EFFECTS OF CORPORATE GOVERNANCE ON THE
FINANCIAL PERFORMANCE OF DEPOSIT TAKING
MICROFINANCE INSTITUTIONS IN KENYA

BY
MATIMU MILLICENT WAMAITHA
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DECLARATION

Research project constitutes my unique work and therefore not submitted in any other university, college for a degree.

Signature........................................... Date.............................................

Matimu Millicent Wamaitha D63/83983/2016

This research project is presented for examination with my endorsement as the supervisor of the University.

Signature...........................................Date.............................................

Mohamed Mwachiti
ACKNOWLEDGEMENTS

I appreciate my supervisor, Mr. Mohamed Mwachiti, for his objective guidance. I also appreciate the moral and financial support from my parents. I thank God for his blessings and guidance.
DEDICATION

To my parents, John Matimu Ndegwa and Tabitha Wanjiiru King’ori, I dedicate this paper.
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<tr>
<td>AMFI</td>
<td>Association of Microfinance Institutions in Kenya</td>
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<tr>
<td>BC</td>
<td>Board Composition</td>
</tr>
<tr>
<td>CBC</td>
<td>Composition of Board Committees</td>
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<td>CBK</td>
<td>Central Bank of Kenya</td>
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<td>CG</td>
<td>Corporate Governance</td>
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<td>CMA</td>
<td>Capital Markets Authority</td>
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<td>DTMFIs</td>
<td>Deposit-Taking Micro Financial Institutions</td>
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<td>GCG</td>
<td>Good Corporate Governance</td>
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<td>NEDs</td>
<td>Non-Executive Directors</td>
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<td>OECD</td>
<td>Organization of Economic Cooperation and Development</td>
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ABSTRACT

The effect of corporate governance on the financial performance of DTMIs in Kenya was the objective of this paper. Research design adopted was descriptive and involved 8 DTMFs in Kenya. Data was collected for a 5-year period, 2012-2016, from financial statements of DTMFs and annual reports from AMFI and CBK. The data was analyzed annually giving a total of 40 data points. Descriptive and regression analysis were used to analyze the data. From the findings board independence had the highest standard deviation meaning that it had the highest variability or high volatility (Risk) in the financial performance. The study found that firm size and liquidity affected ROA of DTMFs positively. However, board size, board independence, gender diversity and leverage had a negative effect on ROA. The variables had a significant effect on ROA. Firm size and leverage displayed a strong effect on ROA compared to the other variables that displayed a weak effect on ROA. The study concludes that board size, board independence, gender diversity, firm size, liquidity and leverage when combined have a strong effect on financial performance. The study recommends that microfinance institutions reduce board diversity, board size, board independence and leverage while at the same time increasing liquidity and assets in order to enhance the financial performance of the firms. A similar study in other sectors is recommended. Further research can be done on to determine such other variables that influence financial performance of DTMFs.
CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate governance is the management of an entity in a way that ensures proprietors being stakeholders receive reasonable return on investment. It’s a procedure of an idealistic circle that connects the board and shareholders, administration, staff, client together with the community as a whole. Corporate governance is tied in with advancing transparency, corporate fairness, accountability (Glossary, 2013).

Okeahalam and Akinboade, (2003) laid out particular corporate governance benefits to incorporate upright good moral amongst firms’ workforce reliably entrusted to protect resource and all stakeholders’ entitlements. Corporate governance upgrade execution guarantees compatibility of corporate in making and keeping up trading environment which awaken entrepreneurs and managers to expand organizations practical resourcefulness, long haul productivity growth as well as return on investment (Love, 2011).

Governance in deposit taking microfinance institutions rely on mechanisms which guarantee equity investors that their funds will be utilized for the purposes intended. Such mechanisms of control are fundamental on the grounds that the goals of managers may differ from the goals of fund providers. For instance, managers of DTMFI may work to satisfying the mission of the firm yet they may likewise have inclinations for non-financial prizes or less work.

In the corporate governance literature, this issue is known as the agency problem. The manager, who does not own the resources of the firm is called an agent of the
provider of finance, who is the principal. The expenses related to the agency problem are called Agency costs. The key components of an effective governance system are proprietorship (counting institutional and administrative possession), board and board structure, CEO (manager) and director (board member) compensation, reviewing data and corporate control market (Tricker & Tricker, 2015).

MFBs sustainability will center within industry good governance structures. Corporate governance affects the operational risk and hence sustainability of DTMFIs. Governance is about achieving DTMFIs goals. Mwasi, (2011) assessed adoption of corporate governance practices by Kenyan MFIs. Study established that MFIs (both profit and non-profit) have large boards and that they did not experience any challenges in regard to adoption of CG practices; this is a good indication that MFIs in Kenya are on track with regards to implementation of corporate governance practices. However, concern still remains on how these corporate governance practices have improved financial performance of DTMIs.

Agency theory contends that administrators won't move to support investor’s returns unless fitting administration frameworks are realized by organization to shield the investors' advantages (Jensen and Meckling, 1976). Stewardship hypothesis communicates that supervisors are great stewards of the organizations and work constantly to accomplish a lot of corporate advantage and returns to the investors. Pfeffer (1972) notes that Resource Dependency Theory (RDT) expresses that boards engage organizations to confine dependence or pick up resources. RDT has a viable point of convergence for discerning boards comprehensively in light of the fact that it highlights that outer executives overhaul the limit of organization to safeguard against the outside condition, diminish vulnerability, or co-pick assets that expands
organization ability to raise its status or funds and acknowledge increment (Kor & Misangyi, 2008).

1.1.1 Corporate Governance

Corporate governance alludes to creating a harmony between, individual, socioeconomic and common objectives while empowering the proficient resources utilization, responsibility, power utilization, and stewardship at the same time, adjusting the interests of people, companies, and society (OECD, 2015). It is the system of standards, approaches, methods, and obviously characterized obligations and accountabilities utilized by stakeholders in managing and directing an organization. Effective governance is fundamental for long haul corporate achievement (Noriza, 2010). Bebchuk, Cohen and Ferrell, (2004) recognized the fundamental normal for corporate governance as; board formation, size of the board, CEO duality.

