FINANCIAL DUE DILIGENCE AND PERFORMANCE OF MICROFINANCE BANKS IN KENYA

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DECLARATION

I hereby declare that the thesis in question is an original piece of work created solely by myself using the sources and support mentioned, and that it has not been submitted elsewhere for the purpose of earning a degree or any other kind of reward.

Signature …………………………   Date ……………………………

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CERTIFICATION

The undersigned certify that they have read and hereby recommend for acceptance of Masinde Muliro University of Science and Technology a proposal entitled, **"*Financial Due Diligence and Performance of Microfinance Banks in Kenya.*"**

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DEDICATION

This thesis is dedicated to my parents, Mr. and Mrs. Kinyangi, for all of the moral support they have given me during this process.

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First and foremost, I would want to express my gratitude to the Almighty God for the exceptional care, protection, and concern that He showed me while I was pursuing my education. Second, I would like to express my thanks and appreciation to the following individuals for their efforts toward the successful completion of this research thesis. I would want to thank every one of you from the bottom of my heart. I would also want to use this opportunity to extend my sincere gratitude to my research supervisors, Dr. Maniagi and Dr. Nelima, for their unflagging assistance and support over the course and evaluation of this thesis. This study would also not have been possible without the moral support of my MBA colleague, CPA Mahiva. Last but not least, I would like to acknowledge the enormous support that I received from my wife, Mrs. Namboza.

ABSTRACT

The primary aim of this study was to examine the impact of financial due diligence on the success of microfinance banks in Kenya. Specifically, the study sought to: assess the influence of financial management review on the financial performance of microfinance banks in Kenya; analyze the effect of governance structure on their financial performance; evaluate the impact of risk management on their financial performance; and determine the moderating role of firm size in the relationship between financial due diligence and financial performance. The agency theory and the risk management theory were the driving forces for the study. The study used a causal research approach, which investigated the links between causes and effects. The research was conducted with each of Kenya's 13 microfinance banks in mind. The sampling strategy used was based on a census. We utilized secondary data for the years 2018-2022 that came from Central Bank of Kenya and the websites of various companies. The analysis of the data included both descriptive and inferential statistical methods. The data were summarized via the use of descriptive statistical analysis, which included frequencies, percentages, means, and standard deviations. The results of the analysis were laid out in tables, charts, and graphs. The researchers used a series of statistical techniques, including simple linear regression, multiple linear regression, and hierarchical regression, in a sequential manner. These methods were applied to assess the extent to which an independent variable affects a dependent variable, the cumulative influence of many independent variables, and the moderating effect of firm size. Furthermore, the study also examined the collective impact and the moderating role of company size. Results from multiple linear regression revealed that 51.45% (R^2=0.5145, P=0.0063) of variation in performance of microfinance banks in Kenya is accounted for by financial due diligence. Based on the results, the regression coefficient (β_1) for financial management review was found to be significant 0.15894, P=0.001. The regression coefficient (β_2) for governance structure was found to be insignificant 0.82654, P=0.128 and β_3 for risk management was found to be significant 1.597834, P=0.014. Interaction between financial due diligence and firm size as a moderator produced a final R square of 0.7693, P=0.000 implying that, firm size has a significant moderating effect on the relationship between financial due diligence and performance. The study concluded that increasing scope of financial management review and good risk management have a positive influence on performance. However, the financial performance of the corporation is unaffected by changes in board composition or the number of audit committees on the board. When looking at the correlation between financial due diligence and financial performance, the effect of business size becomes more apparent. Shareholders should emphasize the participation of persons from different professional backgrounds throughout the process of selecting board members, according to the advice obtained from this data. Many different viewpoints on different topics are expected to be expressed in this piece. Moreover, it is recommended that microfinance banks in Kenya prioritize the enhancement of directors' competence and experience by frequently holding induction programs and evaluating their performance in fulfilling their tasks.

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ABBREVIATIONS AND ACRONYMS

ROA   Return on Asset

ROI   Return on Investment

ROE   Return on Equity

CBK   Central Bank of Kenya

MFBs   Microfinance Banks

ROCE   Return on Capital Employed

NSE   Nairobi Securities Exchange

SACCOS   Saving and Credit Cooperative Society

ERM   Enterprise Risk Management

ORM   Operational risk management

NIM   Net interest margin

OPTIMAL DEFINITION OF TERMS

Financial management review is the procedure of locating, collecting, selecting, and analyzing financial information in order to aid a management team in making strategic choices and evaluating the efficiency of a firm (Delkhosh & Mousavi, 2016).

Credit risk according to Ngumo, Kioko, and Shikumo (2017), is defined as the potential for a lender to incur a financial loss as a result of a borrower's inability to fulfill their obligations in accordance with the terms and conditions of a credit or loan arrangement.

Governance structures are the institutionalized mechanisms that direct an organization's decision-makers and keep an eye on operations in the face of competing interests. In this context, "materiality" refers to everything that might have an effect on a company's stakeholders throughout the decision-making process**.** (Mwangi & Nyaribo 2022).

Firm size is expressed as a percentage of total assets, which is a common metric used to describe firms. (Lumapow & Tumiwa, 2017).

Financial performance refers to the degree to which a business is able to generate revenue from its assets in a profitable and efficient manner (Kenton & Scott, 2020)

Financial due diligence involves an investigative analysis of microfinance bank, reviewing key financial management issues facing it and the drivers behind maintainable profits and cash flows, such as governance structure, and potential deal breakers of the transaction.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Financial due diligence and its overall impact to business success has been a consistent area of study and practice for academics and professionals in the field of financial management. Microfinance institutions and their financial statements from the preceding and current years are thoroughly researched and analyzed as part of the financial due diligence process. Extraordinary income and expenditures, noteworthy shifts and deviations, and the effectiveness of the banks' internal system controls are singled out for special scrutiny (Neumann, 2020).

According to Iraya, Mwangi, and Muchoki (2015), high-profile companies in the United States such as Enron and WorldCom, as well as others, have been the subject of crashes and scandals in recent years. This has occurred as a direct result of insufficient financial due diligence, namely on the businesses' liquidity levels. In addition, a significant portion of companies' available capital was invested in their present assets, to the point that such assets are now underutilized and the companies' overall performance is suffering as a result (Sultan & Mohamed, 2022). In addition to this, it has been claimed that the performance of financial businesses across the board has improved in Japan. The increased profitability may be linked to the decreased indebtedness of the companies over the course of the previous several decades as a direct result of rigorous due diligence. In addition, Japanese companies depend on money produced domestically as well as precautionary cash reserves in order to keep their debt levels low. Additionally, Khoo and

Durand (2017) revealed that the average leverage of companies in Japan decreased from 27.49% to 19.34% during the years of 2001 and 2019. Matzen (2018) claimed that there has been a notable growth in the assets of listed corporations, which has resulted in increased performance as a direct consequence of rigorous financial due diligence.

According to Fafchamps and Quinn (2016), businesses in China have a higher rate of productivity than businesses in Vietnam, while businesses in Vietnam have a higher rate of productivity than businesses in African nations because of the importance of doing financial due diligence. According to Fafchamps and Quinn (2016), a growth in the total assets of financial businesses was the cause of the improvement in the performance of those firms. Partiti's (2022) research examined the correlation between financial due diligence and the current ratio and cash gap at a sample of 29 Saudi Arabian joint stock enterprises. The current ratio was used as a proxy for the company's financial discipline, and the researchers discovered a statistically significant negative association between the firm's financial success and its financial vigilance.

Sub-Saharan Africa is home to a wide variety of countries, each with its own distinct commercial landscape. This variation is also reflected in the monetary systems. However, the quality of financial due diligence depends on the financial growth, institutional strength, and legal and regulatory environment of a nation (Franssen, 2020). This is because factors such as a country's degree of financial development, the strength of its institutions, and its regulatory framework all affect the business climate. An empirical examination of financial due diligence in developing economies revealed that on average financial companies in Africa had `18% of long-term debt (Kinyua, 2020). According to

Kusuma and Siregar (2021), financial performance in developing countries is a factor of financial due diligence such as tangibility, growth opportunity and initial leverage.

South African banks and other financial institutions have reported declining performance. According to research by Abata, Migiro, Akande, and Layton (2017), businesses in South Africa suffer when their debt levels is high, especially long-term debt. Long-term debt was shown to have a substantial negative relationship with return on assets for South African financial institutions, while an increase in total debt sales was found to have a strong positive relationship with gross profit margin across all measures of debt (Lawrence , 2022). Lawrence also found that the rise of overall debt sales was significantly inversely related to the length of the loan.

Even if Nigerian banks are using financial due diligence, they should be careful since leverage and liquidity hurt their bottom line (Antonova, 2020). Debt financing accounted for 52% of the insurance funding in Ethiopia, according to an analysis of financial due diligence in the insurance business by Getahun (2014). Furthermore, tangibility had a good effect on financial performance, whereas growth prospects, leverage, operational cash flows, and business risk had a negative effect.

It has been claimed that publicly traded financial companies in Tanzania are experiencing turbulences from the market as a consequence of shortages of cash, an unstable business climate, and growing indebtedness levels. According to the market report from 2013, the majority of listed businesses witnessed a decline in the price of their shares, and just three

companies saw a rise in the price of their shares. These circumstances led to widespread selling of shares by investors, which weighed on the firms' overall performance.

In Uganda, financial institutions have been given the ability to practice financially responsible behavior thanks to the implementation of fundamental rules. As an example, the most recent updated guidelines were sent in February of 2010. The importance of strong corporate governance, which places an emphasis on the board of directors' responsibility in determining the overall direction of the organization, is at the core of these recommendations. Corporate governance requires directors to play a significant rather than peripheral role in financial due diligence in banks. This course developed the requisite knowledge and skills required to overcome this. Additionally, the Bank of Uganda is increasing its oversight surveillance capacity through new methodologies of risk based supervision (Kobusinge, 2019).

Mahfoudh's (2013) study, published in the journal Accounting and Finance, set out to determine what variables influence a company's financial performance as assessed by return on assets. Considerations included the company's age, debt, liquidity, board size, and number of employees. Seven agricultural companies from the Nairobi Stock Exchange were included in the study. Since one of the seven listed firms was unreachable, the researcher selected the remaining six and covered years 2007 to 2012. Kenya was chosen as the site for the research. Liquidity and board size were found to be the only two parameters that showed statistical significance. The other three factors, included firm age, leverage, and business size, did not reach statistical significance.

Using data from a sample of commercial banks in Kenya from 2011 through 2015, Kamande, Evusa, and Ariemba (2017) sought to determine which factors were most responsible for the institutions' varying levels of financial success. This study covered the years 2011 through 2015. The sufficiency of capital, the quality of assets, and the effectiveness of management, earning potential, and liquidity were the primary focuses of the research. Return on assets (ROA) was the metric that was used to evaluate performance. They indicated that there has been a substantial decline in the level of adequate capital over the course of the last five years. Banks' bottom lines were also shown to be impacted by the quality of their assets. According to the findings, a bank's return on assets is most affected by the quality of its assets (Lwaminah, 2017). To isolate the role of firm-specific variables, we analyzed the financial results of Kenya's commercial banks. For the years 2012-2016, the annual reports from the CBK were the primary public sources of data utilized in this analysis. According to the findings of the research, there is no connection between the financial due diligence of banks and ROA. The results of the analysis of variation were substantial. The profitability of commercial banks increased with both their size and their levels of capital adequacy and ROI. Loan quality and liquidity were inversely related to financial success. However, liquidity, scale, and ROI were major considerations, although loan quality and sufficient capital were not.

CBK, (2023) observed that buyers are seldom satisfied if they do not conduct thorough financial due diligence. Buyers want to know that basic accounting errors have been addressed, that underlying profit has been accurately reported, and that the balance sheet has not been artificially inflated. According to Hugh and Mac (2018), clients seek

accountants' definitive judgments on both financial and non-financial matters in order to assess the quality of the goal and the degree to which it satisfies their strategic objectives. Microfinance banks (MFBs) reported a loss of Kshs. 935.1 million from the beginning of the year to the end of June 2018, which is an increase of 447 percent compared to the loss of Kshs. 171.4 million by the end of June 2017. According to the Central Bank of Kenya's 2019 report, the amount of money deposited by customers fell by 5%.

According to Otieno, Mugo, Njeje, and kimathi (2015), the CBK regulates and supervises the microfinance banking sub sector. This assertion was made in their study. According to CBK (2020), the laws of the Central bank of Kenya require microfinance institutions to undertake certain financial due diligence on liquidity, credit risk, capital adequacy, and financial leverage. In a nation in which commercial banks have a dominant position in the financial sector, the failure of microfinance institutions to conduct adequate financial due diligence would lead to a drop in earnings.

Microfinance institutions in Kenya have been crucial to the country's economic growth, but they have also encountered formidable obstacles (Aswani, 2019). Financial instability, unchecked expansion, managerial difficulties, credit rating concerns, political and economic volatility, and fast changes in the corporate environment were among the basic obstacles. Because of this, they will have a hard time maintaining their success going forward. Consequently, they should run efficiently and with great effectiveness (Nyawira, 2021).

1.2 Statement of the Problem

Economic growth and development rely heavily on microfinance institutions, which are an integral aspect of the banking system. According to projections made by the Central Bank of Kenya, microfinance institutions would have provided benefits to more than 63% of Kenyans by 2020. The microfinance industry's Return on Assets had a significant decline of 2.0% from 3% in 2020 to 1% in 2021. The return on shareholder money was 28% but is now 10%—a decrease of 18%. Total assets were Ksh.73.9 billion as of December 31, 2021, down from Ksh.74.9 billion according to the year-end report for 2020. At the end of 2020, the industry had lost 2.2 billion Ksh (CBK, 2021), but by the end of 2021, it had lost 877 million Ksh plus taxes. While four of the other institutions posted profits, the others posted losses. The loss situation was worsened by the top three microfinance institutions.

Muteti (2018) claims that commercial banks' bottom lines have improved as a result of financial due diligence. Muteti concludes that financial due diligence enhances banks' financial performance, although this claim has not been corroborated by studies conducted in other countries. Mwangi (2017) claims that studies reveal that banks' financial performance improves when activity levels rise. Herbert and Agwor (2021) studied the effect of risk management on the bottom lines of commercial banks trading on the NSE to draw this conclusion. Mutuku (2016) looked at how commercial banks in Kenya's economy fared as a consequence of their risk management strategies. Future study should focus on MFIs and other forms of financial due diligence processes, as recommended by the studies done by Herbert and Agwor (2021) and Mutuku (2016). Therefore, the goal of

this research was to find out the influence of financial due diligence had on the bottom lines of Kenya's microfinance banks.

1.3 Research Objectives

The main objective of the study was to examine the influence of financial due diligence on the financial performance of microfinance banks in Kenya.

1.3.1 Specific Objectives

i) To determine the influence of financial management review on the financial performance of microfinance banks in Kenya

ii) To examine the influence of governance structure on the financial performance of microfinance banks in Kenya

iii) To evaluate the influence of risk management on the financial performance of microfinance banks in Kenya

iv) To determine the moderating influence of firm size on the relationship between financial due diligence and financial performance of microfinance banks in Kenya

1.4 Research Hypotheses

The study has addressed the following pertinent research hypotheses;

H_{o1}: Financial management review has no significant influence on financial performance of microfinance banks in Kenya.

H_{o2}: Governance structure has no significant influence on financial performance of microfinance banks in Kenya.

H_{o3}: Risk management has no significant influence on financial performance of microfinance banks in Kenya.

H$_{o4}$: Firm size has no significant moderating influence on the relationship between financial due diligence and financial performance of microfinance banks in Kenya.

1.5 Significance of the Study

The study is expected to be beneficial to various stakeholders including the Government of Kenya, policy makers, members, management of microfinance banks in Kenya and scholars interested in similar or related areas of study. This research contributes new information to the current body of knowledge about the impact that doing financial due diligence has on the financial success of microfinance banks. Policy makers may use the findings to develop strategic policies on financial management review, governance structures and risk management.

1.5.1 Management of Microfinance Banks

It is anticipated that the findings of this research would make a substantial contribution to the management practices of microfinance banks in Kenya. The findings of this research provides management teams of microfinance banks with information that aids them in understanding the extent to which various forms of financial due diligence impact financial performance. It is the responsibility of managers to work toward increasing the value of their companies to their shareholders. As a result, the findings of this research may be used as a planning tool to assist managers in selecting the optimal financing mix and methods that would results in the highest possible financial performance.

1.5.2 Policy Makers and Regulators

This research contributes to the policy framework already in place to help microfinance institutions in Kenya achieve outstanding financial results. In particular, the Central Bank,

a regulatory body, would utilize the study's results to guide its oversight of the many financial due diligence tasks that ultimately determine the sector's success. The firms that continuously create and maintain value have a tendency of attracting more funds from investors. Further, the Government policy makers obtains knowledge of the effect of financial due diligence on microfinance banks' dynamics and thus obtain guidance in designing appropriate practices that regulate the stakeholders for the purpose of financial stability.

1.5.3 Researchers

Finally, the study has identified the knowledge gaps and provide suggestions for further research to benefit scholars interested in expanding the scope or undertaking related studies. Also, the study has provided literature that forms a foundational basis for future research in the same field.

1.6 Scope of the Study

The major goal of this research was to find out whether and how much financial due diligence may boost the bottom line for microfinance institutions in Kenya. In specifically, the 14 microfinance banks operating in Kenya as of December 2021 (CBK 2021) were the focus of the study. This study set out to answer the question, "Is there a connection between the financial performance of Kenya's microfinance banks and factors like their governance structure, risk management, and financial management reviews?" Participants were selected from 14 different microfinance institutions in Kenya, and a descriptive research strategy was used to collect data. Researchers zeroed emphasis on the period from 2018 to 2022.

1.7 Limitation of the Study

The study faced some limitations which are worth documenting. The study was limited to 14 microfinance banks in Kenya which were in operation up to 2020, during this period there is possibility of some MFB were either not in existence or were commencing operations hence resulting to generation of unbalanced panels. To overcome this limitation, the study limited itself from 2018 to 2022 to obtain balanced panels. The study solely relied on secondary data. This may however have a negative impact on the results.

Financial due diligence is too diverse to allow for generalized conclusions. Therefore, it may be unrealistic to generalize the results of this study to other contexts. This study, however focused on three; financial management review, risk management and governance structure which study has indicated adequate knowledge gaps in regards to microfinance banks in Kenya.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter reviews the related literature on financial management review, governance structure and risk management. The chapter also presents theoretical review and finally the knowledge gaps.

2.2 Theoretical Review

This section discusses current/relevant theory that supports the variables being studied in the context of the identified research problem. The section focused on two theories that explain the concept of financial due diligence and financial performance.

2.2.1 Agency Theory

Jensen and Meckling (1976) and Fama and Jensen (1983) were the ones who first presented the agency hypothesis. Its purpose is to settle the conflicts of interest that arise between the owners and management of companies, as well as between shareholders and bondholders. Agency relationship is a result of asymmetric information since managers are better informed than the owners. Morris (1987) argues that if managers seek only their self-interest to the detriment of the owners, it leads to conflicts, an agency cost that could affect both firms' equity and debt. The agency cost of equity leads to a decline in the value of firms' stock when managers are perceived to pursue their self-interest. This would also increase the monitoring cost to ensure that the interest of the owners is protected.

