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Financial Management Practices and Financial Performance of Microfinance Banks in Kenya

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Abstract
The financial management of microfinance banks (MFBs) in Kenya remains one of the critical issues in the sector, thus, making financial management practices essential in shaping the financial performance of the MFBs. In the recent past, the microfinance banks have continued to register an unstable financial performance, evidenced in their annual audited reports and other statistics even when they have been practicing several financial management practices. Hence, the study sought to determine the effect of board characteristics, financing mix, credit default management, and assets and liabilities management practices on financial performance of microfinance banks in Kenya. The study tested hypotheses on a 0.05 significance level. The theories and models adopted were: agency theory, pecking order theory, credit default model, shift-ability theory, and financial outcome model. The study employed explanatory research design. The target population was 13 microfinance banks in Kenya, hence a census survey. The study collected secondary data using a document review guide. The data sources were: published financial statements of each microfinance bank and bank supervision reports from CBK. The time scope was five years from year 2015 to year 2019. The data was analyzed using descriptive statistics, Pearson's correlation, and panel regression analysis. The data was presented using tables, graphs and figures. Adherence to ethical standards and requirements was observed. The results showed that board characteristics had a negative and significant effect on financial performance (β = -0.827. p = 0.012); financing mix had a positive and significant result on financial performance (β = 0.516. p = 0.014); credit default management had a positive but insignificant effect on financial performance (β = 0.066. p = 0.009); while asset and liability management had a positive and significant influence on financial performance (β = 0.216, p = 0.004). The study recommends that firms must form a management team with gender diversity features and they should strive to fund their investment operations using retained profits first, with debt as a last resort, since this is compatible with the pecking order principle, which asserts that funding sources are prioritized. To boost their performance, banks' management must maintain high levels of net income, thus, aim at increasing earnings before taxes and interests while keeping their loan interest rates on check to ensure that credit default risk is minimized.

Key Words: *Asset and Liability Management, Board Characteristics, Credit Default Risk, Financial Management, Financial Management Practices, Financial Performance, Financing Mix*

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I. Introduction and Background

Microfinance has a substantial role in fixing the gap between formal monetary institutions and the rural poor, including low-income households, entrepreneurs, and emerging businesses, by providing them with much-needed financial services such as small loans, payment services, insurance, deposits, and money transfers (Teeboom, 2019). The poor are considered non-eligible to be served by commercial banks due to lack of collaterals, employment, lack of credit history, and generation of income which are the minimum requirements of the traditional banks (Maneem, 2004). Microfinance banks in Kenya intend to heighten service delivery to their customers and be the best option in extending small loans to most Kenyans. Thus, the financial institutions have undergone substantial advances since the mid-90s (Aswani, 2019).

There are 13 registered and regularized microfinance banks in Kenya with a total asset base of about Kshs.16.5 billion and deposits of around Kshs.40.2 billion by December 2018 (Central Bank of Kenya, 2019). Converges (2019) shows that by 2016, Microfinance banks had attained 132 million low-income earning members who have a loan portfolio worth $102 billion. Although microfinance banks have upgraded the living standards of the majority of Kenyans through facilitation and expansion of their economic activities, evidence

has shown that the microfinance banks started experiencing financial performance challenges in the year 2016. In the 2017/2018 financial year, the registered Microfinance Banks recorded a four hundred and fifty percent rise in reported loss of around Kenyan shillings 935.1 million up to June, 2018 in comparison to the loss of Kenyan shillings 171.4 million up to the end of June, 2017. Customer deposits lessened by five percent from Kenya shillings 40.6 billion to Kenya shillings 38.5 billion, amid June, 2017 and June, 2018. The MFBs' basic capital to risk-weighted assets ratio lessened from twenty percent according to the financial reports drafted in June 2017 to eighteen percent in June 2018. This took place within one year. (Central Bank of Kenya, 2019)

Financial management of microfinance banks remains one of the critical issues in the sector, and as such, financial management practices are essential in determining the financial performance of MFBs (Mabonga, Kimani & Maina, 2017). Sound financial management practices have economic benefits and provide long-term direction and stability to microfinance banks' operations (Eugene & Joel, 2009). On the other hand, Rahaman (2010) postulates that the management of MFBs must be vigilant in adopting financial management practices to be at a competitive edge with their rivals. Board characteristics are one of the corporate governance aspects that determines the performance of an organization. Ees, Postma & Sterken (2003) postulate that the corporate board has three key roles: strategic decision making, the link between the organization and its shareholders, and internal governance and monitoring roles. The board of directors' capacity to achieve these roles largely depends on its characteristics (Gouiaa & Zeghal, 2014).

