

Effect Of Firm Characteristics On Financial Performance Of Deposit Taking Microfinance Institutions In UASIN Gishu County, Kenya

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Abstract

Deposit taking microfinance institutions (DTMFIs) promotes the growth of the economy by increasing credit inclusion amongst the economically active poor population to make strategic investments. Financial performance of DTMFIs is adduced to firm's resources and objectives summarized as firm characteristics which include structure, market and capital-related variables. DTMFIs in Kenya are incarnate of these variables but their financial performance is poor. This study thus examines the effect of firm size on the financial performance of Deposit-Taking Microfinance Institutions (DTMFIs) in Uasin Gishu County, Kenya financial performance, measured by Return on Assets (ROA). The research is grounded in agency theory and adopted an explanatory research design, utilizing both primary and secondary data. A sample size of 74 respondents was derived based on the Taro Yamane (1973) formula, targeting 91 respondents from all 14 DTMFIs in the county, with 70 valid responses obtained. Data was collected through structured questionnaires and document analysis, and analyzed using descriptive and inferential statistics, including correlation and regression. The findings reveal that firm size explain 7% of the variation in financial performance ($R^2 = 0.070$, $p = 0.000$ $\beta = 0.317$, $p = 0.027$). Firm size have a statistically significant positive effects on financial performance of DTMFIs. Firms should leverage their size strategically by improving efficiency, technology adoption, and customer service, rather than just expanding scale. Smaller firms should note that they are not at a major disadvantage since size explains very little of profitability, they can compete effectively by focusing on agility, innovation, and niche markets. Future research could explore additional variables and contextual factors influencing DTMFIs' performance in diverse settings.

Keywords: Firm Characteristics and Financial Performance

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I. Background To The Problem

Stagnated economic growth and excruciating poverty levels has set a global clamor for the reduction of financial exclusion amongst the economically active but poor population. In this regard and interrelated constraints on the development of the banking sector and financial institutions there has been a growth of microfinance institutions (MFIs) (Tehulu, 2023). Additionally, microfinance banking establishments have indeed experienced rapid growth, driven by the need to provide financial services to the unbanked and underbanked populations. Microfinance institutions (MFIs) generally aim at improving the access of the poor to financial services while at the same time being financially sustainable (Lwesya & Mwakalobo, 2023).

The performance of MFIs has been conceptualized as a multidimensional construct that encompasses both financial performance and social performance. Brigham and Houston, (2020) defines financial performance as measuring results of a firm's policies and operations in monetary terms and these results are reflected in firm's return on investment, return on assets, value added. Atrill and McLaney (2020) observes that financial performance measures mainly serve three purposes. Firstly, they serve as a tool of financial management, secondly, they serve as major objectives of business e.g. to have a 40% ROA and lastly they serve as a mechanism for motivation and control within an organization. Financial performance is often measured through indicators such as Return on Assets (ROA), Operational Self-Sufficiency (OSS), and portfolio quality (Parmeter & Hartarska, 2021). Social performance, on the other hand, is assessed through measures of outreach, including breadth (the number of clients served) and depth (the poverty level of clients reached). Achieving both dimensions simultaneously is a major issue for MFIs because of the persistent trade-off between profitability and social mission. Institutions focusing heavily on financial performance risk "mission drift," neglecting the poorest clients, while those prioritizing social outreach often struggle with sustainability and long-term viability (Blanco-Oliver, 2023). Within this debate, firm size becomes a critical explanatory factor. Larger MFIs, due to their resource base and diversified operations, are more likely to achieve financial sustainability, yet they face greater

risks of shifting away from their original mission. Smaller MFIs, conversely, tend to maintain deeper outreach but often encounter difficulties in sustaining financial viability (Mulwa, 2020; Molla, 2025).

Despite the crucial role that microfinance institutions (MFIs) in providing financial services to underserved communities, particularly in developing economies, their performance has often been suboptimal (Cull & Hartarska, 2023). This is corroborated by the fact that most MFIs find themselves unable to scale up their operations to potentially enhance their outreach and operational self-sufficiency hence poor financial performance. One of the organizational attributes that shapes both the financial and social performance of MFIs is firm size, measured through proxies such as total assets, loan portfolio, staff size, and client base (Nyarko, Beisland, & Mersland, 2024). Firm size not only reflects the scale of operations but also influences the strategic choices and institutional capacity of MFIs.