Given that the principal has delegated authority to the agent in order to accomplish the latter's aims, the latter's willingness to assume some of that risk is reason for worry. This kind of cooperative behavior (Barnard, 1938) is supposed to lead to the results the principal desires. Concern that an overzealous agent would put their own interests ahead of that of their principal is at the core of the agency dilemma (Burnham, 1941). This dissimilarity creates an issue for the principal and affects the agency expenses, according to the research of Fama (1980). At the outset of the principle-agent relationship, the principal is aware of the agency charges. But when the agent acts in a way that goes against what was agreed upon, the principle feels as if they themselves have taken on extra risk. This results in the emergence of the first agency issue, which is changes in the allocation of responsibility for potential outcomes.

From the agency theory perspective, contractual relationships between principals and agents become critical in the prevention of excesses by the agents, consequently principals must provide incentives or bond agents and bear the residual losses in order to minimize value decreasing decisions taken by the managers on behalf of the firm (Njuguna, 2016).

Though agency theory is very pragmatic and popular, it still suffers from various criticism and this has been documented by many authors like Eisenhardt (1989) Shleifer and Vishny (1997) and Zogning (2017). The hypothesis is based on the assumption that the principal and the agent would enter into a legally binding agreement for a set or open-ended length of time in the not too distant future. Contracting is assumed to be able to solve the agency issue in the theory; but, in practice, there are several obstacles in the way of its implementation, including information asymmetry, rationality, fraud, and transaction cost.

The only thing that the shareholders care about is increasing their return, but they don't have much of a say in how the company is run. The only thing that directors are responsible for is keeping an eye on the managers, and beyond that, their jobs aren't really well defined. The hypothesis disregards the managerial staff's level of expertise while at the same time assuming that they are opportunists. According to Dawar (2014), the agency theory incorrectly believes that actions and the outcomes of those actions are reasonably consistent and easy to manage. This is not the case in the actual world. According to Shapiro (2005), a simple binary option between monitoring and the presentation of incentives to control behavior or result is ineffective in a complex network of dyadic contacts, for example. This decision is not successful in regulating behavior or outcome. Also, being vigilant about opportunistic conduct may hinder initiatives, creativity, entrepreneurialism, and innovation in businesses, which is a cost that agency theorists often disregard (Lan & Heracleous, 2010).

Husaini, Pirzada, Kashan & Saiful, (2020) support the agency theory and resource dependence theory where a large Board of Directors is a solution to the problem of resources. This is especially for monitoring and improving organizational performance by implementing ERM effectively, so that the organization continues to survive. This is indicated by the positive relationship of Board of Directors size on the company's financial performance

This was the main theory of study since it was used to explain financial management review, risk management and governance structure. In to risk management, the problem of agency theory is concluded in relationships of principal-agent that are dedicated to

effectiveness of risk-control usage and assets management. Risk management systems development has contributed a formation of principles well describing opportunities coming from agency theory that let inquire actions for effective opposition to arising threats. The agency theory flows from the disparity in relationships between agents and principals. This happens in cause of agent and principal together have different primary and final aims (Driver, Ciaran & Bo, Hong. (2012). The agents may behave selfishly because they are not risky; try to make less effort that it is required having great capabilities.

In regards to financial management review, Agency theory that is starting to develop refers to the fulfillment of the main goal of financial management, namely maximizing shareholder wealth. This wealth maximization is carried out by management called agents. The inability or reluctance of managers to increase shareholder wealth creates what is called the agency problem. Several studies that expand the concept of principal-agent relationship to the second type are the relationship between superior-subordinate, employer-employee, manager-worker (Thompson, 2022).

Agency Theory examines the dynamics between principals, such as owners or shareholders, and agents, including managers or executives, within an organization. This theory serves as a valuable framework for comprehending the impact of financial due diligence processes, including financial management review and governance structure, on the financial performance of microfinance banks. The initial objective pertains to a comprehensive assessment of the financial management framework, which encompasses a methodical analysis of the financial systems, controls, and reporting mechanisms employed by an organization. This review process, situated within the framework of Agency Theory,

tackles the principal-agent dilemma, wherein managers (agents) may prioritize their own interests over those of the owners (principals).

In microfinance institutions, it is anticipated that managers will optimize profitability while maintaining financial viability for the benefit of shareholders and stakeholders alike. Nonetheless, it is plausible that managers may possess motivations to misallocate resources or partake in precarious financial practices for their own benefit, particularly in situations characterized by information asymmetry between themselves and the shareholders. A comprehensive review of financial management can effectively address this risk by fostering transparency, bolstering accountability, and guaranteeing that financial reporting faithfully represents the bank's performance. Through the adoption of stringent financial management review practices, microfinance banks can enhance their decision-making processes and optimize resource allocation, ultimately leading to an improvement in their financial performance. Studies indicate that the implementation of refined financial controls and oversight, integrated within a comprehensive financial due diligence framework, frequently leads to increased profitability and diminished financial risk (Jensen & Meckling, 1976). This directly tackles the issue of agency costs, which arise when there is a divergence between the actions of managers and the interests of shareholders.

Concerning the second objective, the governance structure pertains to the frameworks, policies, and procedures through which an organization is guided and regulated. Robust governance structures, including an efficient board of directors and sound internal controls, play a vital role in mitigating the principal-agent dilemma. Agency Theory posits that a significant risk within any organization arises from the possibility that agents

(management) may not consistently align their actions with the best interests of the principals (shareholders). Governance frameworks facilitate the alignment of interests between the involved parties by establishing oversight and mechanisms that ensure adherence to the expectations of shareholders.

A fundamental element of governance structure is the board's responsibility in overseeing management activities. An effective and autonomous board has the potential to mitigate agency costs by guaranteeing that managerial actions align with the interests of shareholders. In microfinance banks, this oversight is crucial as it encompasses not merely financial performance but also the institution's social impact and sustainability. The board holds the responsibility of establishing explicit objectives, assessing the performance of management, and guaranteeing adherence to financial due diligence protocols. Studies indicate that financial institutions characterized by strong governance frameworks generally achieve superior performance compared to their counterparts with inadequate governance (Shleifer & Vishny, 1997). Effective governance diminishes the probability of managerial impropriety, financial inaccuracies, and strategic errors. It additionally cultivates investor confidence, an essential element for drawing in capital. In microfinance institutions, an effectively constructed governance framework guarantees that management remains answerable to both shareholders and stakeholders, resulting in improved financial outcomes and enduring growth.

Within the framework of microfinance banks in Kenya, the utilization of Agency Theory elucidates the influence of financial due diligence, encompassing financial management review and governance structures, on financial performance. Effective oversight mechanisms and comprehensive financial management reviews tackle the principal-agent

dilemma by guaranteeing that management operates in alignment with the interests of shareholders, thereby enhancing the bank's overall financial well-being. These processes alleviate agency costs, diminish information asymmetry, and foster transparency, resulting in improved financial performance.

2.2.2 Risk Management Theory

This theory was established by David (1997) with the intention of researching the need of risk management. It describes the theoretical underpinnings of modern bank risk management, with a primary focus on market and credit risks. According to Eichhorn (2004), the theory predicts that market and credit risks would either directly or indirectly have an influence on the continued existence of banks. If there is not an effective and efficient credit risk management system in place, it is reasonable to assume that credit risk indicators would have an impact on a bank's profitability (Ngugi, 2001). According to this theory, the most significant cause of value deterioration is market risk, which is defined as a shift in the net worth of an asset as a result of fluctuations in interest rates, currency rates, stock prices, and commodity prices (Wu & Olson, 2010).

Regulators are concerned with the risk to the institution as a whole, but their attention is focused less on the specific risks posed by the various components of the portfolio since management have the ability to "window dress" the situation. The Markowitz hypothesis suggests that portfolio risk is greater than the sum of its parts, yet the need to account for the whole scope of risk shows that risk evaluation cannot be centralized. As a result, it's clear that return on investment, rather than changes in asset allocation, must be the primary source of portfolio risk (Beverly, 2015).

Managers are required to examine the risk vs reward trade-off because of regulatory restrictions and alternative options. Since the measurement of risk is an expensive endeavor, bank management must strike a balance between accuracy and cost (Sovan, 2009). The trade-off would have significant repercussions for whatever approach that is selected by the bank. One of their primary objectives in risk assessment is to determine, with a high level of accuracy and specificity, the maximum loss that the bank is most likely to sustain (Muhammad & Bilal, 2014). In order to prevent businesses from going bankrupt, regulators may establish minimum capital requirements that are higher than the highest loss that may be anticipated. Both scenario analysis and value at risk are considered to be the two primary methods for measuring risk in the field of risk management theory. Even while scenario analysis may be used to assess potential outcomes without relying on the risk calculation's distribution assumption, the method is very subjective and presumes that future results would be consistent with historical ones (Masli & Azam, 2021).

The fundamental principle of Risk management theory revolves around the identification of strategies that align with an organization's objectives, thereby resulting in the desired performance outcomes. This alignment is achieved by ensuring that the organization's Enterprise risk management practices are congruent with various contingent factors, including context setting, risk identification, risk evaluation, and the widespread communication of risk management initiatives throughout the corporate structure. This comprehensive approach aims to foster a risk-based culture within the organization (Hammond, 2006). According to Kaplan and Mike (2014), risk management theory posits that the effective management of risks within an organization is facilitated by the

consideration of conditional factors, such as the composition of top management teams and the strategic measures implemented to address external challenges. This, in turn, leads to improved organizational performance. This research use risk management theory as a framework to conceptualize and examine the role of risk management in enhancing the financial performance of microfinance organizations in Kenya.

Critiques have been raised about risk management theory's failure to adequately address various endogeneity elements inside businesses, including the implementation of Enterprise risk management by top management and the consideration of environmental impacts (Arnaboldi & Lapsley, 2014). Furthermore, it has been shown that the theory assumes a consistent and positive correlation between Enterprise risk management and performance, even in situations when the impact cannot be solely ascribed to Enterprise risk management (Beasley, 2006). Despite the aforementioned criticisms, it is imperative to conduct empirical investigations to further explore the proposition of the theory. This is in line with the recommendation made by Kaplan and Mike (2014) for additional empirical research on the theory's advanced position. Future studies should focus on examining Enterprise risk management, understanding its fundamental components, and developing a more comprehensive understanding of how Enterprise risk management aligns with performance in different contexts and with various organizational variables. These efforts are crucial for enhancing the validity and robustness of the theory's propositions.

Agency Theory examines the dynamics between principals, such as owners or shareholders, and agents, including managers or executives, within an organization. This theory serves as a valuable framework for comprehending the impact of financial due diligence processes,

including financial management review and governance structure, on the financial performance of microfinance banks.

The third objective pertains to a comprehensive assessment of the financial management framework, which encompasses a methodical analysis of the financial systems, controls, and reporting mechanisms employed by an organization. This review process, situated within the framework of Agency Theory, tackles the principal-agent dilemma, wherein managers (agents) may prioritize their own interests over those of the owners (principals). In microfinance institutions, it is anticipated that managers will optimize profitability while maintaining financial viability for the benefit of shareholders and stakeholders alike. Nonetheless, it is plausible that managers may possess motivations to misallocate resources or partake in precarious financial practices for their own benefit, particularly in situations characterized by information asymmetry between themselves and the shareholders. A comprehensive review of financial management can effectively address this risk by fostering transparency, bolstering accountability, and guaranteeing that financial reporting faithfully represents the bank's performance.

Through the adoption of stringent financial management review practices, microfinance banks can enhance their decision-making processes and optimize resource allocation, ultimately leading to an improvement in their financial performance. Studies indicate that the implementation of refined financial controls and oversight, integrated within a comprehensive financial due diligence framework, frequently leads to increased profitability and diminished financial risk (Jensen & Meckling, 1976). This directly tackles the issue of agency costs, which arise when there is a divergence between the actions of managers and the interests of shareholders.

Concerning the fourth objective, the governance structure pertains to the frameworks, policies, and procedures through which an organization is guided and regulated. Robust governance structures, including an efficient board of directors and sound internal controls, play a vital role in mitigating the principal-agent dilemma. Agency Theory posits that a significant risk within any organization arises from the possibility that agents (management) may not consistently align their actions with the best interests of the principals (shareholders). Governance frameworks facilitate the alignment of interests between the involved parties by establishing oversight and mechanisms that ensure adherence to the expectations of shareholders.

A fundamental element of governance structure is the board's responsibility in overseeing management activities. An effective and autonomous board has the potential to mitigate agency costs by guaranteeing that managerial actions align with the interests of shareholders. In microfinance banks, this oversight is crucial as it encompasses not merely financial performance but also the institution's social impact and sustainability. The board holds the responsibility of establishing explicit objectives, assessing the performance of management, and guaranteeing adherence to financial due diligence protocols. Studies indicate that financial institutions characterized by strong governance frameworks generally achieve superior performance compared to their counterparts with inadequate governance (Shleifer & Vishny, 1997). Effective governance diminishes the probability of managerial impropriety, financial inaccuracies, and strategic errors. It additionally cultivates investor confidence, an essential element for drawing in capital. In microfinance institutions, an effectively constructed governance framework guarantees that

management remains answerable to both shareholders and stakeholders, resulting in improved financial outcomes and enduring growth.

Within the framework of microfinance banks in Kenya, the utilization of Agency Theory elucidates the influence of financial due diligence, encompassing financial management review and governance structures, on financial performance. Effective oversight mechanisms and comprehensive financial management reviews tackle the principal-agent dilemma by guaranteeing that management operates in alignment with the interests of shareholders, thereby enhancing the bank's overall financial well-being. These processes alleviate agency costs, diminish information asymmetry, and foster transparency, resulting in improved financial performance.

2.3 Conceptual Review

2.3.1 Financial Management Review

Delkhosh and Mousavi (2016) opine that financial management review is a process for identification, collection, selection and analysis of the financial information for the assistance to a team of management for the strategic decisions and effectiveness of the organizational assessment. An essential component of financial management is a regular financial review of activity to identify errors, anomalies, potential compliance issues, and significant budget variances. The essence of financial management review is not only to manage the flow of funds in the organization but to align them with the good intention to meet the goals and objectives of the firm to maximize the financial wealth of business owners. Finance is treated as life blood of every organization, without finance and financial

management organization growth turns to motionless: Purani (2017). Sound financial management guarantees success of the organization. Financial managers review the source of fund and according to that plan to raise the fund for the organization with low cost. The financial management review has the role of establishing that the organization finances its operations cost to attain its goal and profit maximization (Folajinmi & Peter, 2020). This study considered financial management review, accounting policies and procedures, and internal audit function

Accounting policies and procedures are the most efficient way to implement company-wide effective internal control tools in any organization. They are part of every business cycle: purchase and payment cycle, inventory and production, HR and payroll, fixed assets and capitalization of costs, and the sales and collection cycle (IAS 2019). Accounting policies and procedures are essential for the board of directors and senior management to communicate limitations and authorities given to different managers and employees throughout the organization. Moreover, their use is also extended to organize financial reporting and compliance with regulators outside the organization.

Accounting policies are the specific procedures implemented by a company's management team that are used to prepare its financial statements. All techniques, tools, and processes used in accounting, measurement, and disclosure presentation fall under this category (IFAC 2018). In contrast to accounting principles, which are the rules by which an organization is required to abide, accounting policies detail the specific steps that employees will take to ensure that the firm follows these regulations. According to the International Accounting Standards (IAS, 2019), accounting rules dictate how an

organization's financial statements are prepared. Depreciation procedures, goodwill recognition, R&D cost preparation, inventory value, financial account consolidation, and other complex accounting activities are addressed by these regulations. Organizations' accounting rules could vary, but they must all adhere to GAAP and/or IFRS.

The primary role of internal-audit (IA) functions is to help decision makers protect organizational assets and reputations, as well as to support operational sustainability functions that have come under increasing pressure over the past year. When done properly, an internal audit may help ensure that a company's resources are being used effectively, prevent theft, and crack down on waste (Saidin, 2014). When done properly, internal auditing may help a business expand and develop efficiently, which can have a positive impact on the firm's finances in the long run. According to Gwilliam (2014), one of the main reasons why businesses fail is because of inadequate internal auditing. According to Saud (2012), referenced in Bouteina (2021), the ultimate goal of internal auditing is to increase financial returns to the company via enhanced performance of the business. More so than external auditing, internal auditing aids in the realization of company goals and the implementation of strategies to do so. Management and the Audit Committee are two groups that the Internal Audit role could help strengthen (Zain, 2009). Similarly, Internal Audit is responsible for determining the dependability, realism, and integrity of financial and operational information that originates from various organizational units. These factors serve as the foundation for acceptable business choices made at all levels of Management. Successful implementation of Internal tasks means that it must be independent, i.e., Company management should in no way be influenced by its work, information, conclusions, and evaluations.

2.3.2 Risk management

Risk management is the process that identifies, evaluates, and monitors threats to a company's capital and profits (Alshatti, 2015). It generates strategies to manage impending risks such as market risk, credit risk, operational risk, reputation risk, and risks that have already occurred. The issue of risk management is widely discussed in the banking industry because customers and investors alike have access to more information about the banks and the systems they have put in place to protect them, thus before customers decide on their choice of bank or investors decide where to put their money; they usually asses their own potential risk exposure and subsequently, what the underlined bank's risk management policy is before making their choice. Because effective risk management is critical to the smooth operation of any organization, it plays a significant role in the decision-making process of financial institution management.

Any bank's risk management department would be incomplete without risk management analysis. There is a threat to the profitability of risk management because financial institutions provide large loans that are not properly repaid. These are the financial due diligences that have an impact on their performance (Oluwagbemiga, Isaiah & Esiemogie, 2016). Therefore, risk management solutions have become essential for businesses, institutions, and individuals to mitigate potential dangers (Jahmani, Bourini & Jawabreh, 2020). This study considered risk management as credit risk management, operational risk management, market risk and liquidity risk management.

Credit risk management refers to measuring and mitigating the risks associated with the lent amount and being aware of the bank's reserves to be used at any given time. Risk

management here involves facilitating proper decision-making of lenders or banking institutions. The main purpose is to reduce the rising quantum of the non-performing assets from the customers and to recover the same in due time with appropriate decisions. According to (Mwangi, 2016) non-performing loans were found to increase posing credit risks to MFBs.

In order to accept, mitigate, or prevent risks, operational risk management (ORM) is a continuous, recurrent process that involves risk assessment, risk decision making, and the deployment of risk controls. ORM is the oversight of operational risk, including the risk of loss resulting from inadequate or failed internal processes and systems; human factors; or external events (Strzelczak 2007).