Turyahebwa *et al.* (2013) describe financial management practices as a set of constructs or methods developed to carry out accounting, reporting, budgeting, and other business finance activities and are used as trajectories for understanding the financial performance of any institution. Kamande (2015) contends that various practices on financial management are crucial in the control of institutions. Therefore, this research aims to establish the effect of board features, financing mix, credit default risk management, and the management practices of liability and assets on microfinance banks' financial performance. Board characteristics are one of the corporate governance aspects that determines an organization's performance. According to Ees, Postma, and Sterken (2003), corporate boards have three critical roles of strategic decision-making: a link between the organization and shareholders and the role of internal governance, and one-to-one observation surveillance. The capacity of the board of directors in achieving these roles largely depends on its characteristics. The board composition is one of the board's characteristics that elaborate non-executive directors' part to executive directors (Sandada, Manzanga & Shamhuyenhanzwa, 2015). This proportion is vital so that none of the individuals' categories can dominate the board's policymaking (Borlea, Achim & Mare, 2017). Non-executive directors can be defined as independent directors from outside and look into and safeguard the bondholders' comforts (Lawal, 2012). Their presence in a more significant proportion compared to the executive is attributed to better governance (Fama, 1980). On the other hand, executive directors are inside directors well acquainted with the organization and are thus engaged in running their daily activities (Lawal, 2012). However, inside directors are associated with causing conflicts between themselves and shareholders due to putting their interests before those of the shareholders. Thus, the importance of an independent composition of board directorate.

II. Statement of the problem

Management of finance is a crucial function of any business institution since it determines its success (Lakew & Rao, 2014). Kwame (2010) suggests that unpleasant financial management practices will negatively impact business profit and organizations' financial results. There have been reports that have continuously indicated that the Kenyan microfinance banks' financial outcome has not been stable due to various factors. CBK (2019) notes that although microfinance started on a high notch, recent reports indicate that the MFBs have been slogged into a loss-making streak. Pre-tax losses increased from 171 million in June 2017 to 935 million by the end of June 2018, thus a decline of 450%. Evidence also shows that about 70% of microfinance banks had registered losses by the end of 2016/2017. For instance, Daraja, Choice, Maisha, and Century Microfinance Banks had breached their minimum requirement for core capital, thus signaling financial instability. Only Kenya Women Microfinance Bank did not fall into the loss-making spree, but its profits declined by 92%, from 224 million shillings to 18.7 million shillings in December 2016 (CBK, 2019). There is no enough evidence to assess what impact the synthesis of board characteristics, financing mix, management of credit default, and assets and practices of liability management have on the financial outcome of microfinance banks in Kenya. Thus, this study assessed these particular variables.

Empirical evidence on similar studies showed that the studies depicted mixed results. They employed different independent variables on the financial recital of microfinance banks, concluding that all variables classified as financial management practices have not been exhausted. For instance, Mabonga (2017) investigated the impact of different financial management techniques on microfinance institutions' financial results in Bungoma County, Kenya. Credit risk has a substantial impact on the financial returns of MFIs in Kenya, according to the study. Macharia (2018) investigated the connection between economic management and

microfinance institution financial performance in Kenya. The research found a link between liquidity levels, managerial quality, asset quality, and the financial success of microfinance organizations. At the same time, there was a non-significant positive connection between the MFIs' financial success and the quality of their profits. Njue (2020) examined the effects of liquidity and financial results on MFIs in Kenya, finding that asset quality and maturity gap had a little influence on the microfinance organizations' financial

Performance. Kirika (2018) deliberated on the factors that mostly affect microfinance institutions' performance: A case study of Meru County and found out that credit management, competition, and investment decisions have a significant relationship with the performance of microfinance institutions. Mutura and Omagwa, (2018) steered a study on credit management practices and microfinance institutions' financial performance in Nairobi Central District, Kenya. The results of the research showed mixed results in that bank size and net income had a beneficial effect on real GDP, bank performance, and inflation showed a negative insignificant effect on bank performance while on the other hand, the total assets to loans had a statically positive inconsequential impact on the performance of the monetary institution. This study sought to determine what effect the board characteristics**,** financing mix, credit default management, and assets and liabilities management practices have on the financial performance of microfinance banks in Kenya.