Firm size represents a contingent factor that falls into the category of organization characteristics. Smith et al. (1989) noted that organization size has long been an important macro variable in the organizational literature. According to Woodward (2005), the best indication of “bigness” is the size of the management group. Firm size are commonly measured by gross sales or gross value of assets (Ketinger, Grover, Guha, & Segars, 1994), number of employees (Aiken, Bacharach, & French, 2006) and sales turnover (Hoque et al., 2001). Avkiran (2015) argues that small firms face stiff competitions from well-established firms and from time to time fail to make significant profits, fail to expand their market share/customer bases, fail to reduce their risks and eventually crumble as compared to well established big firms that can share their risks, increase their outputs through increased capital shares and many more.

In fine firm characteristics significantly affect the financial performance of deposit-taking microfinance institutions (DTMIs) due to their influence on operational efficiency (Nguono, 2022). In this regard Microfinance institutions indeed tailor their models to suit different firm characteristics and socio-economic contexts, which ensures their profitability while addressing the unique needs of diverse communities. Thus, both developed and developing countries have increasingly sought recourse from microfinance institutions (MFIs) due to the various benefits they provide to underserved populations. In Kenya, microfinance institutions face stringent competition from commercial banks; the growth of microloan activities of commercial banks confront microfinance institutions with increased competition for borrowers (Ngumo, Collins, & David, 2020). This increase in competition occasions a shift in the market share and its attendant consequences in financial performance. In Kenya, there has also been a tremendous increase in non-performing loans in DTMIs over the last 6 years; this has led to a decrease in liquidity, this negatively impacts on the investment decisions of the firm leading to poor financial performance of the firm (Ishmail, Financial Risk, Firm Size and Financial Performance of Microfinance Banks in Kenya, 2024; Munyasia, 2023).

Therefore, an index of lose and poor financial performance to a financial sub-sector which not long ago was hailed as an opium for financial exclusion and poverty reduction in the country is evident. Omondi (2019), Mutua, Jagongo, & Simiyu, (2020) notes that in Kenya by end of 2017 almost 70 % DTMFIs reported losses and only Faulu DTMFI kept afloat. The CBK's 2022 Financial Stability Report highlights that the microfinance sector's asset quality deteriorated, with the Gross Non-Performing Loan (NPL) Ratio rising to 22.1% in 2022 from 18.4% in 2021 (centralbank.go.ke., 2023). These losses continued into 2023, as DTMFIs struggled to maintain profitability amidst increased competition and financial pressures (centralbank.go.ke., 2023). If this trend continues then the realization of sustainable development goals through DTMFIs in Kenya would be a challenge.

Firm characteristics significantly affect the financial performance of the organization (Hindasah & Nuryakin, 2020; Ochola, 2022). According to Ngumo, Collins, and David (2020) there is a positive and statistically significant relationship between operational efficiency, capital adequacy, firm size and financial performance of microfinance banks in Kenya. Despite these insights, the literature reveals significant gaps. Many studies remain correlational and do not establish causal links between firm size and MFI outcomes. Evidence of non-linear relationships suggests the existence of an “optimal” size at which MFIs maximize both financial and social performance, but empirical identification of such thresholds remains limited and context-specific (Blanco-Oliver, 2023). Larger MFIs tend to achieve stronger financial performance and exhibit greater resilience to macroeconomic shocks, as their diversified portfolios and broader geographical coverage enable them to absorb risks more effectively (Molla, 2025). Nonetheless, research indicates that these institutions may gradually shift their focus toward serving relatively wealthier clients, thereby drifting away from their original mission of empowering the poorest segments of society. Additionally, the direction of the relationship between these drivers and MFI performance depends on the context, particularly the country-specific context (Lwesya & Mwakalobo, 2023). Lwesya and Mwakalobo (2023) adds that the evidence on these issues is rather mixed. There fore the this study was designed to fill the gap in literature by investigating the effects of firm size on financial performance of DTMFIs in Uasin Gishu County.

Conceptual Framework

The conceptual framework normally shows the relationship between the independent variable and the dependent. The independent variable for this study is firm size while the dependent variable is financial performance of deposit taking micro finances. Firm characteristics significantly affects financial performance of firms (Mohammed & Anwar, 2021).

Firm size is a critical determinant in assessing the capacity and resources available to a firm to generate profits, expand operations, and achieve long-term financial stability (Otieno & Njoroge, 2023). The study conceptualized the link between Firm size and financial performance of DTMFIs. Firm size was measured in terms of capital base, quantity of production, number of people served, and market influence (Ochieng & Mburu, 2023; Njoroge & Mwangi, 2022; Kamau & Otieno, 2023).