A skewed picture of the institution's risk profile and the potential for significant losses might result from poorly managed operational risk. Given the unique characteristics of operational risk, financial intermediaries with more complex operations have an increased need for Operational Risk Management. This includes the identification, evaluation, monitoring, and control/mitigation of the aforementioned risk. However, this role is in its infancy and requires further development, as well as the proper collocation of organizational and strategic resources. Officials have been stressing the need of this for a while, publishing a plethora of rules and best practices to drive home the point (Leone & Porretta, 2018).

Kioko, Olweny, and Ochieng (2019) looked at how doing financial due diligence affects the bottom lines of commercial banks trading on the Nairobi Stock Exchange in Kenya. A negative effect on financial performance was shown to be statistically significant when

credit risk, market risk, and operational risk were all taken into account. However, it was shown that liquidity risk had a negative but statistically inconsequential influence on financial performance. The study's four parameters demonstrated a substantial inverse connection between financial diligence and financial success. Commercial banks might better manage credit risk, according to the report, if they reduced their stock of non-performing loans. Commercial banks should also implement rules that create a productive work environment for the purpose of managing market risk. If commercial banks want to properly regulate and manage liquidity risk, they should follow the rules set down by law. In addition, commercial bank management should cut costs wherever possible to increase shareholder value and make operational risk management easier. According to the study's results, financial due diligence has a detrimental effect on the financial performance of commercial banks.

Liquidity risk management is defined as the ability to meet cash flow and collateral needs (under both normal and stressed conditions) without having a negative impact on day-to-day operations or its overall financial position. Liquidity risk can be mitigated through conscious financial planning and analysis and by forecasting cash flow regularly, monitoring and optimizing net working capital and managing existing credit facilities, Rop & Jagongo, (2021).

2.3.3 Governance Structure

Governance structures represent the systems set in place to help guide the decision makers of an organization and monitor activities in light of respective and diverse interests. It is deemed as anything that affects decision making process of a company that can impact on

any of the stakeholders. It is a relevant factor across many fields including finance, accounting, strategic planning and management (Larcker, Richardson, & Tuna, 2017). Governance structures can be defined as systems or mechanisms designed to monitor managers and improve corporate transparency (Tsui, 2020). Governance structures are therefore put in place to serve the interests of the resource owners and other stakeholders. Their presence in an organization should enhance organizational performance. Despite governance structures having scanty explicit descriptions in literature to influence the relationship between organizational resources and performance, their role is implied. The governance structures have been of great importance when determining the value of the firm. It has been argued and debated that firms that practice good governance have reported increased wealth or value (Mukyala, Rono & Lagat ,2020).

The governance structure were board composition and board committee. Board composition refers to the number and the type of board members, board demographics, board structure, board education and evaluation, and board leadership (Zahra & Pearce, 1989). Board composition is one of the important factors affecting firm financial performance. According to (Goodstein, 1994), a board fulfills three major tasks; it links the organization to its environment and secures critical resources, the board also has an internal governance and monitoring task and lastly it can discipline or remove ineffective management teams.

Particularly highlighted in this analysis were gender and age distributions among board members, as well as board leadership and independence in terms of board structure. Directors' ability to grasp board problems and acquire the skills necessary to participate

successfully is dependent on both the directors' prior experience with and knowledge of such issues, as well as the training that the board offers, as outlined by Fama & Jensen (1983). In order to have successful governance, there must also be an efficient selection process for new directors. This, in turn, is dependent on having a distinct understanding of what the responsibilities of a director are. OECD (2004), which stands for the Organization for Economic Co-operation and Development.

Board committees are formal groupings charged with handling specific delegated board duties, (Kolev,Wangrow, Barker & Schepker 2019). The committees are structured in such a way that there is a head who is assisted by designated board members. The committees 'role and composition is set by the main board. The committee would have its own meetings independent of the board of directors meeting and makes recommendations to the board. A committee must seek board of directors' approval to take action on certain decisions. Usually, the committee head prepares a detailed report which he presents to the board of directors. The report could be informational or seek board approval. Usually committees are formed with individual directors' competencies taken into account. Committees provide an avenue through which members can apply their core competencies which results in better output. Committees allow better efficiency, rather than the entire board meeting to deliberate on all issues. The relevant committee meets and makes those decisions.

2.3.4 Firm Size

Firm size is a measure of company size that is measured through the corporation's aggregate assets (Lumapow & Tumiwa, 2017). Corporation size is the variety and amount of production capacities and capabilities available to an entity, or the variety and amount of

services that the business provides to its client base at the same time (Khoiro, Suhadak & Handayani, 2019). Company size is an indicator of entities size that is assessed through the aggregate value of the corporation's resources (Ahmed & Javid, 2008). It is normally easy for high-growth companies to access the funds market, as investors see positive signs for high-growth enterprises (Rahmawati & Fajri, 2021).

In finance, it is assumed that the size of an entity can affect an entity's value since the larger the corporation; the easier it is to find a source of funding (Lumapow & Tumiwa, 2017). The size of the company, reflected in the volume of assets and high turnover, would attract investors to investment, increasing the demands on managers to report good corporate finances according to investor preferences (Tumiwa & Mamuaya, 2019). Hence, the larger the company size, the greater the demands investors place on the managers, the greater the managers' ability to manipulate profits to meet investor preferences (Rahmawati & Fajri, 2021).

Company size is measured through assessing the firm's total assets. A larger asset base means larger companies that can achieve better results (Tumiwa & Mamuaya, 2019). The natural log of aggregated firm asset is used to decrease the substantial difference between the size of an oversized s number of employees, market capitalization, total sales, total value of assets, etc. (Rahmawati & Fajri, 2021).

2.3.5   Financial Performance

Financial performance is defined by Kenton and Scott (2020) as an indicator of a company's economic health as a consequence of the efficient and effective use of its assets to generate

money. To make educated financial judgments, it is a tool that analysts and investors may use to see how similar companies are doing financially. It values the skill with which a business manages its assets, obligations, and shareholders' money. To assure long-term viability and the possibility of increasing the company's worth, most business organizations prioritize assessing financial performance (Kenton & Scott, 2020).

Crane (1998) posits that measuring any firm's financial performance is a critical step in managing risk, geared towards making sound decisions from accurate information and proper analysis. Many stakeholders ranging from investors, bondholders, creditors, and employees to management are interested in a firm's financial performance with each group's interest. They are provided with the essential information on the financial performance of an organization by the relevant authorities, and they also extract it from published data in the form of financial reports that are audited yearly and also analyzed from supposedly reliable and accurate financial statements of the company (Kenton & Scott, 2020).

The three most popular financial statements are the income statement, the cash flow statement, and the balance sheet, according to Kenton and Scott (2020). There are a number of ways to gauge financial success, according to Ijaz and Naqvi (2016), but financial ratios are the most important. According to Fatihudin, Didin & Mochklas, Mochamad (2018), ratio of liquidity, solvency, profitability efficiency, and leverage could be used as a benchmark of financial performance. The data could be extracted from the financial statements; cash flow, balance sheet, profit-loss and capital change. According to

Mohammed, Abdullah, and Faudziah (2014), measuring performance is very important for the operational management of any financial company.

Scholars agree that the vast majority of studies have sought to identify optimal performance metrics. To this day, no one performance indicator has been determined to be capable of measuring every aspect of performance. According to Mohammed and Abdullah (2014), there are a few metrics that fall into the categories of accounting metrics and marketing metrics. Return on Assets (ROA), Return on Equity (ROE), Earnings per Share (EPS), Return on Capital Employed (ROCE), and Return on Investment (ROI) are some of the major accounting-based benchmarks that are used to measure the firm's profitability.

Microfinance institutions (MFIs) have played a significant role in advancing Kenya's socio-economic landscape by enhancing credit accessibility for marginalized populations and promoting entrepreneurial endeavors. The Central Bank of Kenya reports that there exist 13 licensed microfinance banks (MFBs) functioning within the nation. The diversification of services by these institutions to encompass digital financial products has significantly contributed to the expansion of their customer base and the enhancement of operational efficiency. Nonetheless, in light of these developments, microfinance banks have encountered a range of performance-related challenges. Initially, although there has been expansion within the sector, financial performance metrics such as profitability, loan repayment rates, and portfolio quality exhibit considerable variation among the institutions. According to findings from the Association of Microfinance Institutions (AMFI), certain microfinance banks are facing challenges due to elevated levels of non-

performing loans (NPLs), which adversely affect their profitability and overall financial stability.

Furthermore, the profitability of the sector has been influenced by heightened competition from various financial service providers, such as digital lenders, commercial banks, and mobile money services like M-Pesa. The presence of these competitors, who provide analogous services yet frequently under more advantageous conditions—such as reduced interest rates or more adaptable loan repayment frameworks—poses a significant challenge for microfinance banks in their efforts to maintain client loyalty.

A considerable number of microfinance institutions in Kenya encounter difficulties regarding the repayment of loans. The clientele, frequently consisting of individuals with limited financial resources and small enterprises, tends to be especially susceptible to economic fluctuations, which complicates their ability to manage debt obligations. As a result, the prevalence of non-performing loans within the sector continues to be elevated, thereby impacting the profitability and long-term viability of microfinance institutions (Kamunge & Njeru, 2022).

Microfinance banks are significantly dependent on external funding, which can prove to be both expensive and challenging to obtain, particularly during periods of financial instability. The restricted availability of reasonably priced capital hinders their capacity to broaden their services, extend larger loans, and foster growth. A 2020 report from the Central Bank of Kenya indicates that numerous MFBs encounter liquidity challenges, potentially obstructing their operations and resulting in inefficiencies. While Kenya possesses a well-defined regulatory framework for microfinance, certain policies are

perceived as constraining by those within the industry. For instance, the imposition of interest rate caps in 2016 had a preliminary impact on the sector's profitability by constraining the rates that microfinance banks were permitted to impose on borrowers (Muriuki, 2021). Despite the subsequent repeal of this regulation, the influence of regulatory pressures persists in shaping the performance of these institutions. The emergence of digital lending platforms has engendered significant competition for microfinance banks. Mobile money services and fintech enterprises facilitate the rapid provision of loans, characterized by reduced bureaucratic processes and frequently more advantageous conditions. Microfinance banks have been compelled to evolve by introducing their own digital offerings; however, this transition necessitates considerable investment in technology and digital infrastructure, potentially placing a strain on financial resources (Kariuki, 2023).

Similar to various sectors in Kenya, microfinance banks are influenced by the overarching economic and political dynamics at play. The dynamics of inflation, variable interest rates, and political volatility can adversely influence the demand for microfinance services as well as the capacity of borrowers to fulfill their loan obligations. The COVID-19 pandemic, for instance, exacerbated the financial circumstances of numerous borrowers, resulting in a rise in non-performing loans within the microfinance sector (CBK, 2021). A significant number of microfinance banks continue to encounter difficulties in optimizing their operations, with certain institutions depending on manual processes and antiquated systems. This inefficiency escalates expenses and diminishes the capacity of institutions to proficiently cater to their clientele. The incorporation of digital platforms

has initiated a response to this challenge; however, significant opportunities for enhancement in operational efficiency persist.

2.4 Empirical Review

In order to focus the study, appropriate literature was empirically reviewed where constructs of the independent and dependent variables in various studies were analyzed.

2.4.1 Financial Management Review and financial performance

Akman, Shehab and Kizil (2020) examined impact of financial management review on the corporate performance of a business organization, which is the Exxon Mobil. Thus, Exxon Mobil Corporation was selected as a sample to show the assessment process of investment decisions. The consequences of financial reporting quality (FRQ) on corporate performance are also specifically examined in the case of Exxon Mobile Corporation. There was sufficient research highlighting the beneficial impact of high-quality financial reporting on firms' financial success.

This research showed that the usage of debt financing in the growth performance of Exxon Mobil Corporation is to the advantage of the company's management. A creditor turnover ratio that is either too high or too low may be disastrous for Exxon Mobil Corporation, hence it is essential that management keep it at zero. Therefore, the optimal level of Exxon Mobil Corporation's creditors-to-purchases (cost-of-sales) turnover ratio is one in which both are equal. The current credit facility and any discount related with quick payment of products may be used by Exxon Mobil Corporation to boost profitability index. In order

to increase the company's profits, management must exercise tighter control over operating expenses. Last but not least, corporate leadership has to maximize revenue by making smart use of the corporation's resources. The Exxon Mobil Corporation might increase sales and earnings by expanding its current businesses. Improvements should be made to the current ratio, the quick ratio (acid-test ratio), and the working capital ratio. Three years from now, look for the work of Akman, Shehab, and Kizil (2020).

The research conducted by Sishumba, Saidi, and Milupi (2022) aimed to investigate the impact of financial management review on the financial performance of commercial banks in Zambia, with Standard Chartered serving as the case study for their investigation. The research was conducted over the course of three months, and the sample population for the study consisted of 156 respondents. Data for the study were collected via the use of a questionnaire in addition to interviews, since the researcher deemed this to be the most suitable method. The questionnaire used a five-point Likert scale to automatically tally the respondents' ratings on various options. Based on their findings, the researchers concluded that Standard Chartered's internal auditing methods are associated with improved financial outcomes for the organization as a whole. The findings suggested that Standard Chartered's financial results are significantly impacted in a positive way by the company's emphasis on internal controls and the independence of internal audits. As a control mechanism designed to protect shareholders' and stakeholders' interests, this research helped ensure that shareholders and management are aware of the impact of internal audit has on the financial performance of commercial banks. This study would aid in making sure commercial bank shareholders and management are aware of the effect internal audit has on a bank's bottom line. The researcher recommended that Standard Chartered must

always make sure their internal control systems technology are up to date and that they must also train their internal audit staff regularly to enhance their informational and technical competency.

Madialo (2022) performed a study in Kenya to examine the effects of a review of financial management on the societal and economic success of MFBs. This study uses a descriptive research strategy, and its population consists of the 13 microfinance institutions in Kenya that take deposits as of December 31, 2020. The goals of the study were accomplished by these means. The research makes use of secondary data obtained from an imbalanced panel, which was done so by the use of a data collecting sheet over the course of seven years, from 2014 to 2020. The outcomes of the research showed that accounting policies had a negative and substantial influence on ROA, which is a measure of how well a company is doing financially. Therefore, given the social and economic significance of microfinance institutions, it is imperative that management take steps to reduce the volume of nonperforming loans, which in turn reduces the requirement for loan loss reserves.

2.4.2 Governance Structure and financial performance

Sheikh, Mutegi, and Kiama (2021) conducted research with the purpose of determining whether or not the membership of a microfinance institution's board of directors had an effect on the institution's overall financial performance in Nairobi County. 351 board members, CEOs, and auditors from 25 different MFIs in Nairobi County were included in the research as the population of interest. Primary data for the research came from a sample of 187 people who participated in the survey, which was conducted using the Yamane

formula. The main data was obtained from the participants via the implementation of a questionnaire using drop-off and pick-up methods. On the other hand, secondary data was gathered from financial newsletters and published financial statements sourced from the 25 microfinance institutions (MFIs) situated in Nairobi County. The research came to the conclusion that the make-up of MFI boards had a favorable and substantial impact on the organizations' ability to generate profits within Nairobi County. According to the findings of the research, there should be a suitable number of board members that is both financially feasible and conducive to effective decision-making. The study's findings showed that a better distribution of executive and non-executive directors, gender equality, and a mix of experts and seasoned members might improve the financial performance of MFIs in Nairobi County.

Ehugbo (2021) conducted research to determine how the qualities of corporate boards influence the overall performance of microfinance banks in Nigeria. The purpose of this research was to determine whether or not the management of microfinance banks in Nigeria could improve their overall performance by making better and more strategic use of their board of directors. In particular, the research investigates how returns on assets and liquidity are affected when boards of directors are not just independent but also diverse in terms of gender. We employed a design for study that was longitudinal. The method of sampling that was used was the simple random method, and Taro Yamane's formula was used in order to arrive at the value of 284 for the sample size. Secondary data obtained from an analysis of the financial situations of selected licensed microfinance banks operating in Nigeria between the years 2015 and 2019 were used to compile this report. A pilot study was

carried out in order to evaluate the instrument's level of dependability. Results from the study's hypothesis testing showed a positive and statistically significant correlation between microfinance banks' ROA and the degree to which their boards of directors are free to make their own decisions. Microfinance institutions' bottom lines and asset pools benefit and suffer significantly from gender diversity. Furthermore, the liquidity analysis demonstrates a positive and considerable correlation between board independence, gender diversity, and the liquidity of microfinance organizations. However, the findings of the survey indicate that the number of women serving in board-level positions at microfinance institutions remains dismally low.

Oyebanji (2022) conducted research to investigate the influence that corporate structure has on the economic results of microfinance banks in Nigeria. The information used for the research came from 133 individuals who volunteered their answers at one of 10 regulated microfinance banks (MFBs) located in the state of Lagos. These particular microfinance banks were selected owing to the validity and dependability of their records and operations. They have been registered, regulated, and acknowledged by the Lagos State Government as well as the Central bank of Nigeria (CBN), therefore this was a requirement for selection. In order to provide an explanation for the link that exists between the structure of a company and its financial success, descriptive statistics and regression analysis were used. According to the findings of the research, the corporate structure of MFBs is a significant factor that determines their financial success. This finding further demonstrated that there was a correlation of a coefficient value of 0.777 between Return on Asset (ROA) and business structure. Therefore, it suggested that the

corporate structure (CG) of MFBs has an impact on their financial success. According to the findings of the research, corporate structure is an effective instrument for improving performance as well as assuring the survival of MFBs and their applicability. This research concludes that in order for MFBs to provide high-quality services, the makeup of their boards of directors should take precedence over qualifications.

2.4.3 Risk Management and financial performance

Annah (2022) examined the impact of financial due diligences on the profitability of commercial banks in Uganda by focusing on the Kabale branch of Centenary Bank. This research set out to answer three particular questions on the effects of three different types of risk on the bottom lines of Uganda's commercial banks: credit risk, liquidity risk, and operational risk. In this study, researchers used a descriptive approach. Both primary and secondary sources played equal roles in this analysis. A systematic questionnaire was administered to 78 Centenary Bank staff members. From a pool of 97 applicants, the staff were chosen at random. Credit risk, liquidity risk, and operational risk's contributions to commercial banks' bottom lines were analyzed using correlation and regression techniques.

Based on the data shown here, it seemed that there is a strong correlation between a bank's profitability and its strategy for handling credit risk. It was also evident from the statistics that liquidity risk was closely related to the bank's financial results. Financial performance may be negatively impacted by credit risk and liquidity risk, as shown by this research. Commercial banks thus need robust infrastructures to ward against these dangers, especially since improved risk management has been shown to promote financial success. In the long run, this would improve the banks' overall performance. Therefore, effective

credit risk management frameworks must be implemented without delay to boost financial

results. The challenges that the bank is having with its liquidity should also be given the

greatest emphasis by the management of the bank. This is due to the fact that the

management of liquidity risk has a beneficial effect on financial performance. Therefore,

the problems connected to liquidity should be dealt with as soon as possible, and quick

corrective actions should be done in order to prevent the implications of the bank being

illiquid, according to Annah (2022).