III. Objectives of the Study

The specific objectives of the study were:

i. To evaluate the effect of board characteristics on the financial performance of microfinance banks in Kenya.

ii. To determine the effect of financing mix on the financial performance of microfinance banks in Kenya.

iii. To evaluate the effect of credit default risk management on the financial performance of microfinance banks in Kenya.

iv. To establish the effect of assets and liabilities management on the financial performance of microfinance banks in Kenya.

v. To determine the moderating effect of firm size on the relationship between financial management practices and financial performance of microfinance banks in Kenya.

IV. Research Hypothesis

The study tested the following null hypotheses:

H_{01}: Board characteristics do not significantly affect financial performance of microfinance banks in Kenya.

H_{02}: Financing mix does not significantly affect financial performance of microfinance banks in Kenya.

H_{03}: Credit default risk management does not significantly affect financial performance of microfinance banks in Kenya.

H_{04}: Asset and liability management does not significantly affect the financial performance of microfinance banks in Kenya.

$H_{05:}$ Firm size does not significantly moderate the relationship between financial management practices and financial performance of microfinance banks in Kenya.

V. Significance of the Study

The conclusions of this study provided data on the impacts of monetary management practices and financial performance of microfinance banks in Kenya. These findings were necessary to stakeholders in the financial services industry and businesses in general. The primary beneficiaries of this study would be the microfinance banks' policymakers, who would be informed of strengths and weaknesses in their financial management practices. The study recommendations, if, implemented should see improvement in the financial performance of MFBs. Moreover, The Government would also benefit from the results obtained in this study as it sought to leverage growth and progress in the financial outcome of microfinance institutions. This is amongst fundamental economic drivers in Kenya. From the study findings, the Kenyan administration would appreciate ways by which financial performance can be enhanced through financial management practices. This act may cascade to the rural microfinance institutions, thus improving the whole sector. Further, this study serves as a stepping stone to newer research on financial management practices in microfinance institutions. The research would add more facts to the already existing scholarship work. It would outline the techniques of improving the performance of microfinance banks in Kenya for future growth and sustainability.

VI. Literature Review

a. Theoretical review

The study was expounded by agency theory, pecking order theory, shift-ability theory, credit default model and financial performance model. Agency theory explains the separation of ownership in corporate governance whereby professional managers referred to as the "agents" are appointed to manage the firm and represent the role of the firm owners. Agency theory is also described as the segregation of firm ownership and governance, which is likely to result in insufficiency (Reade, 2010). It addresses the issue relating to existing problems between principles and agents (Jensen and Meckling, 1976). Conflicts of principal-agent nature are normal in organizational setups. These conflicts may incur agency costs in the event of the principal trying to implement solutions to the agency problems (Arnold et al., 2017). Mitnick (1975) explain that conflicts occur as a result of contrasting interests among different parties in a firm.

Pecking Order Theory was advanced by Myers and Majluf (1984) and it shows the preference of financing sources by managers through a hierarchical structure. Eldomiaty, Sliman, Fikri and Anis, (2016) assert that a firm prefers internal financing first than external financing in the event that internal resources are not enough. This theory arises from the concept of asymmetric information where managers possess better information than external parties (shareholders who are the investor and creditors who are the debt holders), thus causing transaction inequality. (Corporate Finance Institute, 2021). This results in a greater rate of return for external sources of finances in order to mitigate the high risk the investors are taking. As a result of information asymmetry, firms lack optimal debt to equity ratios (Bhama, Jain, & Yadav, 2018). The decision about how to finance a firm is important because firms want to know how to invest in the best way possible (Jarallah, Saleh, & Salim, 2019). According to Bhama, Jain, and Yadav (2018), if it is a must for a firm to use external funds, it is recommended that it uses the pyramid in funding structure, starting with internal funding to external funding last option. It also helps in reducing the agency cost of equity and avoidance of seemingly unavoidable market reactions during the announcement of the new equity issue (Eldomiaty et al., 2016). This theory relates to the financing decisions where the microfinance banks' management has to determine the order of funding its operations. Most MFBs prefer internal financing instead of debts and equities (Maina, 2011).

