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Moderating Effect of Financial Gearing on the Relationship Between Corporate Governance, Ownership Structure and Financial Performance of MFIS in Kenya

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Abstract

The purpose of the study was to evaluate the moderating effect of financial gearing on the relationship between corporate governance, ownership structure, and financial performance of MFIs in Kenya. This study adopted a correlational research design within a quantitative framework. This study adopted a correlational research design within a quantitative framework. The study employed a census approach. The target population comprised the 14 deposit-taking MFIs licensed by the Central Bank of Kenya during the study period. However, only 12 institutions had complete audited financial statements covering the entire period from 2015 to 2022. Therefore, all 12 eligible institutions were included in the analysis, while the remaining two were excluded because of incomplete data. Data were analysed using STATA statistical software. Financial gearing positively moderates the relationship between corporate governance and financial performance of MFIs in Kenya (BR × FG: $\beta = 31.34900$, $p = 0.0280$). The coefficient of the interaction term between foreign representation and financial gearing (FR × FG) was positive and statistically significant ($\beta = 2.111630$, $p = 0.0212$). This implies that financial gearing significantly moderates the relationship between ownership structure and financial performance of MFIs in Kenya. The interaction term between board remuneration and financial gearing (BR×FG) yielded a negative and statistically significant coefficient ($\beta = -0.125696$, $p = 0.0011$). This finding indicates that financial gearing significantly moderates the relationship between corporate governance and financial performance among MFIs in Kenya. The study concludes that financial gearing significantly moderates the relationship between corporate governance, ownership structure, and financial performance. This means that an MFI's different levels of debt will significantly affect how governance structures impact the firm's profitability. Similarly, different levels of debt affect the impact of ownership structure on the firm's profitability.

Keywords: *Financial gearing, corporate governance, ownership structure, financial performance*

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1. Introduction

Microfinance institutions occupy a strategic position in Kenya's financial ecosystem and broader economic development trajectory. According to the Kenya Bureau of Statistics' Economic Survey Report 2021, MFIs contribute approximately 40% of GDP through the provision of financial services to micro, small, and medium enterprises (MSMEs), which in turn generate 80% of informal sector employment. This catalytic role has prompted significant government support, with financial assistance channeled to MSMEs through MFIs (Kitaka, 2001). Commercial banks have similarly intensified engagement with the microfinance sector, providing funding to help MFIs extend services to low-income households. To guarantee long-term survival, stakeholders have increasingly called for MFIs to adopt sustainable practices including profit generation, enhanced customer responsiveness, product and service diversification, and improved marketing (Apalia, 2017). The Central Bank of Kenya (CBK) has intervened through the development of microfinance-specific regulations and supervisory frameworks. Currently, fourteen MFIs hold licenses from CBK as deposit-taking institutions, with licensing requirements implemented from 2013 onward (CBK, 2022). These institutions collectively serve approximately 6.5 million customers with an outstanding loan portfolio exceeding $310 million.

Despite the strategic importance of microfinance institutions (MFIs) to Kenya's economy and the increased regulatory attention by the Central Bank of Kenya (CBK), the sector has continued to experience sustained financial deterioration. According to the CBK Annual Report 2023/24, total assets of Kenyan MFIs declined from KSh 69.7 billion in June 2023 to KSh 62.8 billion in June 2024, gross non-performing loans increased from KSh 12.1 billion to KSh 12.3 billion, customer deposits declined by 4.2%, the core capital to risk-weighted assets ratio fell below the statutory minimum requirement, and total losses before tax increased significantly to KSh 2.2 billion compared to KSh 0.9 billion recorded in 2023 (CBK, 2024). This performance crisis reflects a sustained structural trend rather than a temporary market shock. Kenyan MFIs reported combined profits of KSh 1 billion in 2014 before the sector slipped into losses in 2016 and has remained substantially unprofitable despite prudential and regulatory interventions introduced by the CBK (CBK, 2018; CBK, 2022; Otieno et al., 2016). The persistence of these losses despite regulatory interventions raises fundamental questions regarding the effectiveness of governance structures, ownership configurations, and financial leverage management within Kenyan MFIs. This performance crisis, occurring within a relatively well-regulated environment, provides a natural laboratory for examining how governance mechanisms, ownership structures, and financial leverage interact to determine institutional sustainability, the central focus of this study.