The objective of the study that was conducted by Bundi, Ngali, and Maina(2021) was to

investigate the impact of financial due diligence management procedures on the financial

performance of microfinance banks (MFBs) in Kenya. The research selected to use a

descriptive survey methodology for its format. The target population consisted of all 13

MFBs in Kenya that were authorized to practice medicine as of December 2020. Five

managers from each of the thirteen MFBs participated in the survey for a total of sixty-

five managers who were chosen to reflect the study's target demographic. Panel data were

collected from CBK's yearly supervision reports between 2015 and 2020, while primary

data were collected via the use of structured questionnaires. The study used both primary

and secondary sources. According to the results of the regression analysis, the beta

coefficients for credit risk management, liquidity risk management, operational risk

management, and market risk management were 0.619, 0.755, 0.528, and 0.471,

respectively. The study's findings indicate that microfinance banks in Kenya can improve

their bottom lines by paying closer attention to four areas of risk management: credit risk

management, liquidity risk management, operational risk management, and market risk

management. In order to lessen credit risk's negative impact on microfinance institutions' bottom lines, the study's authors recommend adopting a credit risk management framework. In order to maximize profits, microfinance institutions must pay close attention to their liquidity. Because of how this variable affects microfinance institutions' bottom lines, the CBK should maintain the current minimum liquidity requirements of 20%.

Risk management's effect on the bottom lines of 17 Ethiopian commercial banks was studied by Tassew and Hailu (2019). The years 2013-2017 were used as a sample in this quantitative research study that relied on secondary data. A panel random effect regression model was used to evaluate the data. This research confirms previous findings that credit risk, liquidity risk, operational risk, and market risk all have a significant and negative influence on the financial performance of Ethiopia's commercial banks. In contrast, commercial banks benefit from a positive relationship between bank size and profitability. Credit risks, liquidity risks, operation risks, and market risks were shown to have substantial impacts on the financial performance of commercial banks in Ethiopia. The study's results suggest that commercial banks in Ethiopia might improve their financial standing by better managing their loan portfolios and hedging against market risks.

2.4.4 Moderating influence of firm size and the relationship between financial due diligence and financial performance

Commercial banks in Kenya were researched by Kirimi, Kariuki, and Ocharo (2022), who looked at how bank size affected the correlation between financial stability and profitability. The Kenyan banking system was the focus of these studies. This study used

information gathered from 39 different commercial banks during a 10-year period (2009-2018). The data was examined with the use of a panel data regression model. The relationship between commercial banks' financial stability and their NIM and ROA was shown to be moderated negatively by bank size, according to the study's results. These two variables were found to have a correlation of 0.1699 and a correlation of 0.218, respectively. However, when ROE was used as an indicator of financial performance, no moderating effect was seen. According to the paper's conclusions, bank management and other policymakers should consider the impact of bank size when designing policies with the aim of preserving a desirable level of bank financial soundness and boosting bank performance. This recommendation was based on the conclusion that the study produced. In addition, the various organizations of bankers should come up with guidelines to standardize the various techniques of asset quality management in order to guarantee the consistent good performance of the banking industry.

Kivaya, Kemboi, and Odunga (2020) investigated the impact of firm size on the organizational structure and financial output of microfinance institutions in Kenya. This investigation used a causal approach. The study's population was designed to consist of all thirteen microfinance organizations with Nairobi City County registrations. Microfinance company financial records served as the source for the secondary data collection. In Nairobi County, where the explanatory power of R^2 improves from 46.72% before moderation to 52.68% after moderation, the corporate structure and financial performance of microfinance institutions are moderated by the size of the firm. Additionally, it was shown that the size of the company is a key mediator on board duality, board composition, and the financial success of microfinance organizations. The study recommends for

moderately sizeable board of management that is neither too large nor too small. Microfinance institutions that have large boards may incur more cost in remunerating the board members. Likewise a very small board size may lead to the biased decisions or weak decisions. The study recommended the consideration of gender diversity when constituting the board. The study recommended for an independent board characterized by executive and non-executive directors.

Hermuningsih, Kusuma, Iqbal and Panjaitan (2020) aimed at investigating the connection concerning inside ownership and the financial implementation of firms registered on the Indonesia Ordinary Interchange. Samples were collected from 14 businesses from food and beverages buyer sub-sector in the period of 2014-2018 by means of purposive testing technique. The data were studied by Multiple Linear Regression and Moderated Regression Analysis. The outcome showed that a stable number of stocks could determine the decision for investment opportunities. Besides, firm size contributed to reinforce the association concerning privileged property and profit- oriented companies in term of financial performance.

Santosa, Budiantoro and Zuzryn (2022) aimed to understand well the effect of majority ownership and firm size on financial fundamentals as controlling the debt policy of the property sector in Indonesia. The data panel model was built using data from firms listed in the property sector of the Indonesia Stock Exchange. Data was extracted from audited quarterly financial reports from 2014-2019. The results showed that majority ownership negatively influences debt policy. In general, majority ownership negatively affects the capital structure in the short and long term because management is more prudent. However,

sales growth and firm size insignificantly affect debt policy. Moreover, the moderate effect of firm size on the relationship between majority ownership and debt policy was strengthened. The controlling fundamentals, namely liquidity and profitability, negatively affect leverage. However, price to book value positively affects leverage. The main implication was that majority ownership and firm size with firm-specific rather than country facts explain the differences in debt policy in the property sector

2.5 Summary and Research Gaps

Most of the papers considered were concerned with the myriad factors that might affect the bottom lines of microfinance organizations worldwide. Therefore, the goal of this study was to examine the financial due diligence and performance of Kenyan microfinance banks to fill the void caused by the lack of research in this area. Review of financial management was one of the factors considered, along with governance structure, risk management, and management of the firm's growth as a moderating variable.

Table 2.1: Research Gaps

Author	Title of Research	Methodology/ Approach	Findings	Knowledge Gap
Akman, Shehab and Kizil (2020)	This research project analyzes how Exxon Mobil's financial management review affected the company's bottom line.	Exxon Mobil Corporation is selected as a sample to show the assessment process of investment decisions	There was a satisfying conclusion, which highlighted the favorable influence that high-quality financial reporting had on the financial success of businesses.	The study focused on one firm, making it difficult to generalize the findings to other firms The study limited itself to corporate performance ignoring other measures of performance
Sishumba, Saidi and Milupi (2022)	This research looks at how a financial management review affects the bottom line at Zambia's commercial banks generally and at Standard Chartered Bank in particular.	The sample population for the study was 156 respondents and the researcher used a questionnaire and interviews to collect data.	The results of the study led the researchers to the conclusion that there is a significant and favorable connection between Standard Chartered's internal auditing practices and the company's overall financial performance.	The study focused on one firm, making it difficult to generalize the findings to other firms. The study focused on internal audit ignoring other aspects of financial management review
Madialo (2022)	The effect of doing financial management review on the economic and social effectiveness of Kenya's Microfinance Institutions (MFIs).	A descriptive study approach was used, and the population consisted of the 13 microfinance institutions in Kenya that accepts deposits as of the 31st of December 2020. This research used of	The data showed that accounting policies had a considerable and negative impact on ROA.	The study did not indicate how unbalanced data panel was overcame The study did not indicate how accounting policies were measured using secondary data

		secondary data collected from uneven panel samples.		
Sheikh, Mutegi and Kiama (2021)	How the make-up of boards affects the bottom lines of Kenya's microfinance institutions in Nairobi County.	There were a total of 351 board members, CEOs, and auditors working at 25 MFIs in Nairobi County who were the focus of the study's population. The research used information from both primary and secondary sources.	The research came to the conclusion that the make-up of MFI boards had a favorable and substantial impact on the organizations' ability to generate profits in Nairobi County.	The study did not indicate how secondary and primary data were triangulated The study only focused on board composition
Ehugbo (2021)	Microfinance banks in Nigeria: how board composition affects performance.	The kind of sampling used was simple random procedure, and Taro Yamane's formula was used in order to arrive at a sample size of 284. Data obtained from secondary sources, based on an analysis of the financial situations of several regulated microfinance institutions operating in Nigeria between the years 2015 and 2019, respectively.	The result from the tested hypotheses reveals a substantial and positive correlation among board independence and return on assets of microfinance banks. The gender diversity has significant and negative influence on profit on assets of microfinance banks.	The study was conducted outside Kenya leaving a significant knowledge gap The study did not indicate whether performance was measured using financial or non-financial metrics The theories were not linked to the study variables
Oyebanji (2022)	Microfinance banks in Nigeria and the impact of corporate structure on financial results.	The information needed for the research came from 133 different respondents, all of whom were chosen from 10 different regulated microfinance banks (MFBs) in the state of Lagos.	The study established that corporate structure is a major determinant of financial performance of MFBs	This study was conducted outside Kenya leaving a significant geographical gap. The study did not indicate how corporate

				structure was conceptualized
Annah (2022)	A Case Study of Centenary Bank's Kabale Branch in Uganda to Examine the Effects of Financial Due Diligence on Commercial Banks' Financial Performance Microfinance institutions in Kenya and the impact of financial due diligence management practices on MFBs' financial performance.	This study used a descriptive research approach for its methodology. In this particular research, both primary and secondary sources of information were used. 78 employees of Centenary Bank were given a structured questionnaire in order to gather data from them. A representative group of 97 employees was chosen to participate in the survey.	According to the results of this research, there is a considerable connection between credit risk management and the financial success of the bank.	The study only focused on credit risk management This was a case study, therefore making it difficult to generalize the findings to other financial institutions The study did not indicate how secondary and primary data were triangulated
Bundi, Ngali and Maina(2021)	Seventeen commercial banks in Ethiopia and the effect that risk management had on their bottom lines.	Design for a descriptive survey. The target demographic included all 13 MFBs in Kenya that were eligible for licensing as of the end of the year 2020. In the census survey, a total sample of 65 respondents was utilized to represent the accessible population. This research made use of both primary and secondary sources of data.	According to the findings of the research, the financial performance of microfinance institutions in Kenya is significantly impacted by credit risk management methods, liquidity risk management strategies, operational risk management practices, and market risk management policies.	The study did not indicate how secondary and primary data were triangulated The findings were presented basing on the unit of inquiry instead of unit of analysis

Tassew and Hailu (2019)	This analysis looks at how the relative size of Kenya's commercial banks affects the correlation between the institutions' financial health and their bottom line.	A strategy based on quantitative research was used, and secondary data were used, covering the sample period that spanned from 2013 to 2017. An analysis employing a panel random effect regression model was performed on the data that was obtained.	According to the findings of the research, credit risk, liquidity risk, operational risk, and market risk all have a substantial and detrimental effect on the financial performance of commercial banks in Ethiopia.	There was contextual gap since the study focused on commercial banks outside Kenya The study was conducted between 2013 and 2017, while current study was conducted from 2018 to 2022
Kirimi, Kariuki and Ocharo (2022)	Microfinance institutions (MFIs) in Kenya are the focus of the current research, which examines the impact of company size on the connection between corporate structure and financial performance.	The research analyzed information from 39 different commercial banks over a period of 10 years, from 2009 to 2018. The data were analyzed using a technique called panel data regression.	The findings of this research indicated that there is a negative moderating influence of bank size on the link between the financial soundness of commercial banks and their net interest margin (NIM) and return on assets (ROA). The correlation coefficients for these two variables were found to be 0.1699 and 0.218, respectively.	The study was conducted among commercial bank thereby leaving a significant knowledge gap The study used more than one measure of financial performance without clear justification
Kivaya, Kemboi and Odunga (2020)	The profitability of firms trading on the Indonesia Stock Exchange is correlated with the percentage of ownership held by insiders.	In this study, a causal research design was used. All thirteen microfinance institutions that were registered in Nairobi City County were included in the research as the population that was intended to be analyzed.	The size of a company has a moderating effect on both the corporate structure and the financial performance of microfinance institutions in Nairobi County.	The study only examined the interaction between corporate structure and firm size leaving out other independent variables

		Microfinance company financial records served as the source for the secondary data collection.		The study focused on MFIs in Nairobi County
Hermuningsih, Kusuma, Iqbal and Panjaitan(2020)	This research looked at how several factors, such as firm size and majority ownership, affect the financial fundamentals of the property market in Indonesia.	Samples were collected from 14 businesses from food and beverages buyer sub-sector in the period of 2014-2018 by means of purposive testing technique. The data were studied by Multiple Linear Regression and Moderated Regression Analysis	The scale of the company was a contributing factor that helped to strengthen the relationship between privileged property and profit-oriented businesses in terms of their financial success.	The study was conducted outside Kenya thereby leaving a significant geographical gap. The study limited itself to food and beverages buyer sub-sector leaving significant contextual gap
Santosa, Budiantoro and Zuzryn (2022)	This research project analyzed how Exxon Mobil's financial management review affected the company's bottom line.	The data panel model was built using data from firms listed in the property sector of the Indonesia Stock Exchange. Data was extracted from audited quarterly financial reports from 2014-2019	It was shown that business size had a modest influence on the association between majority ownership and debt policy, but this effect was reinforced.	The study was conducted outside Kenya thereby leaving a significant geographical gap. The study only focused on firms listed in the property sector of the Indonesia Stock Exchange.

2.6 Conceptual Framework

According to Mugenda (2008), the conceptual framework was a postulated model that identified the model that was being studied as well as the link between the dependent and independent variables. As could be seen in figure 2.1, the independent variable in this investigation was the level of financial due diligence, whereas the variable under investigation was the financial performance of microfinance institutions.

Financial due diligence   **Performance**

Independent Variables   **Moderating Variable**   **Dependent**
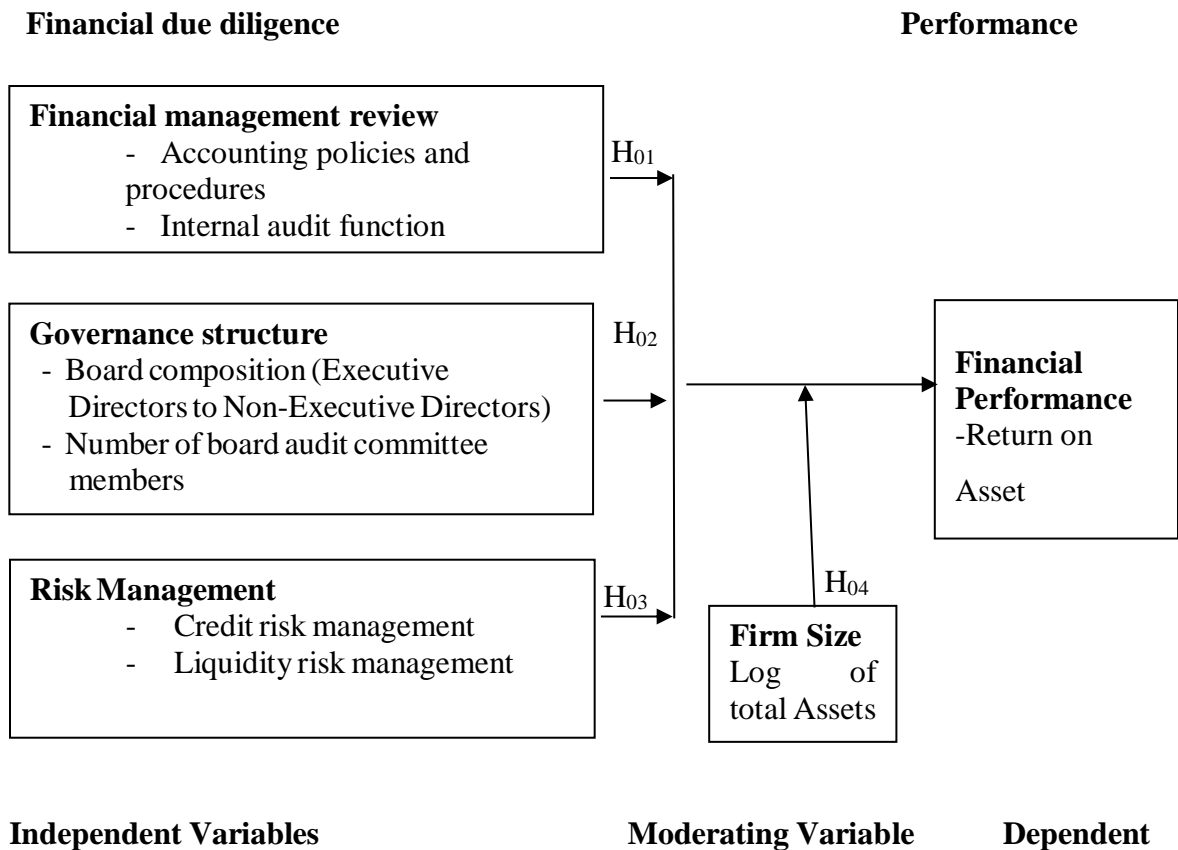
Figure 1.1: Conceptual Framework

Source: Researcher (2023)

CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introductions

This chapter focused on description of the study0area, the research design, the study0population, sample size and sampling0procedure. Instruments for data0collection, reliability and validity of the research0instruments together with data0analysis are considered too.

3.2 Study Area

The research was carried out at a total of 13 instead of the 14 different microfinance banks in Kenya. One MFB lacked data for years 2018 to 2020 hence it was dropped so as to avoid unbalanced panels. The microfinance industry in Kenya is regarded as one of the most dynamic in all of Sub-Saharan Africa. It provides assistance to those who are less fortunate via a wide branch network and a variety of institutional structures (FSD, Kenya, 2022). Kenya is found in the Eastern part of Africa covering an Area of 582 646 sq.km. East Africa lies between latitudes $23c^0N$ $12c^0S$ and longitudes 220 E 510 E. Countries bordering Kenya include, Uganda, Sudan, Somalia, Ethiopia and Tanzania. Kenya lies between latitudes $41/2^0$ N $41/2^0S$ and longitudes 34^0E 42^0E.

The selection of the 14 MFB in Kenya was intentionally based on practical concerns about the research region. Initially, there is a scarcity of comparative research, resulting in a dearth of sufficient and specific data about the impact of financial due diligence on organizational performance. In contrast to deposit-taking Savings and Credit Cooperatives (Saccos) and Commercial banks, Microfinance Banks (MFBs) have shown substandard

performance. The primary factor contributing to the performance of the sub sector was primarily the decrease in financial revenue, which amounted to 7.6 percent or Ksh.0.85 billion. This was accompanied by a comparable rise in costs, totaling 3.0 percent or Ksh.382 million. The rise in expenditures associated with financial charges intended to attract deposits, as well as the supplementary preparations made by the industry to adhere to the stipulations of the recently introduced International Financial Reporting Standard (IFRS) 9.

3.3 Research Design

The research employed a causal-comparative (ex post facto) design utilizing a panel data methodology to explore the relationships among various variables. The research design utilized here shows that the independent and dependent variables are causally related. According to Baskerville and Pries-Heje (2014), a variable quantity may be a symbol or notion that is able to be predicted and is the result of an experimental variable. This study followed the same line of inquiry as Creswell and Creswell (2017) and used a causal research design to examine the extent to which changes in one variable are reflected by variations in the behavior of the other. The fundamental purpose of organizing a research study utilizing a causal method is to identify any causal links that may exist between the components or variables that are important to the research issue. In contrast, it aims to elucidate the present situation by putting to the test ideas that have been formulated in light of the current condition of events (Bowen, Rose, & Pilkington, 2017).