Shift-ability theory was proposed by Moulton (1918). It asserts that when a financial institution such as a commercial bank or microfinance bank is in shortage of equipped cash, it can sell or lend its possessions to a more liquid bank to solve the cash shortage. In other words, it can uphold a substantial amount of assets that can be transferred without any capital loss whenever a need for liquidity arises. According to Wikipedia, illustrations of such assets include shares, debentures, treasury bills, and bills of exchange which should be shift-able to other institutions with higher cash status, thereby forming the capital needed. Molton (1918) asserts that this aptitude to move assets provides liquidity to other non-liquid assets. This theory may apply to MFBs because when they have idle cash, they have it in the form of valuable assets that can be shift-able immediately to other financial institutions able to convert them to liquid cash whenever the MFBs' liquidity need arises to cater for day-to-day financial operations. The theory is applied to loan portfolios of banks. In MFIs, especially the Deposit-taking, ALM remains critical since it addresses managing the acquisition and allocation of funds to ensure adequate liquidity, maximum profitability, and minimizing risks (Manohar, 2015). As MFBs extend their areas where they secure finances, total assets and liability management (ALM) are crucial to gauge and moderate financial risk (Karla, 2009). ALM was necessary in this study to show how a trade-off between assets and liabilities can minimize risks that impact the financial outcome of microfinance banks.

Credit Default Model has been studied by Kenton and Scott (2020) and they described credit as an agreement between a creditor and a debtor. The debtor receives some money from the creditor and agrees to repay in the future with some interest within the agreed timeframe. When a debtor thus fails to honor this obligation past the due date, it becomes a default. Chatterjee (2015) also defines credit as money provided by a creditor to a borrower, also referred to as the obligor. Sy (2007) suggests that the credit default model should be a causal framework, including two delinquency concepts and insolvency. Delinquency occurs when a debtor fails to meet debt obligation within the agreed timeframe and it is applicable to unsecured loans while insolvency occurs when assets cannot cover liabilities and applies to secured loans. Financial Performance Model where Abraham (2004) structured the financial performance model in which the author suggested that it should answer four critical questions according to the organization's mission. These include whether there are sufficient financial resources to enhance the mission, whether the monetary resources to support the mission are available, ways in which financial resources will be utilized to support the mission and finally, whether analysis of the financial resources is well used to support the mission.

b. Empirical Review

Ndegwa, Senaji, and Mugambi (2020) evaluated the influence that board characteristics have on the financial distress of deposit-taking SACCOs in Nairobi County, Kenya. There was a significant relationship between the board's characteristics and financial combatant of deposit-taking SACCOs where board structure,

board tenure, and board education had a statistically substantial and undesirable influence on financial distress. Therefore, the study recommended more members with high qualifications, good decision-making skills, knowledge, and members with relevant credentials and to develop strict time schedules and measures for their members. Additionally, Fatoki (2017) investigated the practices of the financial management of new micro-enterprises in South Africa. The findings indicated that many new small businesses do not practice financial control and strategic planning, investment appraisal, and financial analysis. On accounting information, most of the upcoming enterprises maintained some books of accounts while omitting others, thus indicating a mixed result.

Financial management practices are crucial determinants of financial performance of microfinance institutions (MFIs) (Mabonga & Kimani, 2017). The financial performance of microfinance institutions has received a general global displeasure despite the fact that international and national development programs have been giving high priority on sustainable microfinance for many years. This study was conducted in order to determine the effect of financial management practices on performance of microfinance institutions in Bungoma County, Kenya. The effect of credit risk management on financial performance of MFIs was assessed. This study was founded on credit risk theory. The size and level of misfortune brought about by the acknowledge hazard when contrasted with other sort of dangers is serious to cause significant degree of advance misfortunes and surprisingly institutional disappointment. Hazard the executives involves thinking efficiently about all potential dangers in a business or fiascos before they occur. It includes setting up systems to limit or stay away from the danger (Frosdick, 2007).

