).

Table 2: Panel regression results

Financial Performance	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Liquidity	-0.1790	0.0429	-4.16	0.000	-0.263312	-0.0947837
Management Efficiency	0.0004	0.0005	0.76	0.450	-0.0006541	0.0014748
Credit Size	-5.68e-0	1.65e-0	-0.34	0.732	-3.81e-06	2.68e-06
Bank Age	0.0014	0.0024	0.58	0.563	-0.0034372	0.0063203
_cons	0.1666	0.0197	8.45	0.000	0.1280248	0.2053534
R^2	0.3308					
Wald chi2 (4)	18.61					
Prob> chi2	0.0009					

Source: Study Data (2023)

The results in Table 2 demonstrate that liquidity has a significant and negative effect on the financial performance of Kenyan microfinance banks. A significant value of 0.000 is assigned to the coefficient of -0.1790. The results showed that despite an increase in liquidity, Kenyan microfinance banks' financial performance fell by 0.1790%. Management efficiency appeared to have a positive but insignificant effect on the financial performance of Kenya's microfinance banks. 0.0004 represents the direct effect of management efficiency on financial performance. The insignificant of management efficiency is represented by 0.450 > 0.05, indicating that an improvement in the microfinance banks' management efficiency would improve financial performance in Kenya.

The size of credit extended by microfinance banks had a negative but insignificant effect on Kenya's financial performance. The result, as shown by the small but insignificant coefficient of -5.68, indicated that the Kenyan microfinance banks' financial performance had declined by 5.68% as a result of an increase of 1% in credit size. The financial performance of Kenya's microfinance banks was positively affected by bank age, though not significantly. The result was 0.0014 for the coefficient and 0.563 for the p-value, exceeding the 0.05 level of significance used in the study. Additionally, a constant coefficient of 0.1666 was noted from the results.

To show how significant the model is made up of the combined effect of the explanatory variables on the financial performance of the microfinance banks in Kenya, the random effect model shown in the table above exhibited a Wald Chi-Square of 18.61 with a p-value of 0.0009. This indicates that the financial performance of microfinance banks in Kenya is significantly influenced by liquidity, management efficiency, credit size, and bank age. According to a report, changes in the financial performance of Kenya's microfinance banks are only 33.08% due to factors like liquidity, management efficiency, credit size, and bank age in the model; the remaining changes are due to the error term, which indicates other factors not taken into account by the model.

Conclusions

The principal purpose of the analysis was to ascertain how firm characteristics affected the Kenya's financial performance of microfinance banks. The survey was specifically used to examine how liquidity affected Kenyan microfinance institutions' financial performance. The investigation's findings revealed that liquidity has significantly affected the financial performance of microfinance banks. In conclusion, banks' ability to maintain adequate liquidity is a key factor in achieving outstanding financial performance.

The investigation's goals were sorted, and the financial performance of Kenya's microfinance institutions was used to assess management efficiency. Analysis of the investigation's outcome illustrated that management efficiency had no effect on the financial performance of microfinance banks. The investigation's conclusion is that Kenya's microfinance banks' financial performance is not influenced significantly by management efficiency. Therefore, management efficiency adopted by the microfinance banks has not aided the bank's financial performance in Kenya.

The conclusion was noted in light of the survey's stated goal of examining how credit size affects Kenyan microfinance institutions' financial performance. Deductionally, according on the investigation's findings, credit size had no effect of a significant nature on Kenya's microfinance banks' financial performance. In accordance with the investigation's outcomes, the size of the credit plays a minor effect in determining Kenya's microfinance banks' financial performance.

The outcome attributed to the investigation's goal was to determine how bank age affected Kenyan microfinance banks' financial performance. The survey's findings showed that in Kenya, the microfinance banks performance in terms of their finance is not significantly affected by bank age.

The analysis came to the conclusion that a bank's age has no bearing on how microfinance banks' financial performance is in Kenya.

Recommendations

This enquiry produced recommendations in accordance with the results of the explanatory variables. According to the survey, liquidity significantly has an adverse financial effect on the microfinance banks performance. This suggests that to improve the financial performance of Kenyan banks, the management of microfinance banks should strengthen the management of their liquidity to avoid funds that would be retrieved to the banking circle.

Efficiency in management had an insignificant but positive effect on Kenyan microfinance banks' financial performance. Accordingly, the survey advises the management of the banks to utilize better ways to manage the deposits of the customers in order to improve the financial performance of the banks. This can be done by adequately collecting customers information to enable the banks perform optimally in terms of investment opportunities that could results in to optimal results.

The size of the credit from the result had a negatively insignificant effect on Kenya's microfinance banks' financial performance. Regarding how the enquiry turned out, it is advised that the management of the banks should device means through which the total loans of the banks can be reduced to boost financial performance by curtailing the amount of loans that may results in bad debt.

The investigation's findings demonstrate that bank age has an effect that is insignificant on the financial performance of microfinance banks. Using the findings of the inquiry, the management of the microfinance banks should efficiently management their resources by investing in profitable ventures that could lead to optimum results as the years goes by.

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