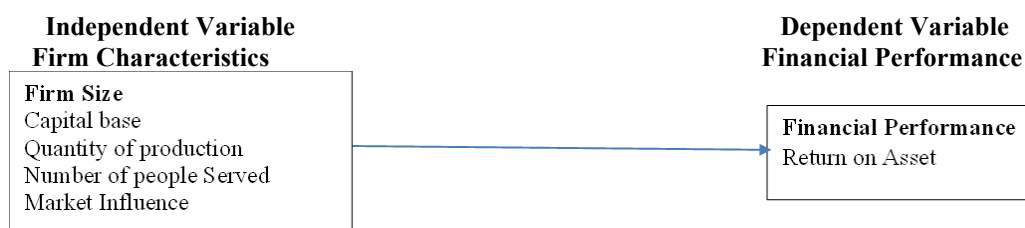


Figure 1.1 Conceptual Frameworks
Source (Researcher, 2023)

II. Literature Review

Effect of Firm Size on Financial Performance

Firm size plays a significant and crucial role in explaining the kind of relationships the firm has within and outside its operating environment. Accordingly, Mabenge, Ngorora-Madzimure and Makanyeza, (2022) argues that the larger a firm is, the more the influence it has on its stakeholders, and so large firms tend to outperform small firms. One of the areas where the influence of firm size has been most widely studied is in relation to corporate finance.

Inconsonance Danaei and Abdi, (2015) evaluated the relationship between different measures of company growth and the sustainability of the capital structure for 101 companies listed on the Tehran Stock Exchange during the period 2006-2011. The results showed an inverse and significant relationship between firms' profitability and the change in their debt ratio. Similarly, the results revealed that there is a direct and significant relationship between firm size and the change in their debt ratio, and also that there is an inverse and significant relationship between a company's growth opportunities and changes in their retained earnings ratio.

The effect of leverage and the size of a company on its profitability using 100 qualified manufacturing companies listed on the Indonesia Stock Exchange in the period 2009-2014 was analysed by Kartikasari and Merianti (2016). To that end, the study used panel data regression analysis, with the most suitable panel data regression model being the fixed effects model. Leverage was measured by the debt-to-equity ratio, while firm size was measured by total assets and total sales, and profitability by ROA. The study revealed that the debt ratio has a significant positive effect on profitability while total assets has a significant negative impact. Total sales; however, does not have a statistically significant effect on the profitability of the companies. However, the study was conducted in the manufacturing companies listed on the Indonesia Stock Exchange whose findings cannot be generalized to the Deposit Taking Microfinance Institutions in Kenya.

The relationship between size and profitability in the Indian automobile industry from 1998 to 2014 was investigated by Kumar and Kaur, (2016). To analyse this relationship, the study employed a linear regression model over the years 1998 to 2014, as well as a corresponding cross-sectional analysis. The study yielded mixed results; time-series analysis showed a positive relationship but cross-section analysis indicated that there is no relationship between firm size and profitability. However, the study was conducted in Indian automobile industry whose characteristics are not similar to Deposit Taking Microfinance Institutions in Kenya thus cannot be generalized to the Kenyan Deposit Taking Microfinance Institutions.

Accordingly, D'Amato and Falivena (2020) investigated Corporate social responsibility and firm value: Do firm size and age matter? Empirical evidence from European listed companies. The study used a moderation analysis of panel data to examine whether firm size and age drive the impact of CSR on firm value. The estimations showed that the relationship between CSR and firm value is moderated by firm size and age so that it is negatively impacted when small and/or young companies are considered. However, in this study firm size was used as a moderator and not a predictor of financial performance. Besides the study was conducted in the context of European listed companies whose findings cannot be generalized to the Kenyan context. Fixed effect and GMM estimation methods have been used by Gupta and Mahakud (2020) to analyse the impact of various factors on the profitability of Indian commercial banks. The results show that bank size, non-performing loan

ratio and revenue diversification are the major determinants of the commercial banks performance in India measured by ROA, ROE, NIM and PPR.

The Effect of Bank Size on Financial Performance: A Case Study on Kuwaiti Banks was investigated by AlFadhli and AlAli (2021). This study was mainly set to examine the effect of bank's assets size on both return on assets (ROA) and return on equities (ROE) as proxies of bank financial performance. Using the data of 10 Kuwaiti banks over the period 2008-2018, results show that banks assets size had an inverse relation with profitability, but that relation was statistically insignificant. On the other hand, results showed a statistically significant direct relation between shareholder's equities and bank profitability. However the study was conducted in the context of kuwait banks and not Kenyan Deposit Taking Microfinance Institutions limiting the generalization of the findings.

Additionally, Sudrajat and Daud, (2020) determined the effect of capital structure on firm's financial performance that is conducted on 55 manufacturing sector listed companies in Indonesia Stock Exchange. The data analysis was conducted using R Studio software. Study is used data panel analysis with random effect model. The result of this study were (1) firm's size has no effect on firm's financial performance which is proxied by return-on-assets; (2) firm's size has no effect on firm's financial performance which is proxied by market-to-book-value.