In view of Fatoki (2017), there exists a negative relationship between monetary administration rehearses and monetary execution of the microfinance association, likewise the review set up that there is a huge connection between liquidity levels, assets quality and the executives nature of the MFIs and the monetary performance of the MFIs. Finally the review uncovered an unimportant positive connection between income quality, and MFIs performance. The concentrate on consequently suggested that MFIs ought to have an ideal financing blend to guarantee that their continuous concerns are guaranteed every one of the occasions, That MFIs ought to keep up with more elevated levels of capital cover for its expenses and misfortunes, legitimate administration of the MFIs profit, MFIs ought to have adequate liquidity every one of the occasions, viable administration of the advances just as guarantee there is effective activities of the MFIs. All these proposals were pointed toward assisting the MFIs with boosting on their presentation.

Ndyagyenda, (2020) studied management of credit risk and organizational financial performance of Africa (u) Study in Uganda, a positive relationship between variables was found whereby a conclusion was drawn suggesting that credit appraisal has a great definition of a bank's survival and profitability, thus influencing its performance The key findings of the various researches indicated a strong well-structured relationship between identification of related risks, appraisal of credit risk, and financial performance of the MFIs. On the other hand, monitoring credit risk and mitigating credit risk had a reasonably significant positive affiliation on the financial outcome of the MFIs (Emenike *et al.* (2018). Owusu and Alhassan (2020) studied asset and liability management and profitability of 27 banks in Ghana and drew a conclusion that banks that made high profits were pragmatized to have a higher return on both assets and rate of cost on assets than low profit-generating banks. Further, the study findings revealed that profitability is strongly linked to statement of financial status and that national banks have a higher rate of return on assets compared to international banks over the period of study.

VII. Research Methodology

This research adopted causal research design, which is described as an explanatory exploration that ascertains the extent and nature of cause-and-effect between two variables (Kabir, 2016). A difference in the independent variable is said to be causing a change or changes in the dependent variable. The study used a census approach on all 13 microfinance banks in Kenya. Evans, Hower and Pachter, (2010) describe a census as a complete inventory of a particular population or a group of a population at a specific point in time with respect to well-defined features. The study focused on secondary data which was analyzed using the help of Statistical (SPSS) tool so as to guide in its interpretation and consequential interpretation. Descriptive statististics was done to describe the analyzed data of all the variables under study while trend analysis was carried out to present the changes in ratios across the span of selected years under study. Linear multiple interpreted the model where financial performance was expressed as a function of board characteristics, financing mix, credit default management and asset and liability management as described below:

$$\mathbf{Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2\,it} + \beta_3 X_{3\,it} + \beta_4 X_{4\,it} + e}$$

Where:

Y_{it} – Financial performance of microfinance bank I at time t, β_0 – Intercept, β_1 - β_4 - Beta Coefficients, $X_{1\,it}$ - Board Characteristics of Microfinance Bank i at time t, $X_{2\,it}$ - Financing Mix of Microfinance Bank i at time t, X_3

$_{it}$ - Credit Default Management of Microfinance Bank i at time t, $X_{4\ it}$ - Asset and Liability Management of Microfinance Bank i at time t, e - Error term

The model for testing moderator effects was as follows:

$$\mathbf{Y = \beta_0 + \beta_1 FMP_1 + \beta_2\ FS_2 + \beta_3\ FMP.FS_3 + e}$$

Where

Y – Financial performance, β_0 – Intercept, β_1 - β_4 - Beta Coefficients, FMP_1- Financial Management Practices, FS_2- Firm Size, $FMP.FS_2$ – Interaction term for financial management practices and size of microfinance bank, e - Error term

VIII. Results and Findings

Descriptive Statistics and Trend Analysis

Mean was considered to measure average values on the test variables. Standard deviation was used to point out the variation (dispersion) from the average (mean).