1.1 Problem Statement

Microfinance institutions (MFIs) in Kenya serve as vital intermediaries in the financial system, providing credit and savings services to approximately 6.5 million customers, predominantly in the micro and small enterprise sector. The sector contributes approximately 40% to GDP and creates employment for a significant portion of the informal sector workforce (Kenya Bureau of Statistics, 2021). Owing to this strategic importance, the Central Bank of Kenya (CBK) has strengthened prudential regulation and governance oversight of MFIs to enhance their stability, sustainability, and contribution to the country’s financial inclusion agenda under Vision 2030.

Despite these regulatory interventions and the sector's economic significance, Kenyan MFIs have continued to experience persistent financial performance challenges, including declining profitability, rising non-performing loans, weakening capital adequacy, and sustained operational losses. Between 2015 and 2022, the sector experienced persistent financial distress, with combined losses increasing from approximately KSh 377 million in 2016 to KSh 1.4 billion in 2018, and losses of KSh 980 million were still reported in 2022. The persistence of these losses threatens the sustainability of MFIs and undermines their capacity to provide affordable financial services to underserved populations.

1.2 Research Objective

To evaluate the moderating effect of financial gearing on the relationship between corporate governance, ownership structure, and financial performance of MFIs in Kenya

2. Literature Review

2.1 Empirical Review

Saeed et al. (2013) examined the moderating effects of firm size and leverage on the relationship between corporate governance and firm performance in the Pakistani banking sector using data from listed banks covering the period 2007–2011. Using quantitative regression analysis, the study found that corporate governance had a significant positive effect on firm performance. The results further revealed that leverage significantly moderated the relationship between corporate governance and firm performance, indicating that the effectiveness of governance mechanisms varies depending on the level of debt financing employed by a firm. Similarly, firm size was found to influence the relationship between corporate governance and financial performance. The study recommended that banking institutions strengthen governance structures while maintaining appropriate leverage levels to enhance financial performance. The study did not account for ownership structure, an important determinant of firm performance.

In a related study, Zeb et al. (2025) investigated the effect of corporate governance mechanisms on firm performance and examined the moderating role of leverage among non-financial firms in the cement and chemical sectors listed on the Pakistan Stock Exchange between 2013–2020. The study used panel data and descriptive statistics, correlation analysis, variance inflation factor tests, and fixed-effects regression models. Corporate governance was measured using board size, board independence, female board representation, ownership concentration, board meetings, audit committee independence, and audit committee meetings. The results showed that these corporate governance mechanisms were significantly related to firm performance. Financial leverage was found to significantly moderate the relationship between firm performance and corporate governance mechanisms. However, the study focused on non-financial firms in Pakistan's cement and chemical sectors, limiting the generalizability of the findings to financial institutions.

It is important to distinguish moderation from mediation in this literature, as the two roles produce fundamentally different theoretical and policy implications. Kijkasiwat et al. (2022) examined corporate governance and firm performance across 2,568 listed firms in 17 countries from 2002 to 2017 using two-step dynamic GMM estimation. The study found that financial leverage fully mediated rather than moderated the relationship between corporate governance and firm performance in both developed and emerging economies. While this finding does not

directly address financial gearing as a moderator, it is included here deliberately because it illustrates that leverage can operate through entirely different causal pathways depending on model specification, and underscores the importance of explicitly testing the moderating rather than mediating pathway, which the present study undertakes through Moderated Multiple Regression (MMR).

Fatima et al. (2023) Investigated the impact of profitability on firm value moderated by capital structure in different Saudi Arabian companies. Profitability is measured by ROA (Return on Assets) and ROE (Return on Equity); firm value is calculated using Tobin's Q; and capital structure is measured by the debt-to-equity ratio. The study selects companies listed on Tadawul as its sample, and the study period runs from 2013 to 2020. To analyze data collected from the annual reports of listed companies, the study presents results from panel regressions with FE and RE models, as well as panel GMM. The results show a positive and significant impact of profitability on firm value and a negative and significant effect of capital structure on firm value in all estimated models. Further, capital structure moderates the relationship between profitability and firm value, with the study finding a significant negative effect of profitability on firm value after accounting for moderation. The results strengthen the moderation of capital structure on the relationship between profitability and firm value. The study focused on firms in Saudi Arabia, thus showing a contextual gap. The current study was done in Kenya.