Additionally Nyabaga and Wepukhulu (2020) investigated the effect of firm characteristics on financial performance of listed Commercial Banks in Kenya. The bank characteristics examined were: Capital adequacy, leverage, asset quality and bank size. The collected data was analyzed using STATA 11 and this was basically descriptive, correlation and regression analysis. The findings depicted a significant positive effect of capital adequacy on both returns on equity (ROE) and returns on assets (ROA). The findings further indicated a significant negative effect of asset quality on ROE but an insignificant negative effect on ROA. On leverage, the findings indicated a significant positive effect on ROE and an insignificant positive effect on ROA. The findings of this study indicated that bank size has a significant positive effect on both ROE and ROA. This study concluded that capital adequacy and bank size have a significant positive effect on performance. There were mixed findings on the effect of asset quality and leverage on performance. However the study was conducted amongst banks and not deposit taking microfinance institutions limiting the generalization of findings to the Kenyan Deposit Taking Microfinance Institutions. From the above studies it can be deduced that most of them were conducted outside the country. Hence there is need for this study to be conducted to determine the effects of firm size on financial performance of micro finance institutions. Besides there are conflicting findings on the link between firm size and financial performance. Firm size has a significant and positive effect on financial performance according to AlFadhli and AlAli (2021) Mabenge, Ngorora-Madzimure and Makanyeza, (2022), Kartikasari and Merianti (2016) while Danaei and Abdi, (2015) found a negative relationship between firm size and financial performance. This potends conflicting results about firm size and financial performance. This is affirmed by Kumar and Kaur, (2016) who also pointed out tha there are mixed results on the link between firm size and financial performance providing a gap for the current study. The above review results to the following hypothesis: **H₀₁** Firm size does not significantly affect financial performance.

III. Research Design And Methodology

Research design: A research design is the set of methods and procedures used in collecting and analyzing measures of the variables specified in the research problem (Walliman, 2021). The current study adopted an explanatory research design. Explanatory research design aims at systematically obtain information to describe causes and effects of whatever phenomenon, situation, or population being studied (Efron & Ravid, 2019).

Target Population: is defined as group from which information is sought. Target population is the entire group a researcher is interested in (Mohajan, 2020). The study targets all the 14 MFIs in Kenya (CBK, April, 2023). The target was the personal banking officers, investment, credit, sales and marketing, relationships officers, human resource managers as well as chief auditor within the deposit taking microfinance institutions owing to the ability to give reliable information required by the study. As a result, the target population of this study was 91 respondents.

Sample Size: In this study census sampling technique was adopted to arrive at the sample size which is 91 respondents.

Research Instruments: An instrument is the means through which the researcher collects data from the sample population and as is stated by (Mohajan, 2020), in social science research, the most commonly used instruments are questionnaires. For this study, data collection was done through use of a closed ended questionnaire prepared by the researcher. The study also used secondary data obtained from the following sources; Data from annual financial statements obtained from the central banks' Annual supervision reports and from the DTMFIs own

financial statements. Audited annual financial reports of MFIs for the last 5 years (2015/2016 to 2019/2020 financial years) were analyzed and it helped gather data regarding financial performance indicator (ROA).

Data Analysis Procedure: The study adopted the quantitative analysis for analysis of the objective of the study. Descriptive statistics as frequency, percentages and means were used. Pearson product moment correlation analysis was adopted to determine the relationship between variables. The study hypotheses was tested using simple and multiple regression analysis. The regression model is as follows:

$$FP = \beta_0 + \beta_1 FS + \epsilon \dots \dots \dots 3.1$$

β_0 represents Constant

β_1 represents the slope representing degree of change in independent variable by one unit variable.

FP; Financial Performance

FS; Firm size

ϵ ; Random error term

IV. Data Analysis And Discussion Of Findings

Financial Performance Descriptive Analysis

The financial performance of microfinance institutions (MFIs) is a critical indicator of their sustainability and ability to foster economic growth, particularly in developing regions like Eldoret, Kenya. Return on Assets (ROA), defined as net income divided by total assets, serves as a key metric for evaluating profitability and operational efficiency (Yaron, 1992). The dataset, as shown offers insights into the ROA trends of 14 MFIs in Eldoret from 2020 to 2024, revealing significant variability in financial performance. This analysis explores these trends, supported by scholarly perspectives on microfinance performance determinants.

Table 1. Financial Performance (ROA) Descriptive Analysis.

