

Abstract

This study seeks to examine the effect of fundamental firm characteristics on the operational efficiency of microfinance banks in Kenya. The independent variables were: firm size, liquidity, leverage, cash reserves and asset tangibility. Descriptive research design was adopted, and study collected data from twelve (12) licensed microfinance banks in Kenya. This study adopted panel data regression model to analyse data with the assistance of STATA version 12. The analysed data was presented using tables and figures. The study found that firm size and asset tangibility had statistically significant positive effect on operational efficiency of microfinance banks in Kenya. The study further found that that liquidity, leverage and cash reserve had statistically insignificant negative effect on operational efficiency of microfinance banks in Kenya. The study recommends that microfinance banks should embrace asset tangibility on their strategic decision making and also that they can issue more debt as a strategy for more revenue generation. Also, the Central Bank of Kenya should formulate and enact a policy which makes commercial debt cheaper hence reduce cost of operations of microfinance banks so as to reduce interest rates in order to attract investors who will inject more funds into these financial firms. The study also recommends that microfinance banks ought to increase their network of branches countrywide to attract new customers to open new accounts and in so doing increase their deposits and that the Central Bank of Kenya should formulate policies that encourage microfinance banks to invest more in research and development and innovation so as to enable microfinance banks to design and develop competitive products or services that add value to the customers and which will foster their growth at large.