Oyedele (2025) examined the effect of capital structure and corporate governance on the financial performance of listed Deposit Money Banks in Nigeria and investigated whether board size moderates the relationship between debt-to-equity ratio and financial performance. Using an ex-post facto research design, the study analyzed secondary data from 12 listed banks over the period 2015–2024 using Ordinary Least Squares regression. The findings revealed that the debt-to-equity ratio had a significant negative effect on financial performance ($\beta = -0.432$, $p = 0.002$), whereas board size had a significant positive effect ($\beta = 0.205$, $p = 0.021$). Further, the interaction between debt-to-equity ratio and board size was positive and significant ($\beta = 0.057$, $p = 0.008$), indicating that corporate governance moderates the relationship between capital structure and financial performance. The study recommended maintaining an optimal capital structure and strengthening governance mechanisms to improve bank performance. However, the study focused on board size as the moderating variable and did not examine the moderating role of financial gearing.

In the Kenyan context, Wayongah et al. (2019) investigated the moderating effect of firm size on the relationship between financial leverage and financial performance of non-financial firms listed on the Nairobi Securities Exchange (NSE), Kenya. The study employed a quantitative research design, using panel data from listed non-financial firms and analyzing it with panel regression techniques. The findings revealed that financial leverage significantly influenced financial performance. The study further established that firm size significantly moderated the relationship between financial leverage and financial performance, implying that the effect of leverage on performance varies according to firm size. While this study focused on firm size rather than financial gearing as a moderator, its documentation of leverage's significant direct negative effect on performance among Kenyan listed firms establishes an important baseline for the present study. Similarly, Kiarie et al. (2019) examined the moderating effect of the gearing ratio on the relationship between loyalty programs and the financial performance of selected firms in Kenya's service industry. Using panel regression and One-Way ANOVA with

appropriate diagnostic tests, the study found that gearing ratio was negatively and significantly related directly to financial performance, yet positively moderated the loyalty program-performance relationship, strengthening it. This finding illustrates that financial gearing can simultaneously exert a negative direct effect and a positive moderating effect, a dual role that the present study tests within the governance-performance framework of DTMFIs. Tanui (2021) further demonstrated among NSE-listed firms from 2003 to 2017 that capital structure significantly moderated the indirect relationship between institutional ownership and financial performance through corporate diversification, establishing that the ownership-performance pathway is sensitive to financing decisions in the Kenyan context.

2.2 Theoretical Review

2.2.1 Pecking Order Theory

Pecking order theory, originated by Donaldson (1961) and formally theorized by Myers and Majluf (1984), explains financing preferences through the lens of information asymmetry between firm managers and external capital providers. The theory posits that asymmetric information creates differential costs across financing sources, leading firms to adopt a hierarchical preference: internal funds (retained earnings) first, then debt, and finally equity issuance as a last resort. This hierarchy emerges because external financing, particularly equity issuance, signals negative private information to external investors, while internal funds avoid adverse selection entirely (Myers & Majluf, 1984). The theory posits that information asymmetry between firm managers and external capital providers creates differential costs across financing sources, leading to a hierarchical ordering of preferences: internal funds (retained earnings), debt financing, and equity issuance. This hierarchy emerges because external financing signals negative information to markets; equity issuance, in particular, signals overvaluation, whereas internal funds avoid adverse selection problems entirely (Myers & Majluf, 1984).

The theory generates testable predictions directly relevant to this study; Profitable firms use less debt because superior cash flows enable financing through retained earnings, avoiding costly external finance. This predicts a negative correlation between profitability and leverage contrary to agency theory's discipline hypothesis but consistent with information asymmetry logic; financing constraints alter strategic flexibility, as firms lacking internal funds must resort to debt or equity despite adverse selection costs. This constraint is particularly acute for MFIs, which cannot accumulate substantial retained earnings given thin margins and social mission pressures to expand outreach; capital structure reflects cumulative financing choices rather than targeting optimal ratios, making leverage an outcome of historical financing needs and profitability rather than strategic optimization (Fama & French, 1998).

Pecking order theory demonstrates exceptional applicability to MFIs for reasons that are structurally distinct from its applicability to conventional firms. Khuhro and Ahmed (2024) demonstrate, in a cross-country study of Chinese MFIs, that information asymmetry in microfinance capital markets is qualitatively more severe than in conventional banking because microenterprise borrower quality is opaque, social impact metrics complicate financial evaluation for external investors, and ownership structures that mix commercial and social investors create divergent information demands. These asymmetries make external financing especially costly, strongly motivating pecking order behaviour in MFIs.