3.4 Target population

According to Collins and Hussey (2019), a population is characterized as a distinctly defined collection of individuals or entities that are subject to examination for the purposes of statistical analysis. Okoth (2016) articulates that a target population constitutes an extensive assemblage of individuals or items sharing common characteristics, as delineated by the sampling criteria established by the researcher. The study targeted all the fourteen microfinance institutions in Kenya (APPENDIX 1).

3.5 Sampling Technique and Sample Size

A sample size refers to set of observations drawn from a population by a defined procedure (Mugenda & Mugenda, 2003). Sampling is defined as the choosing of a subset of a larger whole in order to draw inferences or draw conclusions about the whole, as stated by Kothari (2006). Census sampling technique was employed in this study. Fourteen different Kenyan microfinance organizations were studied. The microfinance institutions included in this analysis were required to provide full data for the years 2018–2022. A census entails the systematic gathering of data from each individual within the population, thereby guaranteeing that your research delivers an exhaustive examination of the financial performance and due diligence methodologies employed by all microfinance banks across the nation. This methodology eradicates sampling error, thereby facilitating the derivation of more substantial conclusions from the entirety of the dataset. In this instance, we chose microfinance banks according to their involvement in financial due diligence practices, governance frameworks, risk management strategies, organizational scale, and financial management review mechanisms. The emphasis lies in acquiring substantial, pertinent data instead of engaging in arbitrary sampling.

3.6 Data collection Instruments

Qualitative secondary data constituted the backbone of the research. The researcher gathered the necessary data from CBK reports and the firm's website, where a variety of factors were recorded over the five-year period of 2018–2022, according to the audited reports.

3.6.1 Data Collection procedures

Secondary data was used because the area of jurisdiction is large and quantitative data requirements. Time series data was used since the data is readily available from reports of CBK. The research instrument collected data for five years thereafter average for each variable were calculated then transformed to natural logarithms before processing.

The utilization of secondary data was necessitated by a variety of practical considerations: The microfinance sector in Kenya is characterized by a multitude of institutions, rendering it unfeasible to gather primary data directly from all banks within the constraints of the study's timeframe. The utilization of secondary data facilitates an extensive examination across various institutions, eliminating the necessity for labor-intensive and financially burdensome fieldwork. The objectives of the study require quantitative measures to effectively evaluate the impact of financial due diligence on financial performance. Secondary data offers standardized numerical values derived from reputable sources, enabling thorough statistical analysis and comparison among various banks. Reports from the Central Bank of Kenya (CBK) serve as credible and substantiated resources, providing insights into the financial performance and operational methodologies of microfinance banks. The significance of these reports lies in their role in upholding consistency and credibility within the analysis.

The utilization of time series data is warranted, as the financial performance metrics for microfinance banks are conventionally aggregated and disseminated in annual reports by the Central Bank of Kenya and various financial entities. The accessibility of this data allows researchers to adeptly compile the requisite information for their studies, circumventing the logistical complexities often tied to the collection of primary data. Through the examination of data amassed over a five-year span, the study is positioned to scrutinize trends and fluctuations in financial performance, alongside the impact of financial due diligence practices throughout this duration. This comprehensive perspective offers a deep understanding of the evolution of financial management review, governance structures, and risk management practices, along with their respective influences on performance metrics.

Data was meticulously gathered for each microfinance bank over a span of five years, incorporating a range of financial metrics pertinent to the research objectives. This timeframe facilitates an in-depth examination of performance trends and the rigor of due diligence practices.

The utilization of secondary and time series data in this study established a robust framework for analyzing the impact of financial due diligence on the financial performance of microfinance banks in Kenya. This methodology facilitates an in-depth examination of quantitative variables, taking into consideration temporal variations, thereby allowing for a thorough evaluation of the research aims. Through the effective processing and transformation of data, this study aspires to extract significant insights that enhance the comprehension and advancement of the financial performance of microfinance institutions.

Upon gathering the data, the means for each variable were computed. This approach streamlines the examination by diminishing variability, thereby facilitating more precise comparisons between banks and over different years. The computed averages were subsequently converted to natural logarithms prior to further analysis. This transformation presents a multitude of advantages: This process aids in stabilizing variance and rendering the data more normally distributed, a fundamental assumption in numerous statistical analyses, such as regression models. The coefficients derived from regression analyses that employ logarithmic transformations can be understood as elasticities, thereby facilitating a clearer comprehension of the relative variations in financial performance in relation to adjustments in due diligence practices.

Table 3. 1: Operationalization and Measurement of Study Variables

Variable	Name of Variable	Operationalization	Measurement
Dependent variables	Financial Performance	Return on Asset Return on Equity	Net income/Total Assets Net income/Shareholder's Equity
Independent Variables	Financial management review	Accounting policies and procedures Internal audit function	Dummy Variables (1,0) thereafter average for five years was calculated which is a continuous data ranging from 0-1 (Percentage) $(Y_1+Y_2+Y_3+Y_4+Y_5)/5$
	Governance Structure	- Board composition - Number of board audit committee members	Count directors, percentage of independent directors Natural logarithm of No of board audit committee members
	Risk Management	Credit risk management Liquidity risk management	Non-performing loans to Total Loans Liquidity Asset to Total deposit
Moderating Variable	Firm Size	Total Assets	Natural Logarithm of total assets

3.7 Data Analysis

In order to extract useful information from the data, quantitative methods were used within the framework of STATA Software version 15.0. Data processing was carried out through editing, coding and classification. The analysis of the data included both descriptive and inferential statistical methods. The data were summarized via the use of descriptive statistical analysis, which included frequencies, skewness and kurtosis as well as percentages, means, and standard deviations. The results of the analysis were laid out in tables, charts, and graphs for readers' convenience in making comparisons and drawing conclusions.

The Pearson correlation and the regression analysis were used for the inferential study. In order to resolve the problem of false data, a test of the unit root was carried out. Inferential correlation was determined with the use of the Augmented Dickey–Fuller test and the Levin–Lin–Chu. It was decided to do a Hausman test in order to assess if the regression was fixed or random. If the p value was less than 0.05 then fixed regression was adopted if greater than 0.05 then random regression effect was adopted. Comparing businesses using a fixed effect regression to those using a random effect regression assumes that the former have common traits while the latter do not.

3.7.1 Simple Linear Regression analysis

A simple linear regression analysis was performed to ascertain the relative importance of the various factors in achieving the first three aims of the research.

Simple linear regression equation was written as;

Simple linear regression models

Model 1: $\qquad Y = \alpha_0 + \beta_1 X_1 + \varepsilon$

Model 2: $\qquad Y = \alpha_0 + \beta_2 X_2 + \varepsilon$

Model 3: $\qquad Y = \alpha_0 + \beta_3 X_3 + \varepsilon$

Where; Y was financial performance

$\qquad$ α was constant (intercept),

$\qquad$ β was coefficient parameter to be determined,

$\qquad$ X_1 was financial management review

$\qquad$ X_2 was Governance structure,

$\qquad$ X_3 was Risk management,

$\qquad$ ε was error/disturbance

3.7.2 Multiple Regression analysis

Multiple regression was used to determine the combined effect of the independent variables. Multiple Regression Model equation summarized as;

$$y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon$$

Where; y= Financial performance;

$\qquad$ β_0 = constant (coefficient of intercept);

$\qquad$ X_1 = Financial management review

$\qquad$ X_2 = Governance structure

$\qquad$ X_3 = Risk management

$\qquad$ ε = Error term;

$\qquad$ $\beta_1 \ldots \beta_3$ = regression coefficient of the three independent variables in the model.

3.7.3 Hierarchical Regression Analysis

This evaluated the fourth research hypothesis, which was to assess whether or not transformed company size scores moderated the relationship between financial due diligence (compounded IVs) and financial performance (DV). Therefore, the hypothesized moderator (firm size) was translated to continuous data and a product term was produced since it included categorical variables.

By using hierarchical regression, we were able to calculate the moderating effect of the following variables: company size-Moderator-M, financial due diligence and financial performance, and finally, the interaction term. Multiplying the summated-weighted scores of financial due diligence and transformed scores of company size -Moderator (M) yields the product term, which is also called the interaction term (Hayes, 2013).An analytical equation model for moderation was developed using hierarchical regression analysis;

$$y = \beta_0 + \beta_1 \sum_i^t X_1 + \beta_2 \sum_i^t X_2 + \beta_3 \sum_i^t X_3 + \beta_4 \sum_i^t M + \beta_5 \sum_i^t X_1M + \beta_6 \sum_i^t X_2M + \beta_7 \sum_i^t X_3M + \varepsilon$$

Where;

y = financial performance

β_0 = constant (regression intercept)

$\beta_1 - \beta_7$ = Beta coefficients

$\sum_i^t$ = individual firm at time period

M = firm size (moderator)

X_1M = Financial management review interact firm size

X_2M = Governance structure interact firm size

X_3M = Risk management interact firm size

ε = error term

3.7.4 Diagnostic Tests

Before beginning the examination of the data, the following diagnostic procedures were carried out. The researcher who used multiple linear regressions had a significant duty ahead of them in the form of testing their assumptions. According to Williams, Grajales, and Kurkiewicz (2017), serious breaches might lead to biased estimations of associations, skewed standard errors, which over- or underestimate the accuracy of regression coefficients, and unreliable confidence ranges and significance tests.

3.7.4.1 Normality

To check for normality, that is, whether data is normally distributed normality was used to meet this assumption. (Thadewald & Büning, 2017).

3.7.4.2 Test of linearity

For regression to work, all three variables—independent, moderator, and dependent—must be connected in some way. Due to the fact that linear regression is sensitive to the effects of outliers, it was also vital to check for any outliers. The best way to evaluate the linearity assumption is via a scatter plot, say Chatterjee and Hadi (2015). There is a greater association or link between the two parameters if the data points shown closely resemble a straight line.

3.7.4.3 Heteroscedasticity Test

The condition known as heteroscedasticity occurs when the predictive value of the second component exhibits uniform variability over all possible values (Vinod, 2018). With the aim of assessing heteroscedasticity, the pilot research administered the Breuch-Pagan test. Violating homoscedasticity is more consequential when heteroscedasticity is strong, and it grows with rising levels of the latter. The equality of the variance and error terms was the assumption that served as the basis for the test's null hypothesis. (Vinod, 2018).

3.7.5 Hypothesis testing

The four hypotheses were tested using the following framework:

Table 3. 2: Hypothesis testing

	Hypothesis Statement	Hypothesis Testing	Model
i	H_{01}: Financial management review has no significant influence on financial performance of microfinance banks in Kenya	$H_{01}: \beta_1 = 0; H_{0A}: \beta_1 \neq 0$ Reject H_{01} if $\beta_1 \neq 0$ and P value ≤ 0.05 otherwise fail to reject H_{01} if $\beta_1 = 0$ and P value $> \alpha; \alpha = 0.05$	$Y = \beta_0 + \beta_1 X_1 + \varepsilon$
ii	H_{02}: Governance structure has no significant influence on financial performance of microfinance banks in Kenya.	$H_{02}: \beta_2 = 0; H_{OA}: \beta_2 \neq 0$ Reject H_{02} if $\beta_2 \neq$ and P value ≤ 0.05 otherwise fail to reject H_{02} if $\beta_2 = 0$ and P value $> \alpha; \alpha = 0.05$	$Y = \beta_0 + \beta_1 X_2 + \varepsilon$
iii	H_{03}:Risk management has no significant influence on financial performance of microfinance banks in Kenya.	$H_{03}: \beta_3 = 0; H_{0A}: \beta_3 \neq 0$ Reject H_{02} if $\beta_3 = 0$ and P value ≤ 0.05 otherwise fail to reject H_{03} if $\beta_3 = 0$ and P Value $> \alpha; \alpha = 0.05$	$Y = \beta_0 + \beta_1 X_3 + \varepsilon$
iv	H_{04}: Firm size has no significant moderating influence on the relationship between financial due diligence and financial performance of microfinance Banks in Kenya	$H_{04}: \beta_4 = 0$ $H_{0A}: \beta_4 \neq 0$ Reject H_{04} if $\beta_4 = 0$ and P value ≤ 0.04 otherwise fail to reject H_{04} if $\beta_5 = 0$ and P Value $> \alpha$ $\alpha = 0.05$	$y = \beta_0 + \beta_1 X_{1..3} + \beta_4 M + \beta_5 X_{1..3} + \varepsilon$ If X*M has a p value ≤ 0.05, then there is a significant moderating effect.

Source: Researcher (2023)

3.8 Ethical consideration

Mugenda and Mugenda (2014) argued that social research has very ethical concerns such as confidentiality and anonymity. The researcher explained and clarified the aims of the research and assured the respondents that all the information provided was treated with the utmost confidentiality and their privacy upheld. Identification details were not recorded in order to maintain anonymity of the respondents. The researcher also maintained ethics in academic writing and publishing whereby plagiarism was avoided through plagiarism checker. Notes were made to distinguish between writers' own opinions and the information referenced about them. Throughout the research, the concept of participants' free and informed agreement to participate was strictly maintained.

CHAPTER FOUR
FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter encompasses the examination of data, the delivery of information, the understanding and explanation of research results, all in accordance with the study's goals. Examining how financial due diligence affects the bottom lines of Kenya's microfinance institutions was the major motivation for this study. The fundamental purpose of this study was to analyze the connection between financial performance and factors such financial management review, governance structure, and risk management. This study also found that the size of a firm influenced the correlation between financial due diligence and profitability for Kenya's microfinance institutions. Descriptive statistics, regression and correlation analysis have computed to aid in discussing the findings. The findings are presented in tables and figures.

4.2 Response rate

The study targeted fourteen microfinance institutions in Kenya. However, One MFB lacked data for years 2018 to 2020 hence it was dropped so as to avoid unbalanced panels. The data is summarized in Table 4.1.

Table 4. 1: Response rate

Response	Expected	Responded	Percent
Microfinance Banks	14	13	93%

From Table 4.1, from the total of 14 institutions participated who were specifically targeted for participation, a significant proportion of 13 respondents actively engaged in

the study, resulting in a response rate of 93%. The significant response rate can be attributed to the prompt, wilingness and good record keeping of the institutions under study. Saunders et al. (2007) posit that a response rate of 50% can be considered as satisfactory, while a response rate of 60% is deemed as favorable, and a response rate above 70% is regarded as highly commendable. Therefore, the response rate seen in this study was highly satisfactory.

4.3. Descriptive Statistics

Descriptive statistics were produced as part of this research so that the features and characteristics of the data set could be described. Data was collected from 13 out of 14 microfinance banks which had complete data set from 2018 to 2022. Muungano Microfinance Bank lacked data between 2018 and 2020 therefore, it was excluded so as to avoid unbalanced panels. It included an overview of the data and measurements that were used during the investigation. Measures of both the spread and the central tendency were used as part of the process of compiling the descriptive statistics that were employed. In this particular investigation, the measures of spread that were used were composed of minimum value, standard error, standard deviation, and maximum value respectively. The mean was one of the measurements that was used to determine the central tendency of this data collection. The research determined the standard deviation, mean, as well as the highest and lowest possible values. Between the years 2018 to 2022, for all of the factors, including the dependent variable, financial performance, as well as the independent variables, financial management review, governance structure, and risk management, and the moderating variable, firm size. The following is a compilation of the descriptive statistics for the variable.

4.3.1 Financial management review

Financial management review was measured by presence (1) or absence (0) of accounting policies and procedures as well as internal audit function from 2018 to 2022. From 2018 to 2022, mean presence was at 92.3% for accounting policies and procedures and 93.8% for internal audit function with an S.D of 26.9% and 24.2% respectively as indicated in Table 4.2.

Table 4. 2: Descriptive Statistics- Financial management review

Stats	Accounting policies and procedures	Internal audit function
N	65	65
Min	0	0
Max	1	1
Mean	0.923077	0.938462
Sd	0.268543	0.242186

Source: Research findings

4.3.2 Governance structure

Examining the makeup and committees of the board allowed for the measurement of governance structure. A board's audit committee membership and the ratio of its executive to non-executive directors were the two primary factors in determining the board's makeup.

Table 4. 3: Descriptive Statistics- Governance structure

Stats	Board composition	Number of board audit committee members
N	65	65
Min	0.166667	2
Max	0.6	7
Mean	0.352106	4.430769
Sd	0.13233	1.310644

Source: Research findings

From Table 4.3, board composition (ratio of executive to non-executive) ranged from 0.167 to 0.6 with a mean of 0.352 and standard deviation of 0.132. On the other hand, number of board audit committee members ranged from 2 to 7 with a mean of 4 and an S.D of one member.

4.3.3 Risk management

In order to quantify risks, we resorted to credit risk management and liquidity risk management. Liquidity risk was determined by dividing total deposits by total assets, whereas credit risk was determined by the ratio of nonperforming loans to total loans.

Table 4. 4: Descriptive Statistics- Risk management

Stats	Credit Risk management	Liquidity Risk Management
N	65	65
Min	-7	0.01
Max	1.881579	7.2
Mean	0.219982	0.529354
Sd	1.024005	0.989922

Source: Research findings

As indicated in Table 4.4, credit risk ranged from -7 to 1.88 with a mean of 0.220 and an S.D of 1.024. On the other hand, liquidity risk ranged from 0.01 to 7.2 with a mean of 0.529 and an S.D of 1.00.

4.3.4 Firm Size

The natural logarithm of a company's total assets was utilized to determine the firm size, which served as a moderating variable in this study. Based on the data shown in Table 4.5, the size of the companies varied from 3.81 to 10.33, with a mean of 7.17 and an S.D of 1.82.

Table 4. 5: Firm Size

variable	N	Min	Max	Mean	Sd	Skewness	Kurtosis
SIZE	65	3.806662	10.32918	7.16526	1.81910	0.239676	2.148739

4.3.5 Financial Performance

Returns on Assets were used as the determining factor in determining financial performance, which is the dependent variable. According to Table 4.6, which presents general statistics derived from panel data, the range of possible outcomes for a company's financial performance between the years 2018 to 2022 is -0.584 to 0.039, with a mean of -0.090 and an S.D of 0.144.