Table 4.1 Descriptive Statistics Summary

Measures	Obs	Mean (Ksh '000')	Std. Dev. (Ksh '000')	Min	Max
No of executive directors (male)	65	2.230769	0.580119	1	3
No of executive directors (female)	65	0.538462	0.63926	0	2
No of Non-executive Directors (male)	65	2.692308	0.827705	1	4
No of Non-executive Directors (female)	65	1.461538	1.562019	0	6
Total Debts	65	4670118	8744471	0	27400000
EBIT (Earnings Before Interest and Tax)	65	85756.92	342254.6	-346000	1398943
Interest Expenses	65	120114.1	257747.6	-54119	1072006
Intangible Assets	65	106977.9	285181.9	0	1347000
Current Liabilities	65	4335588	8277588	0	26400000
Short-term Debt	65	1120141	2302640	0	9074097
Net Income	65	-30488.2	152133.1	-827123	395000
Total Liquid Assets	65	7955148	2.91E+07	0	2.29E+08

Source: Research Data, 2021

With a minimum of 1 and a maximum of 3 directors, the mean number of male executive directors was 2.23. With a minimum of 0 and a maximum of 2 directors, the mean number of female executive directors was 0.53. The results indicate that male executive directors outnumber female executive directors in banks. With a minimum of 1 and a maximum of 4 directors, the average number of male non-executive directors was 2.69. With a minimum of 0 and a maximum of 6 directors, the average number of female non-executive directors was 1.46 The standard deviation for female non-executive directors was greater than the mean, indicating that there was a lot of variance in the makeup of the institution boards. Furthermore, as compared to the executive board composition, the number of non-executive directors in businesses is large.

With a minimum of 0 and a high of 2.74E+07, the mean total debts was 4670118. The significant standard deviation indicates that the businesses' debt levels vary widely. With a low of -346000 and a high of 1398943, the mean Earnings before Interest and Tax was 85756.92. This demonstrates that certain institutions suffered losses in specific years. The average interest cost was 120114.1, with a low of -54119 and a high of 1072006. The huge standard deviation indicates that interest costs at the institutions vary a lot.

With a minimum of 0 and a high of 1347000, the mean intangible assets was 106977.9. The value of intangible assets varied widely across institutions, as shown by a standard deviation that was greater than the mean. With a minimum of 0 and a high of 2.64E+07, the mean current liabilities was 4335588. The high standard deviation indicates that the quantity of current liabilities in the institutions varies a lot.

With a low of 0 and a high of 9074097, the mean short-term debt was 1120141. This revealed that certain organizations had high short-term debt levels while others had low debt levels. With a low of -827123 and a high of 395000, the net income had a mean of -30488.2. The high standard deviation indicates that financial earnings in the institutions vary widely. With a minimum of 0 and a high of 2.29E+08, the mean total liquid assets was. The value of liquid assets in the institutions examined was very erratic.

The research also looked at changes in trends of board characteristics, financing mix, credit default risk management, assets and liabilities management and financial performance from 2015 to 2019. The ratio of executive and non-executive board members rose in 2016 and there was a drop in the consecutive years of 2017,

2018 and 2019. The recorded ratio documented highest in 2017 where the executive members were more compared to non-executive members. Regression Analysis

The study sought to find out the relationship between: board characteristics, financing mix, credit default risk management, assets and liabilities management and financial performance of microfinance banks in Kenya. The hypotheses were tested using multiple regression analysis and were stated as follows: Ho: There is no significant relationship between: board characteristics, financing mix, credit default risk management, assets and liabilities management and financial performance of microfinance banks in Kenya at 0.05% level of significance.

4.4.1 **Financial Management Practices and Financial Performance**

Multiple regression analysis establishes a link between two or more factors: a dependent factor whose value must be forecasted and an independent factor (or factors) about which information is known. The application of multiple regression determines the predictive power of the financial management practices and their strength in explaining financial performance. Tables 4.6, 4.7 and 4.8 display the regression results of the study.

Table 4.6 Model summary

R	R Square	Adjusted R Square	Std. Error of the Estimate
.377	0.142	0.085	0.473804

Source: Research Data, 2021

From the study findings, board characteristics, financing mix, credit default risk management, assets and liabilities management were found to be satisfactory variables in explaining financial performance of microfinance banks in Kenya. From Table 4.5, the adjusted R square value of 0.085 is an indication that financial management practices accounted for 8.5 percent of variation on the financial performance of microfinance banks in Kenya.

Table 4.7 ANOVA

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.227	4	0.557	2.48	.048
Residual	13.469	60	0.224		
Total	15.697	64			

Source: Research Data, 2021

From table 4.7 the model is significant as indicated by the F statistics and probability value of (F=2.48, p = 0.048) which is less than the critical value of 0.05. This is an indication that financial management practices overall accounts for financial performance of microfinance banks in Kenya. Hence, the model is a good fit.