Pecking order theory provides the theoretical foundation for conceptualizing financial gearing as a moderating variable, the study's primary theoretical contribution. If capital structure reflects financing constraints rather than governance optimization, then leverage levels condition the effectiveness of governance mechanisms. Specifically, MFIs with high leverage (reflecting severe financing constraints) may find that their governance mechanisms function differently from those of MFIs with low leverage (reflecting adequate internal generation or access to equity). High leverage severely constrains strategic flexibility, so that even well-governed institutions struggle to implement performance-enhancing strategies, whereas low leverage enables governance mechanisms to translate into performance improvements. This interaction between financing constraints, captured by leverage, and governance effectiveness, captured by board remuneration and ownership structure, represents the theoretical essence of the moderation effects examined in this study.

3. Methodology

This study adopted a correlational research design within a quantitative framework. The study employed a census approach. The target population comprised the 14 deposit-taking MFIs licensed by the Central Bank of Kenya during the study period. However, only 12 institutions had complete audited financial statements covering the entire period from 2015 to 2022. Therefore, all 12 eligible institutions were included in the analysis, while the remaining two were excluded because of incomplete data. The study utilised secondary quantitative panel data obtained from audited annual financial statements, corporate governance disclosures and supervisory publications of the Central Bank of Kenya. Data were collected through document review using a structured data extraction sheet. Data were analysed using STATA statistical software. To determine the moderating effect of financial gearing on the relationship between corporate governance, ownership structure and financial performance of MFIs in Kenya, Moderated Multiple Regression was employed.

4. Results

4.1. Moderating Effect of Financial Gearing on the relationship between corporate governance and financial performance of MFIs in Kenya

The first step in the hierarchical moderated regression analysis was to examine the moderating effect of financial gearing on the relationship between corporate governance and financial performance of MFIs in Kenya.

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Table 1: Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.052353	0.022604	-2.316099	0.0228
BR	**-18.48327**	**2.286620**	**-8.083228**	**0.0000**
FG	**0.046863**	**0.127552**	**0.367402**	**0.7142**
BR × FG	**31.34900**	**14.04206**	**2.232508**	**0.0280**
CAR	0.164898	0.027529	5.990057	0.0000

R-squared	0.585148	Mean dependent var	-0.091599
Adjusted R-squared	0.566913	S.D. dependent var	0.151092
S.E. of regression	0.099433	Akaike info criterion	-1.727996
Sum squared resid	0.899702	Schwarz criterion	-1.594436
Log likelihood	87.94381	Hannan-Quinn criter.	-1.674009
F-statistic	32.08881	Durbin-Watson stat	1.063535
Prob(F-statistic)	0.000000		

Key: ROA- Return on Assets; BR-Board remuneration; FG- Financial Gearing; CAR- Capital Adequacy ratio

Thus, this finding can be modelled as:

$$ROA_{it} = -0.052353 - 18.48327BR_{it} + 0.046863FG_{it} + 31.34900(BR \times FG)_{it} + 0.164898CAR_{it} + \mu_i + \varepsilon_{it} \ldots\ldots 1$$

The results in Table 1 indicate that financial gearing positively moderates the relationship between corporate governance and financial performance of MFIs in Kenya (BR × FG: β = 31.34900, p = 0.0280). The positive interaction coefficient suggests that higher levels of financial gearing reduce the negative effect of board remuneration on financial performance. This implies that the marginal effect of board remuneration on financial performance becomes less negative as financial gearing increases. In other words, as MFIs increase their use of debt financing, the adverse effect of board remuneration on financial performance weakens. The significance of the interaction term confirms the existence of a moderating effect. This finding is consistent with Agency Theory, which argues that debt financing imposes additional monitoring and discipline on management, thereby reducing agency costs and mitigating governance inefficiencies.

Although the direct effect of financial gearing was positive, it was statistically insignificant (β = 0.046863, p = 0.7142), suggesting that financial gearing does not independently influence financial performance in this model. However, its significant interaction with board remuneration demonstrates that its importance lies in altering the governance-performance relationship rather than directly affecting performance. This implies that the effect of board remuneration on financial performance varies depending on the level of financial gearing within an MFI. With respect to the control variable, capital adequacy ratio (CAR) was found

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to exert a positive and highly significant effect on financial performance ($\beta = 0.165$, $p < 0.001$), confirming that better-capitalised DTMFIs tend to achieve superior returns on assets.