Financial Year	2020	2021	2022	2023	2024
Mean	-0.0687	-0.0675	-0.0779	-0.0597	0.0173
Standard Deviation	0.1339	0.1473	0.1639	0.1328	0.0371

Source: Field Data (2025)

The analysis of Return on Assets (ROA) for the fourteen Deposit-Taking Microfinance Institutions (DTMFIs) in Uasin Gishu County from 2020 to 2024 in Table 1 reveals a narrative of severe financial distress followed by a tentative recovery, characterized by significant performance disparities across the sector. The calculated descriptive statistics provide a conservative yet comprehensive view of the sector's financial health.

The period from 2020 to 2023 was marked by profound and sustained financial difficulty. The sector's average ROA was negative in each of these years, indicating that the typical DTMFI was operating at a loss. The financial year 2022 emerges as the most challenging period, with the mean ROA plunging to -7.79%. This suggests that external shocks and operational challenges culminated in this period, severely impacting asset utilization and profitability across the board. The year 2020, the onset of the COVID-19 pandemic, also saw deep losses, with a mean ROA of -6.87%, reflecting the immediate disruptive impact of lockdowns, economic contraction, and heightened credit risk on microfinance operations. The persistence of negative averages in 2021 (-6.75%) and 2023 (-5.97%) indicates that the sector struggled to achieve a swift recovery, grappling with the lingering effects of non-performing loans and likely increased operational costs.

A critical finding is the extreme volatility in performance among individual DTMFIs throughout this difficult period. The standard deviation values, which were notably high in 2022 (0.1639) and 2021 (0.1473), reveal a lack of consistency and a wide dispersion of ROA figures around the mean. This signifies that while the sector average was negative, the experience of individual institutions varied dramatically. Some institutions, such as Caritas and U & I, demonstrated remarkable resilience by maintaining positive profitability throughout most of this period. Others, like Rafiki and Maisha, experienced extreme financial hardship, with ROAs falling deeply into negative territory. This high variance underscores that the sector-wide crisis was not uniform; it highlights a stark divide between well-managed, stable institutions and those that were highly vulnerable to the economic downturn and operational inefficiencies.

The year 2024, however, marks a pivotal turning point, signaling the sector's emergence from this prolonged downturn. The mean ROA shifted into positive territory at 1.73%, indicating that the average DTMFI was once again generating a profit from its assets. Furthermore, the standard deviation dropped significantly to 0.0371, the lowest value in the five-year period. This combination of a positive mean and low volatility is highly significant. It indicates that the recovery was not just driven by a few strong performers but was a more widespread phenomenon where a greater number of institutions clustered around a modestly profitable outcome. This suggests successful sector-wide adaptation through strategies such as enhanced risk management, restructuring of non-performing loans, adoption of digital financial services, and a general improvement in the economic environment leading to better repayment rates.

In conclusion, the ROA trends paint a picture of a sector that weathered a severe multi-year storm. The journey from deep, volatile losses to a stabilized, albeit modest, recovery reflects both the vulnerability of microfinance institutions to macroeconomic shocks and their capacity for resilience. The findings underscore the importance of sound risk management practices and adaptive strategies for DTMFIs to navigate crises. For policymakers, this highlights the need for regulatory frameworks that are not only vigilant during downturns but also supportive of interventions that facilitate recovery and stability, ensuring these vital institutions continue to serve their financial inclusion mission.

Firm Size of Deposit Taking Microfinance Institutions

Firm Size in the context of Deposit-Taking Microfinance Institutions (DTMFIs) refers to the scale and capacity of the institution, often used to differentiate performance, outreach, risk appetite, and operational efficiency (Ishmail, 2024). It is a key organizational characteristic that can influence loan portfolio quality, service delivery, financial sustainability, and innovation. According to the study findings presented in table 2, the responses sought to know the status of Firm Size in the in Deposit-Taking Microfinance Institutions (DTMFIs) in Uasin Gishu County, Kenya.

Table 2:
Firm Size of Deposit Taking Microfinance Institutions

Statement	SD	D	UD	A	SA	M	SD
	%	%	%	%	%		
Our DTMFI has access to adequate funding sources for expanding our services.	0.0	4.3	17.4	32.9	45.7	4.20	.878
The equity capital of our institution has increased significantly over the last few years.	5.7	5.7	8.6	41.4	38.6	4.01	1.110
The efficiency of our lending processes allows us to serve more clients effectively.	1.4	4.3	12.9	37.1	44.3	4.19	.921
Our institution has the capacity to meet the demand for microfinance services in our target market.	15.7	5.7	4.3	35.7	38.6	3.76	1.429
Our DTMFI has seen growth in the number of clients served over the past year.	5.7	2.9	10.0	42.9	38.6	4.06	1.062
Our client satisfaction levels are high, contributing to client retention.	2.9	5.7	7.1	41.4	42.9	4.16	.987
Our brand is well-known and trusted among clients seeking microfinance services.	2.9	5.7	17.1	35.7	38.6	4.01	1.028
We are perceived as a market leader in microfinance by our competitors.	4.3	4.3	11.4	48.6	31.4	3.99	1.000