Corporate governance which is effective advances enhanced wealth to shareholder and other corporate stakeholders wealth. Great corporate governance (GCG) practices are essential in pulling in investors; by safeguarding concerns of shareholders, reducing risk and enhancing proficiency of the organization. Subsequently, effective governance implies the slight appropriation by managers of organization funds, prompting improved assets usage and enhanced monetary and firm profitability (Igbal & Kakakhel, 2016). The board characteristics of a firm do affect its profitability. Corporate governance assumes an essential part for profitability. Firms profit improvement is essential for attainment of corporate goals (Gill & Mathur, 2011).
1.1.2 Financial Performance

Institutions effectiveness is measured by firm performance and its capacity to accomplish its objectives as far as profits and revenues are concerned (Ongore & Kusa, 2013). Financial performance is an indicator of organization productivity with regard to aggregate assets. Organizations must assess and screen their profitability levels intermittently in order to gauge their financial performance. The two most well-known measures of productivity are ROE and ROA. ROE measures accounting earnings for a period for every shilling of investors' value while ROA measures return of each shilling put into resources.

Ngatia, (2012) identified ROA, asset age, firm size, ROE, and return on sales as microfinance performance measures. Wanjau, (2007) recognized four pointers to be specific; turnover or disbursement, portfolio quality, market share as microfinance performance measures. As indicated by Richard, (2009), financial performance comprises of three particular territories of returns on assets, profits, and return on investment.

1.1.3 Corporate Governance and Financial Performance

The presence of a successful corporate governance framework, inside an individual organization and over an economy overall, gives a level of certainty that is essential for the best possible working market economy. Thus, capital cost is lower and organization is urged to utilize assets all the more productively, along these lines supporting development (OECD, 2004). Great corporate governance surmises reasonable economic development by promoting organizations performance and expanding external capital access.
For developing business sector nations, great corporate governance reduces vulnerability to budgetary emergency, fortifies property rights, reduction in exchange expenses, cost of capital and capital market improvement (Das, 2010). Corporate governance system which is weak lessens shareholders certainty demoralizing external managers. Two reasons behind incredible corporate governance expand organization value. To begin with great governance builds shareholders trust. Shareholders see firms that are well governed as safe and utilize rate of return which is lower, which prompting a higher valuation of organization. Likewise, better-governed organization may have powerful activities, achieving a higher expected future returns that translates to firm performance.

1.1.4 Deposit Taking Micro Finance Institutions in Kenya

Microfinance envelops microcredit, micro insurance and micro savings. It involves providing financial services for poor households, and their micro enterprises. These financial services incorporate direct deposits, credit, savings, micro savings and micro insurance (Christen & Rosenberg, 2000).

The Microfinance Act of 2006 and the supportive DTMFs regulations of 2008 have together made ready for institutional change in Kenya. Deposit Taking Micro Financing Institutions (DTMFIs) are characterized as foundations whose significant business is to arrange microfinance administrations. Their point is to become sustainable and extend their microfinance services (Thrikawala, Locke & Reddy, 2013). Association of Microfinance institutions (AMFI) also gives guidelines relating to governance of microfinance institutions. The need for Kenyan MFIs to transform into deposit taking institutions has necessitated these institutions to embrace good governance practices (Thrikawala et al, 2013).
1.2 Research Problem

There is increased debate whether corporate governance practices should be part of managing Microfinance institutions in Kenya. This is important because its main elements like board composition, board committees, frequency of holding meetings and resolutions discussed in the general meetings can influence the financial performance either directly or indirectly. Brown and Caylor, (2004) gave bits of insights to connections between great corporate governance and corporate performance.

Corporate governance tries to advance responsive and responsible firms, authentic organizations that are managed with probity, recognition, transparency, recognition and rights of stakeholders. A corporate governance framework which is working well causes an organization to draw in investment, raise funds and buttress the establishment of organization financial performance (Donaldson, 2003).

Deposit taking involves a misfortune relying upon how the deposits are utilized. This is an indication that reliable corporate governance is required to manage microfinance institutions. Microfinance is a huge and developing industry that requires sound corporate governance management, regardless of having many studies on connection amongst corporate governance and performance of the organization; we have restricted studies that investigate the connection amongst governance and performance inside the setting of Deposit Taking and Micro Finance Institutions (DTMIs).

Sayilir and Coşkun (2012) discovered that Corporate Governance has no measurable critical relationship with ROE or ROA hence showing a contextual gap. Ochola, (2013) directed a study on how corporate governance practices affect Kenyan fund
manager’s financial performance and established that corporate governance factors such as, CEO Chairman Duality, Insider Shareholding and Board Size positively related to ROA while Fund Managers having high number of internal directors compared to external directors was negative showing a conceptual gap.


Olick, (2015) directed a study on corporate governance practices effects on Kenyan microfinance banks financial performance. Study findings showed that board size had huge positive effects on ROA whereas proportion of NEDs had positive unimportant impact on financial performance based on ROA measurement. The empirical results by Olick, 2015; Mutisya, 2016; Abdulazeez, Ndibe & Mercy, 2016; Mwesigwa, Nansiima, & Suubi, 2014 & Sayilir, Ö. & Coşkun (2012) shows inconsistency in research outcomes on corporate governance and financial performance. These are knowledge gaps which the study attempted to fill by establishing corporate governance effects on Kenya’s DTMFIs financial performance.

**1.3 Research Objective**

To determine the effect of corporate governance on the financial performance of DTMIs in Kenya.

**1.4 Value of the Study**

Managers will benefit through understanding significance of corporate governance elements with a specific end goal to enhance their firm image translate into increase in
firm financial performance. The vast majority of the organizations engage at activities which are aimed at enhancing firm corporate image and the best person to champion these are firm directors and managers. It will likewise help corporate supervisors and policy makers in investigation of the issues of corporate governance within their organization with the aim of improving the organization therefore establishment of discipline in the administration of the Deposit Taking Microfinance organizations.