The adjusted coefficient of determination (Adjusted $R^2 = 0.566913$) indicates that approximately 56.69 percent of the variation in financial performance among deposit-taking MFIs is explained by board remuneration, financial gearing, capital adequacy, and the interaction between board remuneration and financial gearing. The remaining 43.31 percent is attributable to factors not included in the model. Further, the overall model was statistically significant ($F = 32.08881$, $p < 0.001$), indicating that the explanatory variables jointly provide a good fit to the data. Since the interaction term (BR × FG) was statistically significant ($\beta = 31.34900$, $p = 0.0280$), the null hypothesis (H04), which stated that financial gearing does not significantly moderate the relationship between corporate governance and financial performance of MFIs in Kenya, was rejected. The study therefore concludes that financial gearing significantly moderates the relationship between corporate governance and financial performance of MFIs in Kenya.

4.2 Moderating Effect of Financial Gearing on the relationship between ownership structure and financial performance of MFIs in Kenya

The second step in the hierarchical moderated regression analysis was to examine the moderating effect of financial gearing on the relationship between ownership structure and financial performance of MFIs in Kenya. Table 2 shows the regression results of the relationship between ownership structure and financial performance after introducing the moderator (financial gearing) and the interaction term (FR×FG). The results are as shown in Table 2:

Table 2: Moderating Effect of Financial Gearing on the relationship between ownership structure and financial performance of MFIs in Kenya

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.036304	0.021724	-1.671164	0.0981
FR	**-0.966513**	**0.316420**	**-3.054521**	**0.0030**
FG	**0.265212**	**0.124296**	**2.133709**	**0.0356**
FR×FG	**2.111630**	**0.900191**	**2.345759**	**0.0212**
CAR	0.156476	0.035135	4.453587	0.0000

R-squared	0.347204	Mean dependent var	-0.091599
Adjusted R-squared	0.318509	S.D. dependent var	0.151092
S.E. of regression	0.124730	Akaike info criterion	-1.274653
Sum squared resid	1.415739	Schwarz criterion	-1.141093
Log likelihood	66.18334	Hannan-Quinn criter.	-1.220666
F-statistic	12.10007	Durbin-Watson stat	0.443554
Prob(F-statistic)	0.000000		

Key: ROA- Return on Assets; FR-Foreign Representation; FG- Financial Gearing; CAR-Capital Adequacy ratio

The resulting model is:

$ROA_{it} = -0.036304 - 0.966513FR_{it} + 0.265212FG_{it} + 2.111630(FR \times FG)_{it} + 0.156476CAR_{it} + \mu_i + \varepsilon_{it}$ ..... (4.10)

The results from Table 2 show that the coefficient of the interaction term between foreign representation and financial gearing (FR × FG) was positive and statistically significant (β = 2.111630, p = 0.0212). This implies that financial gearing significantly moderates the relationship between ownership structure and financial performance of MFIs in Kenya. The positive interaction coefficient suggests that financial gearing weakens the negative relationship between foreign representation and financial performance. This implies that the marginal effect of foreign representation on financial performance becomes less negative as financial gearing increases, suggesting that debt financing partly offsets governance challenges associated with foreign representation. The significance of the interaction term confirms the existence of a moderating effect. Since the interaction coefficient was statistically significant at the 5 percent level (β = 2.111630, p = 0.0212), the null hypothesis (H0), which stated that financial gearing does not significantly moderate the relationship between ownership structure and financial performance of MFIs in Kenya, was rejected. The study therefore concludes that financial gearing significantly moderates the relationship between ownership structure and financial performance among deposit-taking MFIs in Kenya.

The direct effect of foreign representation remained negative and statistically significant (β = -0.966513, p = 0.0030), indicating that higher levels of foreign representation are associated with lower financial performance. This finding suggests that information asymmetry, geographical distance, and differing strategic priorities between foreign and local stakeholders may constrain effective monitoring and decision-making. Conversely, financial gearing exhibited a positive and statistically significant direct effect on financial performance (β = 0.265212, p = 0.0356), implying that prudent utilization of debt financing enhances profitability by increasing lending capacity and improving resource mobilization. The positive interaction effect may be explained by the disciplinary role of debt as proposed by Agency Theory (Jensen & Meckling, 1976). Consequently, higher levels of financial gearing may compensate for governance weaknesses associated with foreign representation by strengthening monitoring mechanisms and promoting more efficient utilization of organizational resources.