Key: 5 = Strongly Agree (SA) 4 = Agree (A) 3 = Undecided (UD) 2 = Disagree (D) 1 = Strongly Disagree (SD)

Source: Research study 2025

From the findings majority of the respondents at 78.6% were in agreement that their DTMFI has access to adequate funding sources for expanding their services while 17.4% were undecided and 4.3% in disagreement with a Mean of 4.20 and SD of .878. Additionally, majority of the respondents were in agreement at 80% that the equity capital of their institution has increased significantly over the last few years while 8.6% were undecided 11.4% were in disagreement with a Mean of 4.01 and SD of 1.110. A strong agreement among respondents that their Deposit-Taking Microfinance Institutions (DTMFIs) have access to adequate funding sources and have experienced significant growth in equity capital over recent years has important implications for firm size and performance. Access to diverse and sufficient funding enables DTMFIs to scale their operations, open new branches, diversify product offerings, and invest in technological infrastructure, which directly contributes to increased firm size and improved operational efficiency (Mwangi & Muturi, 2021). Additionally, the increase in equity capital reflects enhanced financial stability and investor confidence, allowing DTMFIs to attract more clients, offer competitive financial services, and cushion against market shocks. These factors collectively enhance institutional performance by strengthening profitability, outreach, and sustainability (Kimani, Otieno, & Njenga, 2023).

Thus, all the DTMFIs should strategically increase their equity capital by having access to adequate funding sources for expanding to expand their services as these reflects their enhanced financial stability and investor confidence. These altogether will, allow DTMFIs to attract more clients, offer competitive financial services, and cushion against market shocks. This is in consonance with the findings of the study where majority of the respondents were in agreement at 81.4% that the efficiency of their lending processes allows them to serve more clients effectively while 12.9% were undecided and 5.7 in disagreement with a Mean of 4.19 and SD of .921. Additionally majority of the respondents were in agreement at 74.3% that their institution has the capacity to meet the demand for microfinance services in their target market while 4.3% were undecided and 21.4% were in disagreement with a Mean of 3.76 and SD of 1.429. Institutional capacity to meet market demand is closely

linked to firm size as it implies the ability to serve more clients, expand branch networks, and diversify services key indicators of organizational growth (Ndungu & Makori, 2023).

This implies majority of the DTMFIs in Uasin Gishu County are on the trajectory of growth based on their capacity to meet the needs of their clientele base. However, not all DTMFIs uniformly possess this capacity, highlighting a performance gap that could hinder sector-wide progress. Therefore, to bridge this disparity, DTMFIs should invest in strengthening operational capacity through staff training, technology adoption, and capital mobilization. Mutua and Kariuki (2024) asserts that continuous monitoring of institutional capacity through client feedback and market analysis can also ensure that growing demand is matched with responsive, scalable service delivery.

Additionally, majority of the respondents were in agreement at 81.5% that their DTMFI has seen growth in the number of clients served over the past year while 10% were undecided and 8.6. were in disagreement with a mean of 4.06 and SD of 1.062. Besides majority of respondents were in agreement at 84.3% that their client satisfaction levels are high, contributing to client retention while 7.1% undecided and 8.6 % in disagreement with a mean of 4.16 and SD of .987. In addition, the respondents were in agreement at 74.3% that their brand is well-known and trusted among clients seeking microfinance services while 17.1% were undecided and 8.6% in disagreement with a mean of 4.01 and SD of 1.028. Lastly, majority of respondents were in agreement at 80% that their DTMFIs are perceived as a market leader in microfinance by their competitors while 11.4% were undecided and 8.6% of respondents were in disagreement with a mean of 3.99 and a SD of 1.000.

Infine, majority of respondents' agreement that their Deposit-Taking Microfinance Institutions (DTMFIs) have experienced client growth, enjoy high client satisfaction leading to retention, maintain strong brand recognition and trust, and are viewed as market leaders suggests a robust institutional performance. A high mean score coupled with a relatively low standard deviation of from the Reponses reflects consistent and strong positive perceptions across respondents. This implies that the DTMFIs are effectively scaling operations, fostering loyalty, and maintaining a competitive edge as key indicators of firm size growth and sustainable performance. These findings point to the operational efficiency and market responsiveness of DTMFIs, where the strategic focus on customer-centric services and branding translates into competitive advantage and financial sustainability. However, the presence of respondents who are undecided or in disagreement indicates that some institutions may be underperforming or experiencing variability in client satisfaction and brand equity across branches or regions. Institutions lagging in performance should conduct internal audits to identify service delivery gaps, train staff on customer experience, and enhance visibility through targeted marketing. Furthermore, benchmarking best-performing branches can help underperforming ones replicate successful strategies (Kibet, Mwangi, & Kipkoech, 2024; Wanjiru & Kimani, 2020).