Scholars who might wish to embrace additional studies aimed at enhancing corporate governance structures in Kenya. In this manner, a major obligation lies on the shoulders of academicians who are considered as scholarly people in conferring the components of corporate governance in the psyches of youthful experts particularly investigating different components of corporate governance on organization performance in other industry players. Researchers particularly academicians engaged to research on, MFI, investment, public finance, will find this study useful as one of the working documents.
CHAPTER TWO
LITERATURE REVIEW

2.1 Introduction
This chapter reviews relevant literature. Specifically it has theoretical framework, the empirical review, factors relating to financial performance, conceptualization and literature summary.

2.2 Theoretical Review
Theory is a set of assumptions and theories that a research study is always grounded on (Zima, 2007). This study is guided by Theory of stewardship, Agency Theory, and Theory of Resource Dependency. All theories distinctly expound the research in line with the topic.

2.2.1 Agency Theory
Jensen and Meckling, (1976) came up with the Agency Theory. The theory expresses that present partnership whereby shareholding is largely held, management activities pull out from those obligated to support returns of shareholders. The theory postulates that proprietors (principals) and executives (agents) practice misfortune to the agency which is how much returns to resident claimants (owners) fall underneath, whether the principals responsible in coordinating authority over the organization, being a virtue of company's managers acting as owners’ agents did so.

Managers are procured by proprietors and are given authority to manage organization for the proprietors' advantage. Nonetheless, managers are mostly intrigued by fulfilling own specific targets contrary to firm value expansion which is at proprietors’ advantage. Along these lines, they will perform to their greatest advantage which is looking for higher compensation, perquisites, professional
stability, and sometimes directly misusing the company’s money streams. Consequently, the interests of the manager vary as well as much of the time, even restrict to those of the proprietors, definitely suggesting an irreconcilable situation between the investors and the directors.

Concerning agency theory and this study, agency costs can make loss of significant worth to investors emerging out of premiums divergence amongst financial specialists and corporate directors. Besides, there is the trouble of impeccably getting an agent whose decision will impact his own wellbeing and wellbeing of the principal since initiating the action of the agent to the best favorable position of principal represents an issue. Comprehensively, the impact of organization hypothesis is that managers ought to achieve the authority to deal with the firm through control, supervision, and checking utilizing the independent directors, in the meantime accentuating data divulgence, board profile and financial transparency. The possibility of agency theory in this manner is exactly to address issues emerging from separation amongst management and ownership caused by contrasting objectives and motivation amongst owners and administrators, asymmetry of data and hazard references.

2.2.2 Stewardship Theory

As per Donaldson and Davis, (1994), managers are enterprises great stewards and work industriously to achieve abnormal corporate profit and shareholders returns. Their contention is that senior officials won't inconvenience shareholders inspired by a paranoid fear of risking their reputation. Corporate managers are therefore essentially considered as reliable people and great stewards of the assets entrusted to them (Donaldson, 1995).

Supporters of this hypothesis contend that better corporate performance is connected with a larger part of inside executives who work to maximize shareholders profit. The
reason behind this is that inside executives comprehend the business they oversee better to outside directors thus they can settle on unrivaled choices. Boards can end up plainly being repetitive in instances of prevailing dynamic shareholder, particularly when significant investor is a government or member of a family. Explore by Pfeffer, (1972) demonstrated that external managers value isn’t the extent to impact managers but rather how they impact other firm stakeholders

### 2.2.3 Resource Dependence Theory

Pfeffer developed the Resource Dependency Theory (RDT) in 1972. The theory states that boards empower organization to limit reliance or gain assets. Pfeffer widely illuminated how firms diminish ecological relationship and vulnerability. Pfeffer used RDT to investigate boards focus on arrangement (ownership structure) and board estimate as pointers of the board's ability to give essential assets to the firm. Pfeffer, (1972) infers that possession structure and board measure are not irregular or autonomous components, but rather will be, somewhat, reasonable hierarchical reactions to states of outside condition.

Possession structure relates to environmental reliance of an organization (Sanders & Carpenter, 1998). RDT implications are that directors will bring benefits to firms, for example, data as guidance and insight, authenticity, and particular access to assets. Provan, (1980), for example, found that organizations which pull in and co-select extreme people from the gathering onto their boards can increase essential resources from nature. As for the RDT firm qualities and outside condition prospects on organization execution investigated boards focus on proprietorship structure.
2.3 Determinants of Financial Performance

2.3.1 Corporate Governance

Corporate governance is a key factor affecting financial performance. Corporate governance affects financial performance through board size, board independence and gender composition. The Companies Act sets a minimum of 2 directors for listed firms in Kenya. However, according to the CMA guidelines on corporate governance practices (2002), the span of the board ought not to be too extensive to undermine an intelligent talk amid board gatherings or too little that the end goal which is consideration of a more extensive aptitude and abilities to improve adequacy of board is bargained.

When Board size is too small, it will suffer from shortage of expertise. On the other hand, when a board is too large, the likelihood to have functions that grows conflict is high (O’Reilly, Caldwell and Barnett, 1989). Kogan and Wallach, (1996) argued that the bigger the board, the probability of reaching an agreement becomes difficult. Yermack, (1996) argued that there is a negative correlation amongst board size and the companies’ Tobin Q and smaller board is more efficient than a larger one on monitoring top managers.

Board independence is another element of corporate governance affecting financial performance. The extent of executive directors (insiders) versus non-executive directors (outsiders) likewise has solid ramifications on corporate governance. Insider directors take part in the choice procedures and can access inside data. By ideals of their status, insider directors can be effectively affected by the CEO in decision making process.
The CMA corporate governance guidelines, (2002) recommend that an adjusted board constitutes a successful board. This requires the top managerial staff of each recorded organization to mirror a balance amongst autonomous, non-official directors and official directors. Autonomous and non-executive directors frame not less than 33% of the enrollment of the board to guarantee that no particular person or small group command decision making of the board. As indicated by John and Senbet, (1998), board directorship is more autonomous when extent of outside director’s increases.

Gender diversity effects on financial performance are uncertain given the discoveries of different studies undertaken around the world. To begin with, Robinson and Dechant, (1997) contended that organizations that are differing in the board rooms have a tendency to beat those that are less diverse. They contended that diversity advances better comprehension of the market place by coordinating the diversity of executives to that of clients and representatives consequently expanding market penetrability. It is additionally contended that sexual orientation decent variety prompts innovativeness and development as these highlights are not haphazardly appropriated in the populace (Ibid, 1997), consequently achieving changes in organization performance.