4.4.2 Hypotheses Testing

Regression coefficients were used in hypothesis testing for the study variables.

Table 4.8 Coefficients

	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	B	Std. Error	Beta		
(Constant)	-0.674	0.837		-0.805	0.424
Board Characteristics	-0.827	0.318	-0.311	-2.601	0.012
Financing Mix	0.516	0.204	0.305	2.538	0.014
Credit Default Management	0.066	0.024	0.323	2.706	0.009
Asset and Liability Management	0.216	0.071	0.356	3.026	0.004

Source: Research Data, 2021

Therefore,

Financial performance (FP) = -0.674 - 0.827 BC +0.516 FM +0.066 CDM +0.216 ALM.

According to Table 4.8, board characteristics showed a negatively significant effect on financial performance of microfinance banks in Kenya (= -0.827. p = 0.012). The null hypothesis claimed that

board characteristics had no substantial influence on financial performance of microfinance banks in Kenya. As a result, this study rejected the null hypothesis and accepted the alternative hypothesis that board characteristics have a negative and substantial effect on financial performance of microfinance banks in Kenya. On the other hand, Ndegwa *et al.*, (2020) found a positive relationship between board features and financial combatant of deposit-taking SACCOs, where board design, board duration, and board expertise had a statistically significant and negative results on financial distress. The main findings of Gafoor & Thyagarajan's (2018) study on the characteristics of board members and a bank's performance indicated a notable connection between the composition of the company board and the bank's effectiveness. The independence of the board of directors and the bank's performance had a positive and significant connection. According to Assenga *et al*. (2018), the gender diversity feature had a favorable effect on the companies' economic success; other variables such as board size, Ph.D. accomplishments, and external executives had no influence on the stated firms' financial outcomes.

The results found a strong and significant connection between funding mix and financial performance of microfinance banks in Kenya (= 0.516. p = 0.014). The null hypothesis claimed that the financing mix had no effect on the financial performance of microfinance banks in Kenya. As a result, the null hypothesis was rejected, and it was discovered that financing mix had a substantial effect on the financial performance of microfinance banks in Kenya. Similarly, the results of Onsase *et al.* (2017) revealed that finance and investment policies had a significant effect on financial performance. They also have an impact on the portfolio quality of the business. SACCOs, according to Njeru (2012), utilize a mix of financial strategies and plans to optimize member equity. When properly applied, they have resulted in improved SACCO profitability and resource management.

In terms of credit default management, the results showed that it had a favorable but small effect on the financial performance of microfinance banks in Kenya (= 0.066. p = 0.009). Credit default management has no substantial impact on the financial performance of microfinance banks in Kenya, according to the null hypothesis. As a result, this research fails to reject the null hypothesis and concludes that credit default management has no substantial impact on the financial performance of microfinance banks in Kenya. Similarly, Ndyagyenda's (2020) results indicated a positive relationship between factors, leading to the conclusion that credit appraisal is a significant determinant of a bank's survival and profitability, thereby affecting its performance. The results of Emenike *et al.* (2018) found a significant, well-structured relationship between the identification of associated hazards, credit risk assessment, and MFI financial performance. Monitoring credit risk and reducing credit risk, on the other hand, showed a fairly substantial positive relationship with the MFIs' financial outcomes.

The results showed that asset and liability management had a positive and significant effect on financial performance of microfinance banks in Kenya (= 0.216, p = 0.004) thus portraying a substantial influence on financial performance of microfinance banks. Therefore, the null hypothesis was rejected and the alternative hypothesis adopted. On a similar study, Owusu and Alhassan (2020) discovered that profitability is closely related to financial statements, and that national banks had a greater rate of return on assets than foreign banks. Since they are in charge of managing the development of liquid and liquidity concerns, Odhiambo (2006) found a noteworthy finding in that bank liquidity is challenged in two unique ways. Omondi (2006) further documents that banks must restructure their liquidity management methods in order to regulate their liquidity risks and their position as liquidity providers.

4.4.2 Test for Moderating Effect

Regression results with moderating effect are as displayed below.