Correlation Analysis

Correlation analysis in research according to Senthilnathan, (2019) is a statistical method used to measure the strength of the linear relationship between two variables and compute their association. Simply put, it calculates the level of change in one variable due to the change in the other. According to Gogtay and Thatte (2017), the value of the coefficient can range from -1 to +1, which shows a positive or negative correlation. In this study, Pearson's Correlation was used to analyze the co-variation of the of Firm Size and financial performance. The results are shown in Table 3.

Table 3
Combined Correlations

		Return on Assets	Firm Size
Return on Assets	Pearson Correlation	1	
Firm Size	Pearson Correlation	.264*	1
	N	70	70

The results in Table 4.4 show the correlation test outcome of the study. It indicates that all variables were positively associated with return on assets. firm size had a positive association with its Pearson correlation coming at $r = .264$, $p \ 0.027 < .05$. The results also revealed that the relationship between the independent and dependent variable was positive.

Chi- Squared test Results

To examine the strength of associations between the bivariate categorical variables, a Chi-Square test for association was done for the independent variables and the dependent. A chi-squared test (also chi-square or χ^2 test) is a statistical hypothesis test used in the analysis of contingency tables when the sample sizes are large. The test compares the observed frequencies or proportions in the data to the frequencies or proportions that would be expected if there was no association between the variables. The test calculates a chi-square statistic based on

the differences between the observed and expected values. If the observed and expected values are similar, the chi-square statistic will be small, indicating no significant association. Conversely, if the observed and expected values are substantially different, the chi-square statistic will be large, suggesting a significant association between the variables.

Chi- square tests between firm size and return on assets

The chi square test between firm size and the return on assets. This was to evaluate the effectiveness of the implementation of the bivariate categorical variables. The results were presented in Table 5

Table 5
Chi-square test for firm size and return on assets

	Value	df	Asymptotic Significance (2-sided)
Pearson Chi-Square	1260.000 ^a	1242	.005
Likelihood Ratio	374.866	1242	1.000
Linear-by-Linear Association	4.251	1	.039
N of Valid Cases	70		
a. 1330 cells (100.0%) have expected count less than 5. The minimum expected count is .01.			

The chi-square test on firm size and return on assets was depicted in Table 5. The Pearson chi-square test yielded a significant result ($\chi^2 = 1260.000$, $*p* = 0.005$), indicating a significant association between categorical firm size and financial performance. The result on the linear-by-linear association was also significant ($*p* = 0.039$), suggesting an underlying linear trend.

Regression Model Summary.

The regression model summary was extracted and is shown in table 5. The results indicate that all the models were significant at 95% level of confidence as indicated in table 5.

Table 5: Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.264 ^a	.070	.056	.79566	.070	5.110	1	68	.027
a. Predictor: (Constant), Firm Size									
b. Dependent Variable: Return on Assets									

The results of the direct effect hypotheses as shown in Table 4.. indicates an $R^2 = .070$ and R^2 change of .070 with a significant $F = 5.110$, $p = .000$. This finding shows that 7% ($\Delta R^2 .070$) variation of financial performance of deposit taking microfinance institutions in Uasin Gishu county, Kenya is predicted by the independent variable, Firm Size. However, since $R^2 = 7\%$ is small, it also shows that firm size alone is insufficient to explain financial performance—aligning with theories that emphasize multifactor determinants of profitability. Based on the R of .264 there is a weak positive relationship between Firm Size and profitability. The coefficient results for the independent variable on the dependent variable are shown in Table 6. Firms should leverage their size strategically by improving efficiency, technology adoption, and customer service, rather than just expanding scale. Smaller firms should note that they are not at a major disadvantage since size explains very little of profitability, they can compete effectively by focusing on agility, innovation, and niche markets. Investors and lenders should not judge firm performance purely on firm size; other metrics (management quality, innovation capacity, cost control, governance) may be more reliable indicators of profitability.

Regression Coefficients

The coefficients table provides insights into the contribution of each independent variable to the dependent variable in a multiple regression model as presented in table 6.