Carter et. al (2003) clarifies connection amongst board gender assorted variety and organization performance in light of the agency hypothesis and they set that board gender diversity upgrades the board's capacity to screen top administration. Also, they contend that expanding the quantity of female executives may build board's freedom since ladies have a tendency to make inquiries that male chiefs may not inquire. Todorovic, (2013) found that if organization resolutely takes after standards of corporate governance then it realizes greater net overall revenue and profit per share.

Vo and Phan, (2013) reviewed segments of corporate governance. For instance, CEO
duality, presence of female in the board, individuals, remuneration of board members, board member working experience and findings indicated each element had positive effect on organization performance however board size had contrary effect on organization performance.

2.3.2 Firm Size

Size of the firm has been utilized as an informative variable in numerous different studies which were directed to decide factors that influence the productivity of insurance companies. In these studies, the extent of organization was measured with the regular logarithm of aggregate resources. The logarithmic change wiped out outrageous values in the information (Burca & Batrinca, 2014). There are diverse suppositions in connection to the effect of firm size on benefit.

Real insurance agencies are required to react rapidly to changes in the economic situations contrasted with small organizations, enhance the dangers they acknowledge in a viable way, utilize more qualified work control in a less demanding path, and specifically, benefits from the economies of scale concerning work cost (Shiu, 2004). Nonetheless, organizations which become greater could likewise experience issues identified with wastefulness. In addition, the most part ends up plainly harder to screen and control proficiently and successfully the variant practices of directors by proprietors of organizations which become greater (Almajali, Alamro, & Al-Soub, 2012).

2.3.3 Liquidity

As per Shiu, (2004), organizations with more fluid resources are probably going to perform better as they are able to realize cash at any time to meet its commitment and are less presented to liquidity dangers. By not having adequate money or fluid
resources, insurance companies might be compelled to sell investment securities at a loss with a specific end goal to settle claims speedily. In any case, there are contrasting perspectives with regard to execution and liquidity in connection to the agency theory.

Liquidity refers to how much debt commitments imminent in the following a year will be paid from money or resources to be transformed into cash. Insurance liquidity is the limit of the security net supplier to fulfill prompting obligations in regards to holders of the policy without expanding benefits on investments exercises/or exchange budgetary resources or underwriting. Balances of Bank and cash should be kept satisfactory to meet quick liabilities towards claims which are due for installment payment yet to be settled (Mwangi & Murigu, 2015). Liquidity is measured as current assets divided by current Liabilities (aggregate liability to liquid assets).

2.3.4 Leverage

Leverage permits a money related establishment to expand the potential additions or misfortunes on a position or venture past what might be conceivable through its very own immediate speculation reserves (World Bank, 2009). Financial Leverage measure of how much organizations utilize debt and equity for assets funding. An organization can fund its investments by equity and debt. Rate of interest on obligation is settled independent of organization’s return on assets calculated rate. As obligation increases, financial leverage increases.

The essential thought process of an organization in utilizing financial leverage is to amplify the return of the shareholders under economic conditions which are favorable. The role of financial leverage in amplifying shareholders returns depends on presumptions that fixed charges funds, (for example, loan from monetary establishments and different sources or debentures) can be acquired at a cost which is
lower than the organization return on net assets rate. Damouri et al, (2013) says that contribution of leverage ratios in risk measures of utilizing value costs. Financial leverage influences profit after tax or earning per share. Combined impact of two leverages can be very critical for earnings available to ordinary investors (Pandey, 2010).

2.4 Empirical Review

Abdelkarim and Alawneh, (2009) conducted a study on the relationship amongst performance and corporate administration in Palestine. Organization performance measured by Tobin's Q, though corporate administration is resolved in light of the level of ownership fixation. Earlier research in developed economies gives ownership concentration evidence that significantly affects performance of the firm, while prove in developing economies is uncertain. This paper gives some confirmation, in spite of the fact that not unequivocal, that ownership concentration is adversely identified with value of the firm. Sayilir and Coşkun (2012) conducted a study on the Relationship amongst Corporate Governance and Financial Performance of Turkish Companies. They utilized corporate governance scores of 31 organizations published by CGA of Turkey and additionally securities exchange information and financial statement information of the organizations researched. As to governance and valuation of the firm, CG is not found to have a measurably noteworthy association with Tobin's Q. As to administration and productivity, CG is not found to have a factually critical relationship with ROE or ROA.

Ochola (2013) conducted a study to set up the connection amongst corporate administration practices and their impact on Kenyan fund manager’s financial performance. A questionnaire was sent to all the 16 Fund Managers to gather primary data on various aspects of corporate administration on different parts of Corporate
administration (i.e. Board size chairman-CEO Duality, Board Meetings, Insider Shareholding and Board Composition) while the Financial proclamations of the Fund Managers were utilized to compute ROE. The study established that corporate governance variables of CEO Chairman Duality, board size and insider trading shareholding had a positive relationship with ROE while the ROE of fund managers with high number of board meetings and internal directors was negative.

Langat (2013) studies corporate governance of SACCOs and their financial performance. Study employed descriptive research design. The study indicated that the board of directors have great role they play in running of the Sacco’s which include proper supervision of management staff and the entire SACCOs and to ensure proper internal controls are in place.


Adekunle and Aghedo, (2014) directed a study on Financial Performance and Corporate Governance in Nigeria. Cross-sectional research design was adopted. It was found a connection between size of the board as an independent variable, firm performance and composition of board member. Status of CEO likewise has positive association with performance of the firm yet inconsequential at P < 0.05. Be that as it may, possession focus associations with return on resource (ROA) was negative, however association with profit margin (PM) was positive (PM).
Olick (2015) directed a study on corporate governance practices effects on Kenyan microfinance banks financial performance. Corporate governance practices discussed include the non-executive directors’ proportion, board gender diversity and board. Study depended on a clear cross-sectional research outline. The information accumulated was from optional sources. Study findings indicated board size had positive noteworthy effects on ROA while extent of NEDs had positive irrelevant impact on financial performance as measured by ROA.