Table 4. 6: Financial Performance

Variable	N	Min	Max	Mean	SD	Skewness	Kurtosis
ROA	65	-0.5838	0.039039	-0.0904	0.144148	-1.87497	3.7960

Source: Research findings
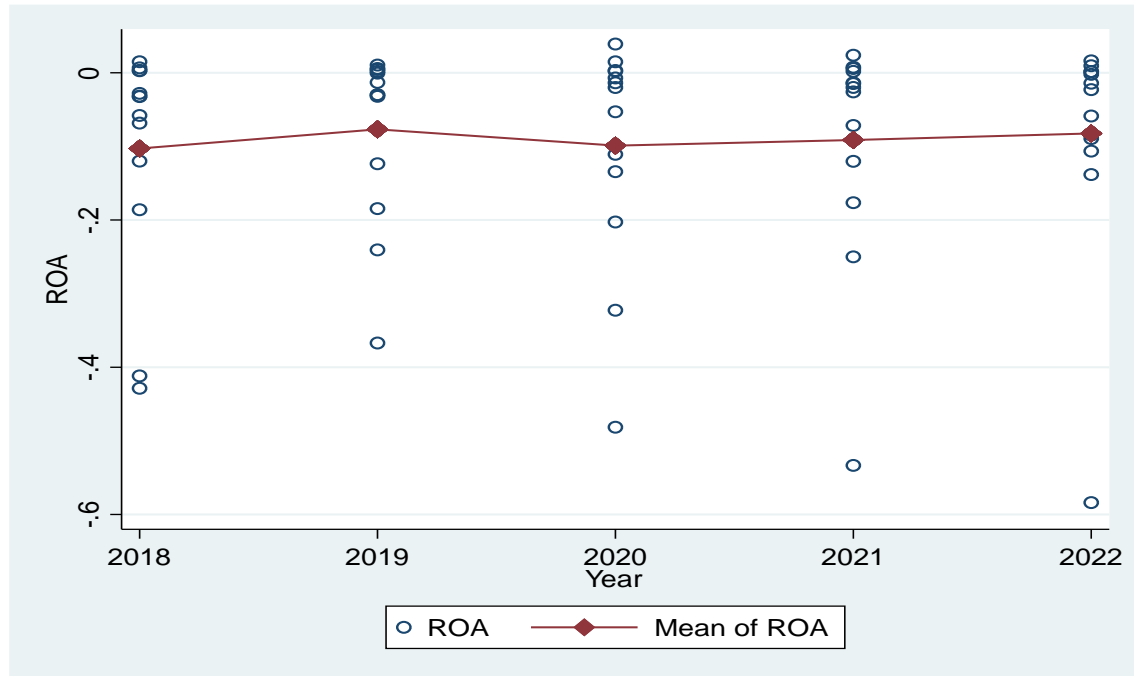
Figure 4. 1: Scatter Plot for Financial Performance

4.4 Diagnostic Tests

In order to determine whether or not the research model was appropriate for the study, many diagnostic tests were conducted. The normality, multicollinearity, autocorrelation, and heteroscedasticity tests were some of the diagnostic computations that were carried out. In addition to this, the test was used to evaluate the distribution of the data, as well as the appropriateness of the information for drawing conclusions and the fulfillment of the assumptions underlying regression analysis.

4.4.1 Normality Test

A look at skewness, kurtosis, and the Jargue-Bera test helped determine whether or not the data was normal. According to Tabor (2011), a number for skewness that is less than 2 and a kurtosis value that is less than 6 should be regarded normal.

Table 4. 7: Normality Test

Stats	ROA	SIZE	APP	IAF	BC	BACM	CRM	LRM
Skewness	1.874	0.239	0.345121	5.348619	-5.55677	0.17296	-1.1754	-3.64905
Kurtosis	5.796	2.148	1.964815	34.36147	39.68776	2.46710	4.0833	14.3155
Jargue-Bera	5.144	2.585	1.258	49.10	39.80	1.093	4.193	29.74
Probability	.0764	.2746	.5331	0.001	0.031	.5789	.1229	0.047

Source: Research findings

APP: Accounting policies and procedures, **IAF**: Internal audit function, **BC**: Board composition, **BACM**: Number of board audit committee members, **CRM**: Credit Risk management **LRM**: Liquidity Risk Management

From what can be seen in Table 4.7, none of the variables had a skewness greater than 2. This indicates that are regularly distributed and that the data were sufficient and fulfilled the assumption of normality. Additionally, the assumption of normality was satisfied. This finding was also corroborated by kurtosis values that were fewer than 6, as seen in the table below. In addition, a more rigorous methodology referred to as Jarque-Bera (JB) was used in the research to further confirm the normalcy of the distribution. Due to the fact that the probability value for Jarque-Bera was higher than 5% for return on asset, business size, accounting standards and procedures, number of board audit committee members, and credit risk management, the null hypothesis was not successfully rejected by the research.

4.4.2 Multicollinearity Test

The nonlinear relationship between the predictor and the inflated regression coefficients was tested for using the Variance Inflated Factor (VIF) metric. A VIF of 1 shows no association, a VIF of 1-2 suggests moderate correlation, and a VIF of 5-10 suggests strong correlation.

Table 4. 8: Multicollinearity Test

Variables	VIF	Tolerance (1/VIF)
Financial management review	3.3979	0.2943
Governance structure	1.1566	0.8646
Risk management	3.306	0.3025

Source: Research findings

Table 4.8 shows that there was no multicollinearity and that the independent variables could not be linearly related to one another since their VIF was less than 10. There was no evidence of multicollinearity as the VIFs of all the variables were less than 5, indicating that the data was appropriate for analysis.

4.4.3 Auto Correlation Test

The presence of serial correlation in linear panel-data models introduces bias in the standard errors and reduces the efficiency of the findings. Consequently, it is important for researchers to detect and identify serial correlation in the idiosyncratic error component inside a panel-data model.

Table 4. 9: Testing for serial correlation (Independence)

Wooldridge test for autocorrelation in panel data
H0: no first order autocorrelation
$F(1, 12) = 11.512$
$Prob > F = 0.0530$

Source: Research findings

The Wooldridge test for autocorrelation was used to confirm this assumption. The study aimed to test the credibility of the alternative hypothesis, which states that a first-order serial correlation does exist. Based on the results provided in table 4.9, it was determined

that no first-order serial correlation existed. The investigation failed to reject the null hypothesis since the p-value (p-value=0.0530) was more than 0.05. The findings were reported in table 4.8. According to the findings, the data confirmed the validity of the hypothesis that residuals do not share a correlation with respect to time, making them suitable for panel regression analysis.

4.4.4 Heteroscedasticity Test

The condition known as heteroscedasticity occurs when the predictive value of the second component exhibits uniform variability over all possible values (Vinod, 2018). Tests for heteroscedasticity were conducted in the pilot research using the Breuch-Pagan test. The significance of breaching the premise of homoscedasticity is proportional to the degree of heteroscedasticity present, and it grows with rising levels of the latter. The equality of the variance and error terms was the assumption that served as the basis for the test's null hypothesis. (Vinod, 2018). A number higher than 0.05 clearly indicates the absence of homoscedasticity (Park, 2018). According to table 4.10, the results are as follows.

Table 4. 10: Breuch-Pagan Test for Heteroscedasticity

Modified Wald test for groupwise heteroskedasticity in fixed effect regression model H0: sigma(i)^2 = sigma^2 for all i			
Statistics	df	Stat Value	P-Value
Chi-square	13	12.30	0.1031

Source: Research findings

According to the data in table 4.10, the chosen threshold of significance (0.05) is exceeded by a P-Value of 0.1031. Therefore, the lack of heteroscedasticity in the data supports the null hypothesis.

4.4.5 Test of Linearity

The strength of the relationship between the dependent and independent variables is what this term describes. Figure 4.2 shows the results of the linearity test using P-P plots. The fact that the points are mostly located on a diagonal running from the bottom left corner to the top right corner of the picture suggests that the connection between the two variables is linear.
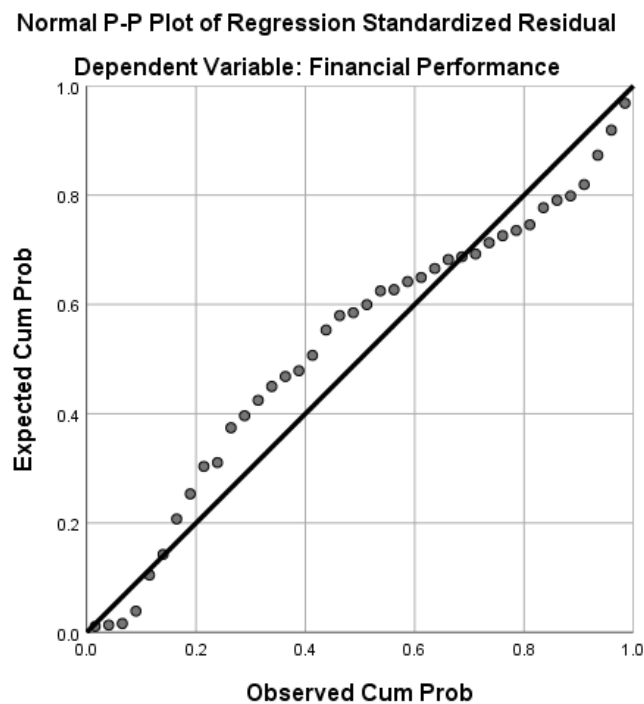
Source: Research findings

Figure 4. 2: Linearity Test

4.4.6 Unit Root Test

The research project used Phillips-Perron tests in addition to enhanced Dickey-Fuller tests in order to test for the existence of unit roots in panels that mix data from the time series dimension with that of the cross-section dimension. This allowed for fewer time observations to be needed in order to have power available for the test. Table 4.11 presents the findings in their entirety.

Table 4.11: Unit Root Test

Variable	Phillips-Perron tests	Augmented Dickey-Fuller Tests
Financial Performance	3.6024**	3.6024**
	0.0002	0.0002
Financial management review	19.6543**	19.6543**
	0.0000	0.0000
Governance structure	15.0001**	15.0001**
	0.0000	0.0000
Risk management	2.1602**	2.1602**
	0.0154	0.0154

** sig at 1% level

Source: Research findings

For Phillips-Perron tests and enhanced Dickey-Fuller tests, the existence of unit roots is indicated by a p-value that is more than 0.05, while the absence of unit roots is shown by a p-value that is less than 0.05. According to the findings, there was no evidence of a unit root for any of the variables under investigation. This demonstrated that all variables are constant

throughout time, that there was no issue with the unit root, and that the findings may be used to continue with additional inferential statistics.

4.4.8 Hausman Test (Choice Specification)

Researchers doing a panel data analysis must choose between using a model with fixed effects or a model with random effects. The alternative hypothesis is the fixed-effects model, whereas the null hypothesis is the random-effects model. According to the alternative hypothesis, random-effects models are the most effective. When the p-value reached 5%, it was determined to be statistically significant. If the value was lower than 5%, the FEM model was to be chosen; if the value was higher, the REM model was to be chosen. Table 4.12 presents the findings in their entirety.

Table 4. 12: Hausman Test

	(b) Fixed	(B) Random	(b-B) Difference	sqrt(diag(V_b -V_B))S.E.
Financial management review	0.15894	0.34397	-0.18503	0.065498
Governance structure	0.82654	0.22553	0.60101	0.088956
Risk management	1.597834	0.05134	1.546494	0.029436
b=consistent under Ho and Ha; obtained from xtreg				
B=inconsistent under Ha, efficient under Ho; obtained from xtreg				
Test:Ho:difference in coefficients not systematic				
chi2(3)=(b-B)'[(V_b-V_B)^(-1)](b-B)				
= 13.65				
Prob>chi2 = 0.0034				

Source: Research findings

The findings shown in table 4.12 suggested a prob>chi2 value of 0.0034, which is lower than the essential P value at the 0.05 level of significance. This suggests that the null hypothesis that a random effect model is the most appropriate one was not supported. As a result, the research used a model of fixed effect regression.

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4.6 Correlation Analysis

A linearity test of the association between the variables was performed by means of a correlation analysis. The correlation coefficient may take on a value between minus one and plus one, with a value of +1 indicating a perfect positive connection between the variables and a value of -1 suggesting a perfect negative link. If the correlation coefficient turns out to be 0, then the two variables under study have no connection at all. In the study, we looked at the correlation between two variables using Pearson's product-moment formula. This research aimed to establish a causal link between financial performance and the independent variables of financial management review, Governance structure, firm size, and risk management, as well as to identify any dependent variables that might influence the former. The correlation coefficient was used to make these determinations. Table 4.13 provides a concise summary of the relevant findings.

Table 4. 13: Pearson Correlation Analysis

		FP	RMR	GS	RM
Financial management review	Pearson Correlation	0.6804	1		
	Sig. (2-tailed)	0.000			
	N	65			
Governance structure	Pearson Correlation	0.401	0.4999	1	
	Sig. (2-tailed)	0.003	0.000		
	N	65	65		
Risk management	Pearson Correlation	0.4884	0.28	0.365	1
	Sig. (2-tailed)	0.001	0.0239	0.0028	
	N	65	65	65	
Firm Size	Pearson Correlation	0.6362	0.7505	0.7347	0.3303
	Sig. (2-tailed)	0.000	0.000	0.000	0.0072
	N	65	65	65	65

*. Correlation is significant at the 0.05 level (2-tailed).

**. Correlation is significant at the 0.01 level (2-tailed).

FMR=Financial management review, **GS**=Governance structure, **RM**=Risk management, **FS**=Firm size, **FP**=Financial performance

Source: Research findings

According to the findings, the results showed that the financial management review had a considerable favorable influence on the financial performance of microfinance institutions in Kenya (r = 0.6804, P=0.000). The data support the hypothesis that governance structure has a somewhat favorable and significant influence (r = 0.4010, P=0.0030) on the financial performance of microfinance banks in Kenya. These findings are in line with what was expected. Risk management has an influence that is both significantly positive and somewhat favorable on the financial performance of microfinance banks in Kenya (r = 0.4884, P = 0.0013). These data are consistent with the hypothesis that the size of the firm has a positive moderate and substantial influence on the financial performance of microfinance banks in Kenya (r = 0.6362, P = 0.000).

4.7 Linear Regression Analysis

4.7.1 Influence of Financial management review on Financial Performance

The purpose of this research was to establish whether or not there is a correlation between the governance structure of microfinance banks in Kenya and their levels of financial performance. The initial version of the null hypothesis was designated by the symbol Ho_1: Kenyan microfinance institutions' bottom lines are unaffected by reviews of their financial management. Table 4.14 presents the results of the fixed effect model that were obtained by applying the model to the Haussmann longitudinal logistic regression test.

Table 4.14: Regression Fixed Effect of Financial management review

Fixed-effects (within) regression				Number of obs =		65
Group variable: MFB				Number of groups =		13
R-sq:				Obs per group:		
within =		0.1772		min =		5
between =		0.5851		avg =		5
overall =		0.4629		max =		5
				F(1,51) =		10.98
				Prob > chi2 =		0.0017

FP	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
FMR	0.15203	0.045874	3.31	0.002	0.04412	0.35993
_cons	6.630892	0.166505	39.82	0.000	6.29662	6.965165

Source: Research findings

The bivariate analysis demonstrates that the panels were well balanced, as seen by the equal distribution of observations across each group. The study included a total of 65 observations, which were divided into 13 groups of entities, indicating a robustly balanced panel. The lowest, maximum, and average numbers of observations per group were all found to be equal to 5.

The coefficient of determination, often referred to as R^2, is a statistical metric that quantifies the proportion of the variability in the dependent variable's performance that can be accounted for by the variability in the predictors included in the model. The findings derived from the fixed effect model revealed that the financial management review explained 46.29% (Overall R square=0.4629) of the variability in the financial performance of microfinance institutions in Kenya. ANOVA statistics are used to assess the overall relevance of a model. The model's F-statistic of 10.98 indicates that the calculated parameters are significantly different from zero. Therefore, it seems that the financial

performance of microfinance institutions in Kenya is affected by the appraisal of financial management.

The computed coefficient of financial management review is substantially different from zero (β= 0.15203, t = 3.31, p-value = 0.002). The fact that the P-value is lower than 0.05 indicates that the calculated coefficient is significant when compared to a threshold of significance of 5%. An additional unit of financial management review was shown to be associated with a 0.152-unit improvement in financial performance, as indicated by the situation-specific value of the coefficient of financial management review. The statistical significance of the constant term is shown by a p-value of less than 0.05. The regression model may be seen in the following example:

Financial performance= 6.630892+0.15203Financial Management Review (FMR)

The findings of the study contradicted the null hypothesis, which stated that financial management review does not affect financial performance, by showing that financial management review has a significant effect on the financial performance of microfinance banks in Kenya. This indicates that if financial management was evaluated more often, Kenya's microfinance institutions' financial results would improve.

4.7.2 Influence of Governance structure on Financial Performance

The purpose of this research was to investigate how different governance systems in Kenya's microfinance banks affect the financial performance of those institutions. The second version of the null hypothesis was designated by the symbol Ho_2 and stated that there was no substantial impact of governance structure on the financial performance of microfinance banks in Kenya. The findings of the fixed effect model, which were

determined using the Hausman LM test as its foundation, are provided in Table 4.15. The fixed effect model was used.

Table 4.15: Regression Fixed Effect of Governance structure on Financial Performance

Fixed-effects (within) regression				Number of obs =		65
Group variable: MFB				Number of groups =		13
R-sq:				Obs per group:		
within =		0.0234		min =		5
between =		0.1711		avg =		5
overall =		0.1608		max =		5
				F(1,51) =		5.22
				Prob > chi2 =		0.0343

FP	Coef.	Std. Err.	t	P>t	[95% Conf. Interval]	
GS	0.639906	0.279039	2.30	0.034	0.42256	0.802375
_cons	6.24262	0.836106	7.47	0.000	4.564067	7.921174

Source: Research findings

The study demonstrates that the panels were well balanced for this bivariate analysis, as seen by the equal distribution of observations across the different groups. The findings derived from the fixed effect model demonstrate that the governance structure was responsible for 16.08% (Overall R square=0.1608) of the variability seen in the financial performance of microfinance institutions in Kenya. ANOVA statistics are used to assess the overall relevance of a model. The model's F-statistic of 5.22 suggests that the calculated parameters are significantly different from zero. This data reveals that Kenya's microfinance banks' bottom lines are affected by their governance structures. The observed impact exhibits statistical significance at a significance level of $P<0.05$.

There was a statistically significant difference between the calculated coefficient of governance structure and zero (β=0.639906, t=2.30, p-value= 0.034). The fact that the P-

value was lower than 0.05 indicates that the calculated coefficient was significant when compared to a threshold of significance of 5%. An additional unit of governance structure was shown to be associated with a 0.639906 unit increase in financial performance, as indicated by the situation's coefficient of governance structure. The statistical significance of the constant term was shown by the fact that its p-value is less than.05. The regression model may be seen in the following example:

Financial performance   = 6.24262+0.639906Governance Structure (GS)

Therefore, the current study disproved the null hypothesis, which held that the governance structure did not affect the financial performance of Kenya's microfinance firms. Therefore, it provides evidence in favor of the claim that governance structure is related to financial results. This data demonstrates that Kenyan microfinance institutions' financial performance might be improved via better governance.

4.7.3 Influence of Risk management on Financial Performance

This research investigated the impact that effective risk management may have on the economic results of microfinance institutions in Kenya. The third version of the null hypothesis was indicated by the symbol Ho_3 and stated that risk management does not have a substantial effect on the financial performance of microfinance banks in Kenya. The findings of the fixed effect model, which were determined using the Haussmann LM test as its foundation, are reported in Table 4.16. The fixed effect model was used.