Table 4.9 Model Summary after Moderation

R	R Square	Adjusted R Square	Std. Error of the Estimate
.414	0.171	0.101	0.469537

Source: Research Data, 2021

From Table 4.9, the adjusted R squared value of 0.101 shows that the model accounted for 10.1 percent of variance on the financial performance of the Kenyan microfinance banks. This therefore means that the moderating variable significantly influence the relationship between financial management practices and financial performance of microfinance banks in Kenya.

Table 4.10 ANOVA after Moderation

	Sum of Squares	df	Mean Square	F	Sig.
Regression	2.689	5	0.538	2.439	.045
Residual	13.007	59	0.22		
Total	15.697	64			

Source: Research Data, 2021

From Table 4.10 above, p value of 0.000 means the variables considered in this study fit into the regression model since (P<0.005), hence the model was significant. After moderation the F statistics (2.439) remain significant implying that there is moderating effect of firm size on the relationship between financial management practices and financial performance of the Kenyan microfinance institutions. The findings reveal that the R-squared value increased from 0.142 to 0.171 significantly (p-value = 0.000). This implies that firm size is a significant moderator of the relationship between financial management practices on financial performance of the Kenyan microfinance institutions.

IX. Conclusion

Based on the findings, the study concluded that board characteristics, financing mix, credit default risk management, assets and liabilities management have a positive and significant effect on financial performance of microfinance banks in Kenya. It was concluded that increasing the levels of board characteristics, financing mix, credit default risk management, assets and liabilities management increases the financial performance of microfinance banks in Kenya. The study found that Board characteristics had a negative and significant relationship with financial performance of microfinance banks in Kenya. This implies that a change in board characteristics in terms of executive to non-executive ratio in management would lead to a positive change in financial performance. On financing mix, the findings revealed that there was a positive and significant effect on financial performance of microfinance banks in Kenya. This shows that a change in financing mix in terms of total liabilities and total shareholders' equity would lead to a positive change in financial performance.

The third objective was to evaluate the effect of credit default risk management on the financial performance of microfinance banks in Kenya. Regarding this variable, the findings revealed that credit default management had a positive but insignificant influence on financial performance of microfinance banks in Kenya. This implies that an increase in Earnings before taxes and interests would lead to a positive change in financial performance. On asset and liability management, the findings revealed that there was a positive and significant relationship with financial performance of microfinance banks in Kenya. This implies that a change in asset and liability management strategies positively will lead to a positive change in financial performance. The fifth objective was to determine the moderating effect of firm size on the relationship between financial management practices and microfinance banks' financial performance in Kenya. The findings reveal that firm size is a significant moderator of the relationship between financial management practices on financial performance of microfinance banks in Kenya. Therefore, the size of the firm have a significant effect on the financial management practices applied to control financial performance.

X. Recommendations

Firms must form a team that will support research and keep them informed about the role of gender diversity features. This will reverse the unfavorable trends or effects that the estimated results have caused. This should be done with the goal of choosing more productive members of the board and improving the financial firm's image. This might help in reducing overhead expenses of satisfying the constitution's governance obligations, reversing the downward trend in financial performance. Also, financial firms' management should strive to fund their investment operations using retained profits first, with debt as a last resort. Internal funding is derived from retained profits generated by operational operations. Microfinance banks managers should have a strategy for reducing credit risk and thereby maintaining performance.

To boost their performance, bank management must maintain high levels of working capital optimism. According to the report, banks should work on their capital to ensure that it is enough and sufficient for their operations. Capital should have a sufficient and long-term worth. Moreover, Microfinance banks should employ best strategies of managing credit default risks. Such would include monitoring the debt's portfolio for trends and warning signs while also setting credit limits, rating criteria and ensuring compliance to credit policy during administration of loans. On the other hand, the MFBs should make effort in ensuring that their net income and cash flow is efficiently generated to avoid defaulting their loan repayment to their financial institutions where they borrow money and to maintain enough cash to lend their clients. Lastly, Microfinance banks should aim at having an ALM policy which will guide in effectively and efficiently management of their assets and liabilities

to alleviate financial risks such as overrated interest rates, liquidity risk, insufficient profit margins, and ineffective use of cash. As a result, they will acquire resilience to exterior tremors that may affect their financial performance. The essence, therefore, is to maximize their earnings and return on assets on a low level risk.

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