Gadi (2015) directed a study on corporate administration (CG) effects on Nigerian microfinance bank's financial performance. Secondary data was utilized and gathered from yearly reports records of 23 microfinance banks. Generated study data was analyzed utilizing ordinary least squares method, Pearson relationship coefficient. Pearson correlation demonstrates noteworthy relationship that occurs amongst EPS and corporate governance (Composition of the board and Board Committees composition) whereas the regression analysis demonstrates that no critical relationship occurs amongst corporate governance and bank financial performance.


Mutisya (2016) explored the impact of board characteristics on financial performance among DTMFI’s in Nairobi County. This study focused on board characteristics, board size, terms of the board, committees of the board and board remuneration. Target population were board members from the nine DTMFI’s in Nairobi. Findings from correlation analysis indicated medium and positive correlation between board committees and board remuneration. The results on coefficient equation revealed that all the variables were making statistically critical unique contribution to the prediction
of financial performance. Board residency/term’s had the greatest beta estimation of -0.300 and in this manner, it made the most grounded extraordinary commitment in clarifying financial.

Kariuki (2016) conducted a study to establish the connection amongst corporate governance and financial soundness of the Kenyan authorized deposit taking SACCOs. Financial soundness was measured utilizing PEARLS monitoring systems. A questionnaire was administered to the CEOs and senior management officers of the SACCOs. The study discovered that internal controls played a huge part in corporate governance. Three variables namely; board responsibility, transparency, disclosure and internal controls were found to be key factors in financial soundness of the SACCOs


2.5 Conceptual Framework

It is the figurative representation of research variables (Anderson, Sweeney, & Williams, 2006). The study identified the following variables and their relationships which are given in the conceptual framework in Figure 2.1.
Great Corporate administration is vitally significant in all organizations paying attention to their industry, level of development or size. Sayilir and Coşkun (2012) directed a study on relationship amongst corporate administration and financial performance of Turkish Companies. Concerning profitability and corporate governance, CG is not found to have a measurably huge association with ROE or ROA.

Ochola (2013) conducted a study to establish the connection amongst corporate administration practices and their effect on financial performance of Kenyan Fund Managers and established that corporate governance factors of Board Size, CEO Chairman Duality, and Insider Shareholding had a positive association with ROE while high no of Board Meetings, internal directors contrasted with external directors had a negative ROE.
Other studies reviewed include Gadi, (2015); Olick (2015) conducted an investigation on corporate governance practices effects on financial. From observational investigations, it is apparent that we didn’t have a consistency in result findings on the effect of corporate governance effects on financial performance. This is a knowledge gap which study sought to fill.
CHAPTER THREE
RESEARCH METHODOLOGY

3.1 Introduction
This chapter documents the research methodology that is to be used in the study. It comprises of the, research design, target population, data gathering instruments and techniques for data analysis to be utilized for the study.

3.2 Research Design
As per Kothari, (2004) definition of research design is that it’s a plan for answering questions being studied and for dealing with a portion of the challenges experienced amid the research procedure. A descriptive survey design was used in the study. With such a study, information was obtained to meet the underlying purposes and objectives of the study. Descriptive survey was considered important in establishing the existing relationship among the variables captured in this study.

3.3 Population
A population is the total units targeted by a researcher (Cooper & Schindler, 2006). 13 DTMFIs licensed by CBK as at 31st December, 2016 were targeted (CBK, 2017). However, this study covers 5 years from 2012 to 2016 therefore 8 out of 13 institutions meet the threshold.

3.4 Data Collection
Secondary data was collected for the study. Data covered a period of 5 years from 2012 to 2016. Main sources of secondary data included past and immediate financial statements (statement of income, statements of financial position and statements of cash flow), books, journals and annual reports published by Association of Microfinance Institutions (AMFI) in Kenya and CBK.
3.5 Data Analysis Technique

SPSS was used during data analysis. Both descriptive and regression analysis are undertaken. Descriptive results involved use of trend analysis. Regression analysis was undertaken by establishing corporate governance effects on financial performance of DMFIs Kenya. This was done by employing panel data estimation methodology for the period 2012 to 2016. So as to establish corporate administration effects on financial performance of Kenya DMFIs, a regression model was utilized to conduct a multiple regression analysis as shown below:

The model equation thus turns out as follows:

\[ Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon \]

where \( Y \) was the financial performance of DMFIs, \( X \) is a vector of Sacco specific variables, \( \beta_{0,1,2,3,4,5,6} \) was the beta coefficients while \( \epsilon \) is DMFIs-specific fixed effects capturing the impact of unobservable (omitted) effects or error term.

\( Y \) – Financial performance of DTMFIs measured by Return on Assets (net profit/total assets)

\( \beta_0 \) – Constant term

\( X_1 \) – Board Size measured by the number of board members.

\( X_2 \) – Board independence measured by ratio of the proportion of non-executive directors to the total board members

\( X_3 \) – Gender diversity measured by the ratio of female board directors over the total number of board members

\( X_4 \) – Firm size measured by natural log of total assets

\( X_5 \) – Liquidity measured by current ratio (current assets/current liabilities)
X6 – Leverage measured by debt/asset ratio (total liabilities/total assets)

ε = Error term

3.6 Diagnostic Tests

3.6.1 Test for Multicollinearity
Multicollinearity was tested to find out whether free factors are connected. For this situation the investigation utilized the variance inflation factor to build up whether multicollinearity existed.

3.6.2 Normality Testing
Normality testing incorporated checking for peculiarities in information. The study used the Jacque Bera test in order to test for normality.

3.6.3 Heteroscedasticity Test
Heteroscedasticity test was used to test whether the error term is the same across the observations. The test was conducted using the white tests which established whether the variation amongst sampling units of a variable were continuous in a regression model. The condition was corrected by applying corrected standard errors.
CHAPTER FOUR

DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

The data is analyzed in this chapter based on the objective and variables of the study.

The findings are also discussed in the chapter and are related to the literature.

4.2 Descriptive Statistics

The data was described in table 4.1.