Regarding the control variable, the capital adequacy ratio (CAR) had a positive and statistically significant effect on financial performance (β = 0.156476, p < 0.001), indicating that well-capitalized MFIs are more likely to achieve strong financial outcomes. Further, the adjusted coefficient of determination (Adjusted R^2 = 0.318509) indicates that approximately 31.85 percent of the variation in financial performance among deposit-taking MFIs is explained by foreign representation, financial gearing, capital adequacy, and the interaction between foreign representation and financial gearing. The remaining 68.15 percent is attributable to other institutional, governance, operational, and macroeconomic factors not captured in the model. The overall model was statistically significant (F = 12.10007, p < 0.001), indicating that the explanatory variables jointly provide a good fit to the data.

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4.3 Moderating Effect of Financial Gearing on the relationship between corporate governance, ownership structure and financial performance of MFIs in Kenya

The final step involves generating a complete moderation model that incorporates all the interaction terms. The interaction terms were obtained by taking the cross-product of financial gearing with each of the corporate governance and ownership structure constructs. The model is used to test the null hypothesis H04 for objective four, which states That Financial gearing does not have any moderating effect on the relationship between corporate governance, ownership structure, and financial performance of MFIs in Kenya.

Table 3: Moderating Effect of Financial Gearing on the relationship between corporate governance, ownership structure and financial performance of MFIs in Kenya.

Dependent Variable: ROA

Variable	Coefficient	Std. Error	t-Statistic	Prob.
C	-0.037209	0.046864	-0.793990	0.4293
BR	**-17.89652**	**2.427923**	**-7.371123**	**0.0000**
FR	**-0.803509**	**0.482285**	**-2.966047**	**0.0092**
FG	**0.163862**	**0.071944**	**2.277616**	**0.0251**
FG×FR	**0.131631**	**0.036764**	**3.580442**	**0.0006**
FG×BR	**-0.125696**	**0.037279**	**-3.371769**	**0.0011**
CAR	0.159165	0.025276	6.296947	0.0000

R-squared	0.671454	Mean dependent var	-0.091599
Adjusted R-squared	0.649305	S.D. dependent var	0.151092
S.E. of regression	0.089476	Akaike info criterion	-1.919576
Sum squared resid	0.712527	Schwarz criterion	-1.732592
Log likelihood	99.13964	Hannan-Quinn criter.	-1.843994
F-statistic	30.31514	Durbin-Watson stat	1.034286
Prob(F-statistic)	0.000000		

Key: ROA- Return on Assets; BR-Board remuneration; FR-Foreign representation; FG-Financial Gearing; CAR- Capital Adequacy ratio

Model 4.8.3 below shows the moderating effect of financial gearing on the relationship between corporate governance, ownership structure and financial performance of MFIs in Kenya:

$$ROA_{it} = -0.037209 - 17.89652BR_{it} - 0.803509FR_{it} + 0.163862FG_{it} - 0.125696(BR \times FG)_{it} + 0.131631(FR \times FG)_{it} + 0.159165CAR_{it}$$

The results in Table 3 show that the interaction term between board remuneration and financial gearing (BR×FG) yielded a negative and statistically significant coefficient ($\beta = -0.125696$, $p = 0.0011$). This finding indicates that financial gearing significantly moderates the relationship between corporate governance and financial performance among MFIs in Kenya. Specifically, as the level of financial gearing increases, the adverse effect of board remuneration on ROA

becomes stronger. This implies that the adverse influence of board remuneration on Return on Assets increases as the level of debt financing rises. This suggests that the effectiveness of board remuneration as a governance mechanism decreases with increasing financial gearing. The finding is consistent with Agency Theory, which posits that debt financing introduces additional monitoring by creditors and imposes financial discipline on management, thereby altering the effectiveness of internal governance mechanisms.