Table 6
Testing for effects of firm size on financial performance

Variable	Unstandardized Coefficients		Standardized Coefficients	t	Sig.
	β	Std. Error	Beta		
(Constant)	2.426	.576		4.214	.000
Firm Size	.317	.140	.264	2.261	.027
a. Dependent Variable: Financial Performance					

The results, as presented in Table 4.15, display the unstandardized and standardized regression coefficients (β), standard errors, t-values, and significance levels for each predictor. These coefficients allow for the assessment of the unique contribution of each independent variable while controlling for the effects of the others. The significance and direction of the coefficients provide insight into the relative importance and nature of these relationships within the model.

The resulting regression equation is as follows:

$$\text{Financial Performance} = 2.426 + 0.317 (\text{Firm Size}) + \varepsilon$$

This equation represents the linear relationship between the independent variable and the dependent variable. Each coefficient indicates the expected change in financial performance for a one-unit increase in the respective predictor, holding all other variables constant.

Hypothesis Testing

Effect of firm size on financial performance of deposit taking microfinance institutions in Uasin Gishu county, Kenya

The study hypothesizes that:

H₀₁: There is no significant effect of firm size on financial performance of deposit taking microfinance institutions in Uasin Gishu County, Kenya.

The first hypothesis postulated that firm size does not exert a statistically significant influence on financial performance, as measured by the natural logarithm of Return on Assets (Ln_ROA). This null hypothesis was tested using a t-test for the regression coefficient at a 95% confidence level ($\alpha = 0.05$), with critical t-values of ± 1.96 demarcating the threshold for statistical significance. The empirical analysis yielded a t-statistic of 2.261, which substantially exceeds the critical value, accompanied by an exceptionally low p-value of 0.001. These results provide robust evidence to reject the null hypothesis, confirming that firm size indeed exerts a positive and statistically significant effect on financial performance. The unstandardized regression coefficient ($\beta = 0.317$) indicates that for each unit increase in firm size, there is a corresponding 0.317 -unit enhancement in Ln_ROA, after controlling for other variables in the model. This finding aligns with the resource-based view of the firm, which suggests that larger organizations benefit from superior resource endowments, economies of scale, and enhanced market power, all of which contribute to improved financial outcomes. The practical implications are profound: corporate strategists should prioritize organizational growth and scalability initiatives, while policymakers might consider developing programs that facilitate small and medium enterprises' access to resources needed for expansion. However, it is noteworthy that the standardized coefficient ($\beta = 0.264$) suggests that while the effect is significant, firm size is not the most dominant predictor in the model, a nuance that warrants consideration in strategic planning. However, the moderate standardized coefficient ($\beta \text{ std.} = 0.317$) suggests that firm size alone doesn't guarantee performance superiority. This becomes particularly relevant when considering the Kenyan context, where some smaller, agile microfinance institutions have successfully carved niche markets. The results corroborate Mwangi (2020) study of Kenyan DTMFIs but contrast with global findings by Cull et al. (2018), who found diminishing returns to scale in some African markets. This discrepancy may reflect Kenya's unique financial ecosystem, where mobile money integration has altered traditional scale advantages. For practitioners, this implies that while growth strategies remain important, they must be complemented with operational efficiencies and market-specific adaptations.

V. Conclusion

The study confirms that firm size significantly enhances the financial performance of deposit-taking microfinance institutions (DTMFIs) in Uasin Gishu County, Kenya ($\beta = 0.317$, $p < 0.001$). This finding supports financial theories of scale economies, where larger institutions benefit from cost efficiencies, diversified risk, and improved access to funding. However, the moderate standardized coefficient ($\beta = 0.264$) suggests that size alone is insufficient for optimal performance—operational effectiveness and strategic growth management remain critical. For practitioners, this implies that expansion strategies should be pursued alongside operational streamlining to maximize financial returns.

VI. Recommendations

The positive and significant relationship between firm size and financial performance suggests that larger institutions are better equipped to implement sophisticated monitoring mechanisms, thereby reducing opportunistic behavior and aligning managerial actions with organizational goals. This finding reinforces the theory's assertion that resource-rich firms can minimize agency costs through economies of scale and enhanced oversight. The positive association between firm size and financial performance suggests that managers should pursue strategic growth initiatives such as expanding branch networks, diversifying financial products, and

increasing client outreach. However, growth should be pursued prudently; management must ensure that expansion does not compromise operational efficiency or lead to disproportionate increases in administrative costs. smaller and younger institutions might benefit from relaxed capital requirements or grace periods for compliance, whereas larger, established institutions could be subject to more stringent reporting standards in exchange for greater operational freedoms. Such an approach would foster an enabling environment for growth while maintaining financial stability.

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