Table 4.1: Descriptive Statistics

<table>
<thead>
<tr>
<th>Variable</th>
<th>N</th>
<th>Minimum</th>
<th>Maximum</th>
<th>Mean</th>
<th>Std. Deviation</th>
</tr>
</thead>
<tbody>
<tr>
<td>ROA</td>
<td>40</td>
<td>-26.9036</td>
<td>1.8692</td>
<td>-1.747605</td>
<td>5.8502509</td>
</tr>
<tr>
<td>Board size</td>
<td>40</td>
<td>3.0000</td>
<td>11.0000</td>
<td>5.225000</td>
<td>2.0316407</td>
</tr>
<tr>
<td>Board Independence</td>
<td>40</td>
<td>33.3333</td>
<td>85.7143</td>
<td>60.658549</td>
<td>16.8732503</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>40</td>
<td>.0000</td>
<td>50.0000</td>
<td>24.823592</td>
<td>10.8648743</td>
</tr>
<tr>
<td>Firm size</td>
<td>40</td>
<td>11.2645</td>
<td>17.2860</td>
<td>14.179456</td>
<td>1.9943469</td>
</tr>
<tr>
<td>Liquidity</td>
<td>40</td>
<td>.5687</td>
<td>6.8621</td>
<td>1.805134</td>
<td>1.1777804</td>
</tr>
<tr>
<td>Leverage</td>
<td>40</td>
<td>16.8224</td>
<td>97.4646</td>
<td>67.224745</td>
<td>22.7177156</td>
</tr>
<tr>
<td>Valid N (listwise)</td>
<td>40</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

From table 4.1, there was mean of -1.75 for ROA, 5.123 for board size, 60.66 for board independence, 24.82 for gender diversity, 14.18 for firm size, 1.81 for liquidity and 67.22 for leverage. The standard deviation of leverage was the highest showing that DTMFIs have a high volatility in leverage.
4.2.1 Board size

Table 4.2: Board size

<table>
<thead>
<tr>
<th>Year</th>
<th>Board size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>3.56</td>
</tr>
<tr>
<td>2013</td>
<td>4.36</td>
</tr>
<tr>
<td>2014</td>
<td>5.36</td>
</tr>
<tr>
<td>2015</td>
<td>6.00</td>
</tr>
<tr>
<td>2016</td>
<td>6.75</td>
</tr>
</tbody>
</table>

Figure 4.2: Board size trend

From table 4.2, the board size of DTMFIs in Kenya was on a rising trend in the last five years. In year 2012, the sector had a board size of 3.56 members. In 2013, the board size was 4.38 members, 5.36 members in 2014, 6 members in 2015 and 6.75 members in 2016. From figure 4.2, the board size has been on an increase between 2012 and 2016. 2016 had the highest number of board members while 2012 had the lowest increasing at an average of 3.19 members.
4.2.2 Board Independence

Table 4.3: Board Independence

<table>
<thead>
<tr>
<th>Year</th>
<th>Board Independence (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>39.947</td>
</tr>
<tr>
<td>2013</td>
<td>56.771</td>
</tr>
<tr>
<td>2014</td>
<td>65.909</td>
</tr>
<tr>
<td>2015</td>
<td>67.857</td>
</tr>
<tr>
<td>2016</td>
<td>73.516</td>
</tr>
</tbody>
</table>

Figure 4.3: Board Independence trend

From table 4.3, in year 2012 the board independence of DTMFIs stood at 39.947%. The independence increased to 56.771% in 2013, 65.909% in 2014, 67.857% in 2015 and 73.516% in 2016. From figure 4.3 the independence of the directors increased by 33.57% between 2012 and 2016.

4.2.3 Gender diversity

Table 4.4: Gender diversity
<table>
<thead>
<tr>
<th>Year</th>
<th>Board Diversity (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>30.291</td>
</tr>
<tr>
<td>2013</td>
<td>21.354</td>
</tr>
<tr>
<td>2014</td>
<td>16.212</td>
</tr>
<tr>
<td>2015</td>
<td>26.786</td>
</tr>
<tr>
<td>2016</td>
<td>28.359</td>
</tr>
</tbody>
</table>

**Figure 4.4: Gender diversity trend**

From table 4.4, the percentage of women in board of DTMFIs stood at an average of 30.291% in 2012. However, the percentage fell to 21.354% in 2013. The percentage of women in the board fell further to 16.212% in 2014. The percentage however increased gradually to 26.786% in 2015 and 28.359% in 2016. From figure 4.4, the average percentage of women board members in DTMFIs in Kenya decreased by 1.932% between 2012 and 2016.

**4.2.4 Firm size**

**Table 4.5: Firm size**
<table>
<thead>
<tr>
<th>Year</th>
<th>Firm size</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>13.755</td>
</tr>
<tr>
<td>2013</td>
<td>14.003</td>
</tr>
<tr>
<td>2014</td>
<td>14.153</td>
</tr>
<tr>
<td>2015</td>
<td>14.459</td>
</tr>
<tr>
<td>2016</td>
<td>14.501</td>
</tr>
</tbody>
</table>

**Figure 4.5: Firm size trend**


### 4.2.5 Liquidity

**Table 4.6: Liquidity**
From table 4.6, liquidity of DTMFIs stood at an average of 2.155% in 2012. However, the percentage fell to 1.575% in 2013 and further to 1.489% in 2014. The percentage however increased gradually to 1.782% in 2015 and 2.040% in 2016. From figure 4.6, the average liquidity of DTMFIs in Kenya decreased marginally by 0.115% between 2012 and 2016.

**4.2.6 Leverage**

**Table 4.7: Leverage**

<table>
<thead>
<tr>
<th>Year</th>
<th>Leverage (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>2.155</td>
</tr>
<tr>
<td>2013</td>
<td>1.575</td>
</tr>
<tr>
<td>2014</td>
<td>1.489</td>
</tr>
<tr>
<td>2015</td>
<td>1.782</td>
</tr>
<tr>
<td>2016</td>
<td>2.040</td>
</tr>
</tbody>
</table>
From Table 4.7, leverage of DTMFIs stood at an average of 63.594% in 2012. The leverage rose in 2013 to 68.939% before falling to 65.575% in 2014. The leverage increased between 2014 and 2016 where it stood at 67.567% in 2015 and 69.928% in 2016. From Figure 4.7, the average leverage of DTMFIs in Kenya fluctuated between 2012 and 2014 before increasing gradually to 2016. The leverage of the DTMFIs increased by 6.33% between 2012 and 2016.