Table 3 also shows that the interaction term between foreign representation and financial gearing (FR×FG) produced a positive and statistically significant coefficient (FR×FG: $\beta = 0.131631$, $p = 0.0006$). This finding indicates that financial gearing significantly moderates the relationship between foreign representation and financial performance. The positive interaction coefficient suggests that financial gearing weakens the negative effect of foreign representation on financial performance. Specifically, as the level of financial gearing increases, the adverse effect of foreign representation on ROA diminishes. This implies that debt financing partly offsets the negative performance consequences associated with foreign representation. In other words, debt introduces external monitoring by creditors and contractual performance obligations, which may compensate for limitations associated with foreign ownership such as information asymmetry, geographical distance, and differing strategic priorities between foreign and local stakeholders. Consequently, leveraged MFIs may benefit from both external creditors monitoring and the capital, expertise, and international networks associated with foreign participation.

Since both interaction terms were statistically significant at the 5 percent level, the null hypothesis (H_0), which stated that financial gearing does not significantly moderate the relationship between corporate governance, ownership structure, and financial performance of MFIs in Kenya, was rejected. The study therefore concludes that financial gearing has a statistically significant moderating effect on the relationship between corporate governance, ownership structure, and financial performance of MFIs in Kenya. This implies that the relationship between corporate governance, ownership structure, and financial performance varies with the level of financial gearing adopted by MFIs.

The inclusion of the interaction terms improved the model's ability to explain variations in financial performance. Specifically, the Adjusted R^2 increased from 61.8805 % in the direct-effects model to 64.9305% in the moderated model. This improvement indicates that incorporating interaction effects enhanced the model's explanatory power. The findings suggest that financial gearing adds explanatory power by shaping the ways in which corporate governance and ownership structure influence financial performance. In the final moderated model, approximately 64.9305% of the variation in financial performance among MFIs in Kenya is jointly explained by corporate governance, ownership structure, financial gearing, capital adequacy ratio, and interaction effects. The remaining 35.6095% of the variation is attributable to other factors not captured by the model.

Further, the coefficient for board remuneration changed from $\beta = -15.02561$ in the direct-effects model to $\beta = -17.89652$ in the moderated model, while the coefficient for foreign representation changed from $\beta = -0.816358$ to $\beta = -0.803509$. These changes suggest that the effects of corporate governance and ownership structure on financial performance vary according to the level of financial gearing, thereby providing further evidence of moderation. These findings are summarized in Table 4.

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Table 4: Summary of Coefficients Before and After Moderation.

Variable	Coefficients		
	Before moderation	After moderation	Moderating Effect of FG
BR	-15.02561	-17.89652	-0.125696
FR	-0.816358	-0.803509	0.131631
FG	0.212981	0.163862	
ADJUSTED R^2	0.618805	0.649305	

Source: Field Data, 2025

*Key: BR-Board remuneration; FR-Foreign representation; FG- Financial Gearing; *

Table 4 compares the regression coefficients before and after the introduction of the moderating variable. The results show that the coefficient for board remuneration changed from -15.02561 before moderation to -17.89652 after moderation, while the coefficient for foreign representation changed slightly from -0.816358 to -0.803509. The interaction coefficients indicate that financial gearing significantly moderates the relationships between board remuneration and financial performance ($\beta = -0.125696$) and between foreign representation and financial performance ($\beta = 0.131631$). These changes confirm that the effects of corporate governance and ownership structure on financial performance vary depending on the level of financial gearing adopted by MFIs.

5. Conclusion

Finally, the study concludes that financial gearing significantly moderates the relationship between corporate governance, ownership structure and financial performance. This means that different levels of debt by an MFI will significantly affect how governance structures impact the firm's profitability. Similarly, different levels of debt affect the impact of ownership structure on the firm's profitability.

6. Recommendations

Based on the findings and the fact that gearing provides financial advantages that positively impact MFIs' financial performance, MFI management should strategically manage their debt levels to exploit the disciplining and expansionary benefits of debt without entering financial distress. The MFIs' human resources department should hire qualified professionals to oversee monitoring of all long-term financing. The board of directors of MFIs in Kenya should regularly assess financial statements to prevent a debt-equity ratio mismatch and the resulting financial burden. Excessive debt should be paid off right away or transferred to assets that may be earned.

Central Bank of Kenya should put stricter licensing requirements for foreign investors, require local partnerships, restrict profit repatriation, and implement targeted supervisory frameworks for foreign-owned MFIs. Local government authorities should promote financial literacy among MFIs' borrowers to mitigate potential exploitation, while also facilitating knowledge transfer and capacity building to ensure sustainable microfinance operations aligned with local needs.

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