Table 4. 16: Regression Fixed Effect of Risk Management on Financial Performance

Fixed-effects (within) regression				Number of obs =		65
Group variable: MFB				Number of groups =		13
R-sq:				Obs per group:		
within =		0.061		min =		5
between =		0.1652		avg =		5
overall =		0.2386		max =		5
				F(1,51) =		4.13
				Prob > chi2 =		0.0422

FP	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
RM	0.18286	0.09003	2.03	0.042	0.05932	0.30641
_cons	6.950032	0.501687	13.85	0.000	5.966744	7.93332

Source: Research findings

The results of the fixed effect model show that risk management is responsible for 23.86% (Overall R square=0.2386) of the variance in the financial performance of Kenya's microfinance institutions. Analysis of variance (ANOVA) statistics are used to evaluate a model's overall significance. Model estimated parameters are not equal to zero, as shown by the F-statistic of 4.13. The authors of this research hypothesize that the financial health of Kenya's microfinance institutions hinges in large part on how well they handle risk. At the P<0.05 level of significance, the effect shown is clearly discernable.

There is a statistically significant difference between the calculated risk management coefficient and zero (β=0.18286, t=2.03, p-value = 0.042). The fact that the P-value is lower than 0.05 indicates that the calculated coefficient is significant when compared to a threshold of significance of 5%. An additional 0.18286 units in financial performance may be expected from a one-unit improvement in risk management, as defined by the value of the risk management coefficient in this case. The statistical significance of the constant

term is shown by a p-value of less than 0.05. The regression model may be seen in the following example:

Financial performance =6.950032+0.18286Risk Management (RM)

The third iteration of the null hypothesis, which stated that risk management has no effect on the financial performance of microfinance banks in Kenya, was disproved by the data, showing that the two are related. As a result, it's reasonable to assume that better risk management will boost the profitability of Kenya's microfinance institutions.

4.8 Multiple Linear Regression

As a means of investigating the hypothesized connection between independent and dependent variables, a regression analysis was conducted. Regression analysis was used to show how each independent variable contributes to the impact of the dependent variables, and how that effect may be broken down into its component parts. The goal of regression analysis was to quantify the extent to which each independent variable contributes to the target variable.

4.8.1 Model Summary

The purpose of the model summary is to demonstrate the proportion of changes in the independent variable that can be attributed to shifts in the dependent variable. The model summary was used to highlight the amount of changes in financial performance that can be attributed to changes in financial management review, Governance structure, and Risk management. This was done so in order to prove the usefulness of the model. In this particular analysis, each of the four independent variables was input as its own block.

Both fixed and random effect models were evaluated, and the model summary for the fixed

effect model that was chosen is shown in Table 4.17 below.

Table 4. 17: Model Summary Fixed Effect of Financial due diligence

Fixed-effects (within) regression	Number of obs =	65
Group variable: MFB	Number of groups =	13
R-sq:	Obs per group:	
within = 0.2605	min =	5
between = 0.542	avg =	5
overall = 0.5145	max =	5
	F(3,49)=	19.62
	Prob > F=	0.0063

Source: Research findings

The findings indicate that the panels were adequately balanced for the multivariate

analysis, as seen by the equal distribution of observations across the groups. The study

included a total of 65 observations, which were divided into 13 groups of entities,

indicating a robustly balanced panel. The lowest, maximum, and average numbers of

observations per group were all found to be equal to 5. The overall R-squared value was

0.5145, suggesting that 51.45% of the variance in the financial performance of

microfinance institutions in Kenya could be accounted for by the parameters in the fixed

effect model. Model predicted parameters are significantly different from zero, as shown

by an F-statistic of 19.62. Evidence like this shows that financial due diligence has an

effect on the bottom lines of Kenya's microfinance institutions. A p-value of 0.0006

indicates that the effect has been statistically significant.

4.8.2 Regression Coefficient

Estimates of the characteristics of the population that aren't known for sure are called regression coefficients, and they reflect the connection that exists between a predictor variable and the answer. The coefficients are the values that are multiplied along with the predictor values in linear regression. In regression analysis, p-values and coefficients work hand in hand to determine which connections in the model are statistically significant and the nature of those relationships. This may be done by determining which associations have a stronger correlation. Financial due diligence is an independent variable, while financial performance is the dependent variable. The coefficients explain the mathematical link between each independent variable and the dependent variable. The p-values assigned to the coefficients provide information about the degree to which these correlations are supported by statistical evidence. Table 4.18 summarizes the findings for your perusal.

Table 4.18: Regression Coefficient

FP (Y)	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
FMR(X_1)	0.15894	0.04598	3.46	0.001	0.05133	0.56654
GS(X_2)	0.82654	0.534437	1.55	0.128	-0.24745	1.900531
RM(X_3)	1.597834	.6283284	2.54	0.014	1.20126	2.451611
_cons	5.344324	0.805204	6.64	0.000	3.726207	6.962441

Source: Research findings

The study regression model as obtained from table above is as shown below.

$Y=5.344324+0.15894X_1+0.82654X_2+1.597834X_3$

Where:

Y = Financial performance

X_1= Financial management review

X_2= Governance structure

$X_{3=}$Risk management

Table 4.18 shows that the financial performance of Kenyan microfinance institutions was 5.344324 at the 0.05 level of significance when three financial due diligence structures were excluded. The findings showed that the regression coefficient ($\beta1$) for the financial management review was 0.15894, with a significance level of 0.001. This indicates that among Kenya's microfinance institutions, a one-unit increase in financial management review over time will lead to a statistically significant gain of 0.15894 units in financial performance after accounting for governance structure and risk management. The statistical analysis led to the rejection of the original null hypothesis since the t value was more than 1.96 and the P value was less than 0. This suggests that the financial performance of microfinance institutions in Kenya is significantly impacted by the assessment of their financial management.

These results are consistent with the findings of Akman, Shehab, and Kizil (2020), who looked into the impact of financial management review on the corporate performance of a firm organization (Exxon Mobil). There is sufficient research available that highlights the beneficial influence that high-quality financial reporting may have on the overall financial success of businesses. The research conducted by Sishumba, Saidi, and Milupi (2022) aimed to investigate the impact of financial management review on the financial performance of commercial banks in Zambia, with Standard Chartered serving as the case study for their investigation. The results of the study led the researchers to the conclusion that there is a significant and favorable connection between Standard Chartered's internal auditing practices and the company's overall financial performance. Madialo (2022) conducted research in Kenya to see how a review of financial management affected the

social and financial performance of MFBs. The outcomes of the research showed that accounting policies had a negative impact that was statistically significant on return on assets (ROA), which relates to financial performance.

The research findings indicate that the governance structure of microfinance banks in Kenya has a regression coefficient ($\beta2$) of 0.82654, with a p-value of 0.128. This suggests that, when controlling for risk management and financial management review, a one-unit increase in governance structure over time among microfinance banks in Kenya would lead to a statistically insignificant increase of 0.82654 units in financial performance. There is insufficient evidence to reject the second null hypothesis since the t-value in this research is less than the crucial value of 1.96. In addition, the p-value that was calculated is more than 0, lending additional credence to the idea that the governance structure does not play a major role in the financial success of Kenya's microfinance organizations.

Sheikh, Mutegi, and Kiama (2021), who set out to determine the effect of board composition on the financial performance of Microfinance Institutions in Nairobi County, found similar results. According to the results of the study, the microfinance institutions (MFIs) in Nairobi County benefited significantly from having more diverse board membership. Microfinance banks in Nigeria were analyzed in Ehugbo's (2021) research, which looked at how different corporate board elements affected the banks' performance. The research results showed that independent boards are associated with higher returns on assets for microfinance institutions. Oyebanji (2022) undertook an investigation to determine how corporate structure affected the profitability of microfinance banks in Nigeria. Based on the results of this research, adopting a corporate structure for MFBs

might be a useful tool for raising their efficiency and ensuring their continued survival and relevance.

According to the findings, risk management showed a regression coefficient ($\beta 3$) of 1.597834, with a significance level of 0.014. A one-unit improvement in risk management over time among Kenya's microfinance banks will result in a statistically significant rise of 1.597834 units in financial performance after accounting for financial management review, governance structure, and firm size. This third null hypothesis is rejected since the t-value is greater than 1.96 and the p-value is less than 0. What this means is that risk management has a major bearing on the economic success of Kenya's microfinance firms. Annah's (2022) research, which looked at how financial due diligence affected the success of commercial banks in Uganda, supports the results reported here. The Kabale location of Centenary Bank was the focus of Annah's case study. Credit risk management was shown to have a significant impact on a bank's bottom line, as evidenced by the study's findings. According to the data, there was also a very substantial link between liquidity risk and the bank's profitability. According to the research conducted by Bundi, Ngali, and Maina (2021), the financial performance of Kenyan microfinance institutions was significantly impacted by the adoption of best practices for managing credit risk, liquidity risk, operational risk, and market risk. Tassew and Hailu (2019) analyzed data from 17 different Ethiopian Commercial Banks to see how different risk management strategies affected their bottom lines. From what we can see, commercial banks in Ethiopia are significantly impacted by credit, liquidity, operational, and market concerns.

4.9 Moderating Influence of Firm Size on the Relationship between Financial Due Diligence and Financial Performance

The study's goal was to determine whether there was a correlation between microfinance banks in Kenya's financial performance and their level of financial due diligence. For this reason, we conducted a hierarchical regression study to see whether firm size moderated the correlation between financial due diligence and financial success. The fourth version of the null hypothesis is designated by the symbol **Ho4,** and it states that the size of the firm does not have a major moderating role in the link between financial due diligence and financial performance of microfinance banks in Kenya. Estimations were made based on the following regression equations:

$$Y_{it} = \alpha + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 M_{it} + \beta_5 X_{1it}M + \beta_6 X_{2it} M + \beta_7 X_{3it}M$$

Where Y is Financial Performance

M= firm size (moderator)

X_1M= Financial management review interact firm size

X_2M =Governance structure interact firm size

X_3M = Risk management interact firm size

The regression coefficient β1 quantifies the direct impacts of financial due diligence constructions in the scenario when business size is equal to zero. In order to assess moderation, the researcher examined the significance of the interaction effects and assessed the coefficient of the interaction term β3 (Hayes, 2013). Table 4.18 4.19 & 4.20, summarizes the regression results.

Table 4. 19: Model 1-Independent and Dependent Variables

Source	SS	Df	MS	Number of obs	=	65
				F(3, 61)	=	21.55
Model	108.9615	3	36.32051	Prob > F	=	0.000
Residual	102.8241	61	1.685641	R-squared	=	0.5145
				Adj R-squared	=	0.4906
Total	211.7856	64	3.30915	Root MSE	=	1.2983

FP	Coef.	Std. Err.	T	P>t	[95% Conf.	Interval]
FMR(X_1)	0.15894	0.04598	3.46	0.001	0.05133	0.56654
GS(X_2)	0.82654	0.534437	1.55	0.128	-0.24745	1.900531
RM(X_3)	1.597834	.6283284	2.54	0.014	1.20126	2.451611
_cons	5.344324	0.805204	6.64	0.000	3.726207	6.962441

Source: Research findings

Model one entails financial performance (Dependent variable) and the financial due diligence (Independent Variable). In a model of independent and dependent variables, financial due diligence was found to account for R square = 0.5145, which indicates that it substantially influences the variance of financial performance by 51.45%. Financial due diligence seems to be a substantial predictor of financial success, as shown by the significance of the contribution (F (3, 61)= 21.55, P=0.000).

Table 4. 20: Model 2-Independent, Moderating and Dependent Variables

Source	SS	Df	MS	Number of obs	=	65
				F(4, 60)	=	959.77
Model	208.5266	4	52.13166	Prob > F	=	0.000
Residual	3.258999	60	0.054317	R-squared	=	0.6846
				Adj R-squared	=	0.6836

Total	211.7856	64	3.30915	Root MSE	=	0.23306

FP (Y)	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
FMR(X_1)	0.073029	0.024185	3.02	0.004	0.024651	0.121407
GS(X_2)	0.233124	0.099272	2.35	0.022	0.034552	0.431697
RM(X_3)	-0.12004	0.124185	-0.97	0.338	-0.36844	0.128368
SZ (M)	7.191533	0.167971	42.81	0.000	6.855541	7.527525
_cons	-6.7286	0.273006	-24.65	0.000	-7.27469	-6.1825

Source: Research findings

Model two entails financial performance (Dependent variable), the financial due diligence (Independent Variables) and firm size (Moderating variable). The R square for the model of independent, moderating, and dependent variables was 0.6846, indicating that financial due diligence and company size substantially affect 68.46% of the variance in financial performance of microfinance institutions. R squared increased from 0.5145 to 0.6842 when additive firm size was taken into account. According to the data, the shift was statistically significant (P=0.000), suggesting that company size is a robust predictor of financial success. Below is a depiction of the study's second regression model.

$Y = -6.7286 + 0.073029X_{1it} + 0.233124X_{2it} + -0.12004X_{3it} + 7.191533M_{it}$

According to the results, business size has a positive and statistically significant influence on financial performance (beta = 7.191533). According to the data, there is a positive correlation between business size and financial success across time across microfinance banks, with a unit increase in firm size resulting in a 7.191533 unit rise in financial performance. Since the p-value (0.000) was less than the threshold (0.05), the correlation was significant.

Table 4.21: Model 3-Independent, Moderating, Interaction and Dependent Variables

Source	SS	df	MS			
				Number of obs	=	65
				$F(7, 57)$	=	1307.35
Model	210.4747	7	30.06781	Prob > F	=	0.000
Residual	1.310946	57	0.022999	R-squared	=	0.7693
				Adj R-squared	=	0.7690
Total	211.7856	64	3.30915	Root MSE	=	0.15165

FP (Y)	Coef.	Std. Err.	T	P>t	[95% Conf. Interval]	
FMR(X_1)	0.10859	0.028568	3.8	0.000	0.0658	0.15139
GS(X_2)	0.085518	0.067597	1.27	0.211	-0.04984	0.22088
RM(X_3)	0.07285	0.089441	0.81	0.419	-0.25196	0.106248
SZ (M)	5.515781	0.253731	21.74	0.000	5.007692	6.023869
FMR*SZ(X_1M)	0.30215	0.040964	7.38	0.000	0.220418	0.38013
GS*SZ (X_2 M)	0.169336	0.035869	4.72	0.000	0.097509	0.241162
RM*SZ (X_3 M)	0.794772	0.127022	6.26	0.000	0.540414	1.049129
_cons	-4.15602	0.427973	-9.71	0.000	-5.01302	-3.29902

Source: Research findings

The third model includes the dependent variable Financial Performance and the independent variables Financial Due Diligence and Firm Size with a cross interaction between the Independent and Moderating Variables. Using this model, we calculated a R square of 0.6938, which indicates that financial due diligence considerably affects the variance in micro financing institutions. R2 increased from 0.6846 to 0.7693 when interaction terms (IV*MV) were included. Due diligence in financial matters is a strong predictor of financial success, independent of business size (P=0.000). Below is a depiction of the study's third regression model.

$$Y = -4.15602 + 0.10859X_{1it} + 0.085518X_{2it} + 0.07285X_{3it} + 5.515781M_{it} + 0.30215X_1M_{it} + 0.169336X_2M_{it} + 0.794772X_3M_{it}$$

Where Y is Financial Performance

   M= firm size (moderator)

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X₁M= Financial management review interact firm size

X_1M= Financial management review interact firm size

X_2M =Governance structure interact firm size

X_3M = Risk management interact firm size

Several conclusions may be drawn from the data in Table 4.21. Financial management review has a major impact on the financial performance of Kenya's microfinance institutions, and this impact grows as firms get larger. This indicates that when a company grows in size, the impact of financial management reviews on financial performance also grows. The same was true for the governance structure and risk management, suggesting that larger firms benefit more from careful attention to these factors.

Kivaya, Kemboi, and Odunga (2020), who sought to identify the moderating impact of firm size on the corporate structure and financial performance of Kenyan microfinance institutions, corroborate these findings. Research by Kivaya, Kemboi, and Odunga was published in 2020. Board duality, board composition, and the financial performance of microfinance organizations were also examined, and it was shown that firm size is a crucial mediator in this relationship. Hermuningsih, Kusuma, Iqbal, and Panjaitan (2020) found that the size of the company was a factor that led to the strengthening of the relationship between privileged property and profit-oriented businesses in terms of their financial performance.

Research by Kirimi, Kariuki, and Ocharo (2022) on the impact of bank size on the correlation between financial soundness and financial performance of Kenyan commercial banks found results that are at odds with the present study's findings. The results here go counter to what they found. This study's results suggested that larger banks had a more

dampening effect on the correlation between commercial banks' financial health and their NIM and ROA than smaller banks did. A 0.1699 and a 0.218 correlation coefficient was calculated for these two factors.

CHAPTER FIVE
SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

The study's key results, conclusions, and recommendations are summarized in this chapter. All of the study's recommendations and conclusions are based on trying to accomplish those goals. At last, it proposes directions for further studies.

5.2 Summary of the Findings

In this portion of the research, a summary of the results is presented, with emphasis placed on how they relate to the particular goals of the study. The study's ultimate goal was to see whether and how thorough financial due diligence will improve the bottom lines of Kenya's microfinance institutions. Financial performance of microfinance banks in Kenya was examined to determine the impact of financial management review, governance structure, and risk management. The information that was used to compile the conclusions of this research came from secondary sources, namely the websites of CBK and individual MFBs. For the purpose of measuring financial performances, financial ratios were used. In order to solve the issue of big numbers and get rid of heteroscedasticity, multiple regressions for a univariate analysis were carried out after the data were transformed to their natural logs. This was done in order to reduce heteroscedasticity. To determine whether or not the data were stationary, and a Fisher type (ADF and Phillips-Perron tests) was used to do a unit root test. For the purpose of obtaining a meaningful sample mean and variance, which would reveal future behavior if the series remained stationary, it was necessary to have the data remain stable.

The Hausman test was carried out, and the fixed effects model was chosen to represent the data. Following the completion of linear regression on each variable, significant variables were kept and utilized to examine the combined impact of independent variables. The version 15.00 of STATA was used to do this task. The most important results are as follows:

5.2.1 Influence of Financial management review on financial performance of microfinance banks in Kenya

The first objective of the study was to determine the influence of financial management review on financial performance of microfinance banks in Kenya. Financial management review was measured by presence (1) or absence (0) of accounting policies and procedures as well as internal audit function from 2018 to 2022. From 2018 to 2022, mean presence was at 92.3% for accounting policies and procedures and 93.8% for internal audit function.

Data from panels According to the findings of Pearson's correlation test, there is a substantial and significantly favorable connection between microfinance banks in Kenya's financial management review and their financial success. According to the findings of a fixed effect simple regression analysis, financial management review had a strong positive impact on the financial performance of microfinance banks in Kenya. This was shown to be the case since it accounted for 46.29% of the variance in financial performance. Fixed effect multiple regression study showed that when all other variables were kept constant, a little shift in the frequency of financial management reviews led to a significant shift in financial performance. This was confirmed by the study's findings.