### 4.2.7 Financial performance

**Table 4.8: Return on assets**
### Year | Return on Assets (%)
---|---
2012 | -0.318
2013 | -2.619
2014 | 0.438
2015 | -3.442
2016 | -2.642

**Figure 4.8: Trend on Financial performance**

From table 4.2, in the year 2012 the DTMFIs in Kenya had an average ROA of -0.318 percent before it declined in 2013 to 2.619%. However, it rose to 0.438% in 2014 before declining to -3.442% in 2015. In 2016 it rose marginally to -2.642%. The figure 4.8 shows the trend of ROA between 2012 and 2016. The DTMFIs gave mixed results on ROA which kept fluctuating within the period with the sector having the lowest ROA in 2015. ROA fell in 2013, rose in 2014 before declining in 2015. However it rose marginally in 2016. The sector had the highest ROA in 2014.

**4.3 Diagnostic tests for regression**

**Table 4.9: Multicollinearity**
<table>
<thead>
<tr>
<th>Model</th>
<th>95.0% Confidence Interval for B</th>
<th>Collinearity Statistics</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Lower Bound</td>
<td>Upper Bound</td>
</tr>
<tr>
<td>1 (Constant)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Board size</td>
<td>-1.325</td>
<td>.431</td>
</tr>
<tr>
<td>Board Independence</td>
<td>-.108</td>
<td>.008</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>-.315</td>
<td>-.072</td>
</tr>
<tr>
<td>Firm size</td>
<td>.463</td>
<td>2.939</td>
</tr>
<tr>
<td>Liquidity</td>
<td>-.158</td>
<td>3.867</td>
</tr>
<tr>
<td>Leverage</td>
<td>-.149</td>
<td>.138</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

Multicollinearity was tested to find out whether free factors were connected. For this situation the investigation utilized the variance inflation factor to build up whether multicollinearity existed. From table 4.9, the tolerance values were more than 0.1 with the VIF values being below 10. This means that the data was low levels of multicollinearity.

**Table 4.10: Normality Test**

<table>
<thead>
<tr>
<th>N</th>
<th>Skewness</th>
<th>Kurtosis</th>
</tr>
</thead>
</table>

33
Normality testing incorporated checking for peculiarities in information. The study used the Jacque Bera test in order to test for normality. From table 4.10, the skewness and kurtosis statistics of board size, board independence, board diversity, firm size and leverage fall between -2 and +2. This means that the data for the variables was normally distributed. However, liquidity and ROA displayed Skewness and Kurtosis values outside the range of -2 and +2. This means that the data for liquidity and ROA was not normally distributed.

**Table 4.11: Heteroscedasticity Test**

<table>
<thead>
<tr>
<th></th>
<th>LM</th>
<th>Sig</th>
</tr>
</thead>
<tbody>
<tr>
<td>BP</td>
<td>29.271</td>
<td>0.945</td>
</tr>
</tbody>
</table>

From the findings, the significance value was more than 0.05 hence we fail to reject the null hypothesis that heteroskedasticity is not present. We presume that there is no heteroscedasticity in the data.

4.4 Regression analysis
Table 4.12: Model Summary

<table>
<thead>
<tr>
<th>Model</th>
<th>R</th>
<th>R Square</th>
<th>Adjusted R Square</th>
<th>Std. Error of the Estimate</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>.815a</td>
<td>.664</td>
<td>.603</td>
<td>4.5232066</td>
</tr>
</tbody>
</table>

a. Predictors: (Constant), Leverage, Gender diversity, Board Independence, Board size, Liquidity, Firm size

R value of 0.815 shows a strong relationship between the variables. Adjusted R square was 0.603 showing that ROA varied by 60.3% due to changes in board size, board independence, gender diversity, firm size, liquidity, and leverage. 39.7% of the changes in ROA is accounted for by other variables.

Table 4.13: ANOVAb

<table>
<thead>
<tr>
<th>Model</th>
<th>Sum of Squares</th>
<th>df</th>
<th>Mean Square</th>
<th>F</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Regression</td>
<td>659.632</td>
<td>6</td>
<td>109.939</td>
<td>5.374</td>
<td>.001a</td>
</tr>
<tr>
<td>Residual</td>
<td>675.160</td>
<td>33</td>
<td>20.459</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td>1334.792</td>
<td>39</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA
b. Predictors: (Constant), board size, board independence, gender diversity, firm size, liquidity, leverage

From the table 4.13 the model was significant as p<0.005. The calculated value of F (5.374) ≥ critical (2.3359) showing fitting of the data to the model.

Table 4.14: Coefficientsa

<table>
<thead>
<tr>
<th>Model</th>
<th>Unstandardized Coefficients</th>
<th>Standardized Coefficients</th>
<th>t</th>
<th>Sig.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>B</td>
<td>Std. Error</td>
<td>Beta</td>
<td></td>
</tr>
<tr>
<td>1</td>
<td>(Constant)</td>
<td>-24.731</td>
<td>7.782</td>
<td>-3.1780</td>
</tr>
</tbody>
</table>

35
<table>
<thead>
<tr>
<th>variable</th>
<th>coefficient 1</th>
<th>coefficient 2</th>
<th>coefficient 3</th>
<th>coefficient 4</th>
<th>coefficient 5</th>
</tr>
</thead>
<tbody>
<tr>
<td>Board size</td>
<td>-0.382</td>
<td>0.174</td>
<td>-0.706</td>
<td>-2.1954</td>
<td>0.026</td>
</tr>
<tr>
<td>Board Independence</td>
<td>-0.225</td>
<td>0.097</td>
<td>-0.172</td>
<td>-2.3196</td>
<td>0.021</td>
</tr>
<tr>
<td>Gender diversity</td>
<td>-0.494</td>
<td>0.164</td>
<td>-0.545</td>
<td>-3.0122</td>
<td>0.009</td>
</tr>
<tr>
<td>Firm size</td>
<td>0.738</td>
<td>0.189</td>
<td>0.795</td>
<td>3.9048</td>
<td>0.001</td>
</tr>
<tr>
<td>Liquidity</td>
<td>0.447</td>
<td>0.123</td>
<td>0.493</td>
<td>3.6341</td>
<td>0.003</td>
</tr>
<tr>
<td>Leverage</td>
<td>-0.596</td>
<td>0.189</td>
<td>-0.159</td>
<td>-3.1534</td>
<td>0.014</td>
</tr>
</tbody>
</table>

a. Dependent Variable: ROA

From the model \( Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + \beta_6 X_6 + \epsilon \)

