Abstract

The study investigated the effect of activity-based costing on the financial performance of selected microfinance institutions in Kenya. The study was anchored on agency theory and used both descriptive and correlational research designs, targeting 56 respondents from 14 licensed microfinance institutions in Kenya. The respondents included managing directors, regional managers, branch managers, loan officers, and operational managers. Primary data were obtained from self-guided questionnaires, and reliability tests were performed to assess the reliability of the study constructs using Cronbach's alpha. The questionnaire was also subjected to experts in the fields of finance and banking. The findings revealed that activity-based costing had a statistically significant positive effect on financial performance, with a correlation coefficient of 0.718 and a coefficient of determination of 0.516. The study concluded that microfinance institutions in Kenya can improve financial performance by adopting activity-based costing. The findings provide valuable insights for microfinance institutions, policymakers, regulators, and other stakeholders seeking to strengthen institutional performance and improve service delivery to underserved populations.