5.2.2 Influence of Governance structure on Financial performance of microfinance banks in Kenya

Researching how different types of governance affect the bottom lines of Kenyan microfinance institutions was the study's secondary goal. Examining the makeup and committees of the board allowed for the measurement of governance structure. A board's audit committee membership and the ratio of executive to non-executive directors were the two primary factors in determining the board's makeup. In terms of board composition, the average ratio of executive to non-executive members was 0.352, and the average number of members of the audit committee was 4.

The findings of a panel data Pearson correlation study showed that there was a moderately significant positive association between microfinance banks in Kenya's governance structure and their financial success. According to the findings of a fixed effect linear regression study, governance structure is a major factor that accounts for variance in the financial performance of Kenya's microfinance institutions. This component explained 16.08 percent of the variance in the banks' bottom lines. After controlling for all other model variables, fixed effect multiple regression analysis showed that a one-unit change to the structure of governance would lead to a negligible change in the financial outcome in the same direction.

5.2.3 Influence of Risk management on Financial performance of microfinance banks in Kenya

Third, we wanted to see what effect risk management had on the bottom lines of Kenya's microfinance institutions. Credit risk management and liquidity risk management were

used as indicators of effective risk management. Nonperforming loan ratios were used to measure credit risk, while deposit-to-asset ratios were used to gauge liquidity risk. Credit risk had a mean of 0.220 while liquidity risk had a mean of 0.539.

Results from a panel data analysis indicated that there was a positive and statistically significant relationship between risk management and the financial success of microfinance banks in Kenya, as determined by Pearson correlation. An analysis of microfinance firms in Kenya using fixed-effect linear regression found that effective risk management explains a significant amount of the variation in financial outcomes. Twenty-three point eight six percent of the variance in financial performance might be attributed to risk management. After controlling for all other model variables, fixed effect multiple regression analysis showed that a one-unit shift in risk management would lead to a one-unit shift in financial performance.

5.2.4 Moderating influence of Firm Size

The study's fourth objective was to determine whether or not the size of the company made a difference in the correlation between financial due diligence and the financial success of microfinance institutions in Kenya. As a moderating factor, firm size was calculated as the natural logarithm of total assets, yielding a mean value of 7.17. Financial due diligence was shown to have a positive correlation with the financial success of Kenya's microfinance banks, although the size of the organization had a significant moderating effect. The significance change in R square demonstrated that business size had a substantial impact as a moderator variable on the variance in financial performance. After included company size as a moderator in the analysis, the value of R square shot up to

0.7693 from 0.5145. The significance of the effect of financial management review on the financial performance of Kenya's microfinance banks rises proportionately with the size of the firms they serve, with larger firms having a greater potential to exert that influence. This implies that financial management review influence on financial performance increases with increase in firm size. The same was observed for governance structure and risk management implying that increase in firm size increases the influence of governance structure and risk management on financial performance. Thus, firm size has a significant moderating influence hence; the fourth null hypothesis was rejected.

5.3 Conclusions of the Study

The following are some of the logical implications that may be drawn from the empirical findings, and they have been presented in terms of the research objectives: The research came to the conclusion that financial management review has a considerable beneficial impact on financial performance. Finding that financial management review had a positive effect on the financial performance of Kenya's microfinance banks is consistent with the study's primary aim. Boosting the frequency with which financial management is scrutinized would lead to significant improvements in financial results. The research concluded that by increasing the scope of their financial management review, listed microfinance banks might improve their financial performance. This could be accomplished through the implementation of accounting policies and procedures as well as an internal audit function. The initial null hypothesis was shown to be incorrect.

The second goal of the research was to investigate the impact that governance structure has on the economic results of microfinance banks in Kenya. The findings of the study, which

included both linear and multiple regression analysis, led the researchers to the conclusion that governance structure had a marginally beneficial impact on financial success. This suggests that the makeup of the board and the number of audit committees on the board do not have a substantial impact on the company's financial performance. It may be concluded that the second null hypothesis is correct.

The study's third objective was to learn how much of an impact risk management had on the bottom lines of Kenya's microfinance institutions. Researchers concluded that good risk management has a large and positive influence on financial performance after analyzing the data using both linear and multivariate regression methods. Additional risk management measures, such as credit risk management and liquidity risk management, might significantly enhance financial performance. The third null hypothesis was not supported by the data.

Using a hierarchical approach, the study's authors conclude that a company's size significantly moderates the association between financial due diligence and the financial success of microfinance banks in Kenya. There is a far greater impact on the firm's bottom line when the governance structure, risk management, and financial management review are all well-established and regularly updated as the company expands in size. It may be concluded that the fourth null hypothesis is correct.

5.4 Recommendations of the Study

Based on the findings of the research, which are discussed in more detail below, the following suggestions have been provided:

The study recommends that first; the internal staff should have relevant academic qualifications and professional qualifications so as to discharge their financial management review adequately. The study recommended that there should be regulations to ensure that the internal audit staff have access to all information and that would ensure commitment to work and hence job satisfaction. Such policies should be set to ensure that there is strict adherence to audit standards. Policymakers and regulators should make recommendations to microfinance banks to develop efficient governance structures in internal audit function that fit with the unique features of such entities.

Based on these results, it was suggested that shareholders think about forming boards with members from a variety of industries, each of which brings a unique perspective to the table. Further, by conducting regular inductions and reviews of the directors' responsibilities, microfinance institutions in Kenya may enhance the caliber of their board of directors.

The management of microfinance banks should develop measures to guarantee that the number of debtors does not rise at a high pace that is higher than the total capital since this raises credit risk. The credit risk may be reduced by the management by ensuring that the credit worthiness of would-be borrowers is evaluated in conjunction with the collateral, which should be fully guaranteed. Therefore, management have to exercise caution while formulating credit rules in order to ensure that these policies will not have a detrimental effect on the performance of the microfinance bank. A committee should be established by the management of the microfinance bank to monitor all of the operations that involve the bank's borrowers and the distribution of loans.

According to the findings of the research, administrators of microfinance banks should make it a priority to invest any surplus capital in assets that might generate income. This makes certain that they do not keep an excessive amount of cash at the cost of investing in fixed assets that might boost their financial performance.

5.5 Suggestion for Further Studies

The following are some suggestions for more research that may be done based on the constraints of the study.

The scope of the research was narrowed down to include just an evaluation of the financial management framework, governance structure, and risk management. Additional research needs to concentrate on other aspects of financial vigilance, such as liquidity management. Contextually, the study limited itself to microfinance banks, further studies should focus on deposit taking Saccos which are regulated by SASRA since microfinance banks are regulated by CBK.

The study collected data for five years, from 2018 to 2022, further studies should extent the study period to cover longer period such as 10 or 20 years. The study limited itself to secondary data, for the purpose of triangulation, further studies should consider using both primary and secondary data.

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APPENDICES

APPENDIX 1: MICROFINANCE BANKS IN KENYA

1) Caritas Microfinance Bank Limited

2) Century Microfinance Bank Limited

3) Choice Microfinance Bank Limited

4) Daraja Microfinance Bank Limited,

5) Faulu Microfinance Bank Limited

6) Kenya Women Microfinance Bank PLC.

7) Key Microfinance Bank Limited

8) Maisha Microfinance Bank Limited

9) Muungano Microfinance Bank Limited

10) Rafiki Microfinance Bank Limited

11) SMEP Microfinance Bank Limited

12) Sumac Microfinance Bank Limited

13) U & I Microfinance Bank Limited

14) Salaam Microfinance Bank Limited

Source: CBK, 2021

APPENDIX 2: SECONDARY DATA COLLECTION SHEET

Financial Management Review

Accounting policies and procedures (Indicate 0 if not 1 if exists)

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Internal Audit function (Indicate 0 if not 1 if exists)

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Governance Structure

Number of Executive Directors

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Number of Non- Executive Directors

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Number of board audit committee members

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Risk Management

Credit risk (Non-performing loans)

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Total Loans

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Liquidity Risk

Total deposits

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

Return on Assets

Total Profit

No	Name of MFB	2018	2019	2020	2021	2022
1	Caritas Microfinance Bank Limited					
2	Century Microfinance Bank Limited					
3	Choice Microfinance Bank Limited					
4	Daraja Microfinance Bank Limited					
5	Faulu Microfinance Bank Limited					
6	Kenya Women Microfinance Bank					
7	Key Microfinance Bank Limited					
8	Maisha Microfinance Bank Limited					
9	Rafiki Microfinance Bank Limited					
10	SMEP Microfinance Bank Limited					
11	Sumac Microfinance Bank Limited					
12	U & I Microfinance Bank Limited					
13	Salaam Microfinance Bank Limited					

APPENDIX 3: RAW DATA

MFI	Year	Total Asset	DEPOSIT	NET INCOME	ED	NED	CRM	LRM
KENYA WOMEN	2018	29582	16,457	-827	3	6	1	1
FAULU	2018	27225	15,738	181	3	8	1	1
RAFIKI	2018	6050	2,489	-192	1	3	1	1
SMEP	2018	2942	1,604	8	3	5	1	1
CARITAS	2018	1244	287	-85	1	6	1	1
SUMAC	2018	1530	413	5	2	6	0	1
KEY	2018	433	124	-14	2	6	1	1
U & I	2018	534	201	8	2	7	1	1
UWEZO	2018	225	29	-27	1	4	1	0
DARAJA	2018	172	97	-32	1	5	1	1
MAISHA	2018	289	236	-119	1	5	1	1
CENTURY	2018	431	222	-25	2	4	1	1
CHOICE	2018	98	81	-42	2	4	1	1
KENYA WOMEN	2019	30613	16,335	-402	3	6	1	1
FAULU	2019	29682	22931.3	312	3	8	0	1
RAFIKI	2019	5935	3,027	-3	1	3	1	1
SMEP	2019	3314	2,398	6	3	5	1	1
CARITAS	2019	1712	1,943	-51	1	6	1	1
SUMAC	2019	2013	978	9	2	6	1	0
KEY	2019	406	74	-13	2	6	1	1
U & I	2019	686	368	4	2	7	1	1
UWEZO	2019	168	10	-31	1	4	1	1
DARAJA	2019	133	97	-32	1	5	1	1
MAISHA	2019	1264	781	-38	1	5	1	1
CENTURY	2019	348	270	-43	2	4	1	1
CHOICE	2019	79	98	-29	2	4	0	0
KENYA WOMEN	2020	28038	15,774	-1,485	3	6	1	1
FAULU	2020	29279	20,092	-399	3	8	1	1
RAFIKI	2020	6005	2576	-42	1	3	1	1
SMEP	2020	3446	2,143	-69	3	5	1	1
CARITAS	2020	2284	1353	5	1	6	1	1
SUMAC	2020	2310	631	7	2	6	1	1
KEY	2020	307	99	-34	2	6	1	1
U & I	2020	805	356	12	2	7	1	1
UWEZO	2020	134	25	-18	1	4	1	1
DARAJA	2020	124	107	-40	1	5	0	1
MAISHA	2020	1665	446	65	1	5	1	1
CENTURY	2020	296	256	-60	2	4	1	1

CHOICE	2020	54	83	-26	2	4	1	1
KENYA WOMEN	2021	26961	18,597	204	3	6	1	1
FAULU	2021	27780	16,250	-407	3	8	1	1
RAFIKI	2021	5889	3,324	-153	1	3	1	1
SMEP	2021	3382	2,240	-46	3	5	1	1
CARITAS	2021	2951	2,854	17	1	6	1	1
SUMAC	2021	3037	1,577	6	2	6	1	1
KEY	2021	289	139.51	-51	2	6	1	1
U & I	2021	1006	528.2	24	2	7	1	1
UWEZO	2021	433	22.93	-31	1	4	1	1
DARAJA	2021	120	107.53	-30	1	5	1	0
MAISHA	2021	1480	337.86	-178	1	5	1	1
CENTURY	2021	402	339.19	-8	2	4	0	1
CHOICE	2021	45	32.12	-24	2	4	1	1
KENYA WOMEN	2022	27329	17,737	-57	3	6	1	1
FAULU	2022	22704	21,074	-321	3	8	1	1
RAFIKI	2022	5346	3,336	-314	1	3	1	1
SMEP	2022	3219	2,345	5	3	5	1	1
CARITAS	2022	3353	2,501	32	1	6	1	1
SUMAC	2022	3678	1,266	6	2	6	1	1
KEY	2022	451	80	-48	2	6	1	1
U & I	2022	1480	423	24	2	7	1	1
UWEZO	2022	405	20	-56	1	4	1	1
DARAJA	2022	235	101	-21	1	5	1	1
MAISHA	2022	853	478	-498	1	5	1	1
CENTURY	2022	872	388	-20	2	4	1	1
CHOICE	2022	142	115	-12	2	4	1	1

ROA: Return on Asset, **APP**: Accounting policies and procedures (1,0); **IAF**: Internal audit function (1,0); **NBACM**: Number of board audit committee members, ED=Executive Directors, NED: Non-executive Directors; **CRM**: Credit Risk Management, **LRM**: Liquidity Risk Management

MFI	Year	ROA	NBACM	APP	IAF
KENYA WOMEN	2018	(0.03)	6	1	1
FAULU	2018	0.01	7	1	1
RAFIKI	2018	(0.03)	2	1	1
SMEP	2018	0.00	5	1	1
CARITAS	2018	(0.07)	4	1	1
SUMAC	2018	0.00	5	0	1
KEY	2018	(0.03)	5	1	1
U & I	2018	0.01	5	1	1
UWEZO	2018	(0.12)	3	1	0
DARAJA	2018	(0.19)	3	1	1
MAISHA	2018	(0.41)	3	1	1
CENTURY	2018	(0.06)	4	1	1
CHOICE	2018	(0.43)	4	1	1
KENYA WOMEN	2019	(0.01)	6	1	1
FAULU	2019	0.01	7	0	1
RAFIKI	2019	(0.00)	2	1	1
SMEP	2019	0.00	5	1	1
CARITAS	2019	(0.03)	4	1	1
SUMAC	2019	0.00	5	1	0
KEY	2019	(0.03)	5	1	1
U & I	2019	0.01	5	1	1
UWEZO	2019	(0.18)	3	1	1
DARAJA	2019	(0.24)	3	1	1
MAISHA	2019	(0.03)	3	1	1
CENTURY	2019	(0.12)	4	1	1
CHOICE	2019	(0.37)	4	0	0
KENYA WOMEN	2020	(0.05)	6	1	1
FAULU	2020	(0.01)	7	1	1
RAFIKI	2020	(0.01)	2	1	1
SMEP	2020	(0.02)	5	1	1
CARITAS	2020	0.00	4	1	1
SUMAC	2020	0.00	5	1	1
KEY	2020	(0.11)	5	1	1

U & I	2020	0.01	6	1	1
UWEZO	2020	(0.13)	3	1	1
DARAJA	2020	(0.32)	4	0	1
MAISHA	2020	0.04	4	1	1
CENTURY	2020	(0.20)	4	1	1
CHOICE	2020	(0.48)	4	1	1
KENYA WOMEN	2021	0.01	6	1	1
FAULU	2021	(0.01)	7	1	1
RAFIKI	2021	(0.03)	2	1	1
SMEP	2021	(0.01)	5	1	1
CARITAS	2021	0.01	4	1	1
SUMAC	2021	0.00	5	1	1
KEY	2021	(0.18)	5	1	1
U & I	2021	0.02	5	1	1
UWEZO	2021	(0.07)	3	1	1
DARAJA	2021	(0.25)	3	1	0
MAISHA	2021	(0.12)	3	1	1
CENTURY	2021	(0.02)	4	0	1
CHOICE	2021	(0.53)	4	1	1
KENYA WOMEN	2022	(0.00)	6	1	1
FAULU	2022	(0.01)	7	1	1
RAFIKI	2022	(0.06)	3	1	1
SMEP	2022	0.00	6	1	1
CARITAS	2022	0.01	4	1	1
SUMAC	2022	0.00	5	1	1
KEY	2022	(0.11)	5	1	1
U & I	2022	0.02	6	1	1
UWEZO	2022	(0.14)	3	1	1
DARAJA	2022	(0.09)	4	1	1
MAISHA	2022	(0.58)	4	1	1
CENTURY	2022	(0.02)	4	1	1
CHOICE	2022	(0.08)	4	1	1

APPENDIX 4: NACOSTI

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The National Commission for Science, Technology and Innovation, hereafter referred to as the Commission, was the established under the Science, Technology and Innovation Act 2013 (Revised 2014) herein after referred to as the Act. The objective of the Commission shall be to regulate and assure quality in the science, technology and innovation sector and advise the Government in matters related thereto.

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1. The License is granted subject to provisions of the Constitution of Kenya, the Science, Technology and Innovation Act, and other relevant laws, policies and regulations. Accordingly, the licensee shall adhere to such procedures, standards, code of ethics and guidelines as may be prescribed by regulations made under the Act, or prescribed by provisions of International treaties of which Kenya is a signatory to
2. The research and its related activities as well as outcomes shall be beneficial to the country and shall not in any way;
    i. Endanger national security
    ii. Adversely affect the lives of Kenyans
    iii. Be in contravention of Kenya's international obligations including Biological Weapons Convention (BWC), Comprehensive Nuclear-Test-Ban Treaty Organization (CTBTO), Chemical, Biological, Radiological and Nuclear (CBRN).
    iv. Result in exploitation of intellectual property rights of communities in Kenya
    v. Adversely affect the environment
    vi. Adversely affect the rights of communities
    vii. Endanger public safety and national cohesion
    viii. Plagiarize someone else's work
3. The License is valid for the proposed research, location and specified period.
4. The license any rights thereunder are non-transferable
5. The Commission reserves the right to cancel the research at any time during the research period if in the opinion of the Commission the research is not implemented in conformity with the provisions of the Act or any other written law.
6. The Licensee shall inform the relevant County Director of Education, County Commissioner and County Governor before commencement of the research.
7. Excavation, filming, movement, and collection of specimens are subject to further necessary clearance from relevant Government Agencies.
8. The License does not give authority to transfer research materials.
9. The Commission may monitor and evaluate the licensed research project for the purpose of assessing and evaluating compliance with the conditions of the License.
10. The Licensee shall submit one hard copy, and upload a soft copy of their final report (thesis) onto a platform designated by the Commission within one year of completion of the research.
11. The Commission reserves the right to modify the conditions of the License including cancellation without prior notice.
12. Research, findings and information regarding research systems shall be stored or disseminated, utilized or applied in such a manner as may be prescribed by the Commission from time to time.
13. The Licensee shall disclose to the Commission, the relevant Institutional Scientific and Ethical Review Committee, and the relevant national agencies any inventions and discoveries that are of National strategic importance.
14. The Commission shall have powers to acquire from any person the right in, or to, any scientific innovation, invention or patent of strategic importance to the country.
15. Relevant Institutional Scientific and Ethical Review Committee shall monitor and evaluate the research periodically, and make a report of its findings to the Commission for necessary action.

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