The fitted model is:

\[ Y = -24.731 -0.382X_1 -0.225X_2 -0.494X_3 + 0.738X_4 + 0.447X_5 -0.596X_6 \]

From table 4.14, holding board size, board independence, gender diversity, firm size, liquidity, and leverage constant, ROA would be at -24.731. Increased board size by a unit is expected to lead to decreased ROA by 0.382. When board independence increase by a unit ROA would decrease by 0.225, gender diversity decreases ROA by 0.494 while firm size increase ROA by 0.738. Further, liquidity increase by a unit increase ROA by 0.447 while leverage decrease ROA by 0.596. All the variables were found to be significant as the p-values were less than 0.05.

### 4.5 Discussion

The study found that increase in board size leads to decrease in ROA. This means that board size has a negative effect on ROA. The findings are supported by those of Yermack (1996) who found a negative relationship. The effect was found to be significant. This means that the DTMFIs require a reduced board in order to enhance
return on assets. However, the findings differ with those of Abdulazeez, Ndibe and Mercy (2016) and Olick (2015) who found that board size positively affected ROA.

The study found that board independence has an insignificant negative effect on ROA. This differs with John and Senbet (1998) and Müller (2014) who both found a positive effect.

The findings show that a unit increase in gender diversity would lead to a significant decrease in ROA. The findings differ with those of Dechant (1997) who found a positive effect of gender diversity on performance.

The study indicated that a unit increase in firm size leading to significant increase in ROA. This means that firm size has a positive effect on ROA. This concurs with Nzioka (2013) who established a positive relationship.

Further, the study established that liquidity has a positive effect on ROA. Shiu (2004), who noted that organizations with more fluid resources are probably going to perform better as they are able to realize cash at any time to meet its commitment and are less presented to liquidity dangers. By not having adequate money or fluid resources, insurance companies might be compelled to sell investment securities at a loss with a specific end goal to settle claims speedily.

The study found that leverage had a negative effect on ROA. This shows that firms borrow less to ensure improved financial performance. Zahoor (2015) supports this study for a negative relationship on firms in Pakistan.
CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives the summary of findings, conclusions and recommendations based on the objective of the study.

5.2 Summary

From the descriptive analysis the study found that there was mean of -1.75 for ROA, 5.18 for board size, 64.41 for board independence, 26.07 for gender diversity, 14.18 for firm size, 1.81 for liquidity and 67.22 for leverage. The study further found that board independence had the highest standard deviation meaning that it had the highest variability or high volatility (Risk) in the financial performance.

The study found a 66.4% change in ROA due to changes in board size, board independence, gender diversity, firm size, liquidity and leverage at 95% confidence interval. 33.6% of change in ROA can be accounted for by other variables not considered by the researcher.

From the Anova table, the overall model was found significant and fitted the data. Hence board size, board independence, gender diversity, firm size, liquidity and leverage affected ROA of DTMFIs.

Firm size and liquidity affected ROA of DTMFIs positively. However, board size, board independence, gender diversity and leverage had a negative effect on ROA. The variables had a significant effect on ROA. Firm size and leverage displayed a strong effect on ROA compared to the other variables that displayed a weak effect on ROA.
5.3 Conclusions

The study concludes that board size, board independence, gender diversity, firm size, liquidity and leverage when combined have a strong effect on financial performance of DTMFs. Board size has a negative effect on DTMFs in Kenya. Board independence negatively affect financial performance of DTMFs in Kenya. Gender diversity negatively affect financial performance of DTMFs in Kenya. This means that increased gender diversity in the board decreases financial performance. However, the effect was weak as shown by the low regression coefficient.

Firm size affects financial performance. Firm size positively affects financial performance of DTMFs in Kenya. The effect was strong as shown by the high regression coefficient meaning that we can comfortably conclude that firm size affects financial performance of DTMFs in Kenya.

Liquidity positively affect financial performance of DTMFs in Kenya. This means that increased liquidity increases financial performance. However, the effect was weak.

Leverage has a weak negative effect on financial performance of DTMFs in Kenya. This means that increased leverage decreases financial performance. The effect is strong as leverage displayed a regression coefficient above 0.5.

5.4 Policy Recommendations

DTMFIs should be concerned more with the quality or value added by board members appointed to their boards on top of need for independent directors and observing the best practices of the board size of nine recommended by regulators.
Microfinance institutions should reduce board diversity by decreasing the percentage of women directors in the board despite their expertise skills.

For DTMFIs to increase their performance there is need to increase size by increasing various aspects of assets, and deposit liabilities. There is also the need to increase the current assets in order to enhance liquidity which has a positive effect on financial performance. DTMFIs should increase their leverage in order to enhance their financial performance. DTMFIs should also reduce the level of financial leverage.

5.5 Recommendations for further research

A study can be done on the effect of corporate governance on financial performance of other sectors like hotels using the same variables in order to establish whether they are significant in other sectors.

The constant in the regression equation was found to be significant and this meant that other than the four variables, there are other factors that determine financial performance of DTMFIs in Kenya. Therefore, further research can be done on other variables that influence financial performance of DTMFIs.
REFERENCES


APPENDICES

Appendix I: Letter of Introduction

University of Nairobi
School of Business
P. O. Box 30197
Nairobi

Dear Sir/ Madam,

RE: REQUEST FOR PARTICIPATION IN RESEARCH

I am post graduate student from University of Nairobi in pursuance of MSc Finance. I am completing a study on corporate governance effects on financial performance of DFMIs in Kenya.

I kindly request you to assist me gather information for the years 2012-2016. The data given will be utilized purely for the study purpose and will be held in strict confidentiality.

Yours faithfully,

Millicent Wamaitha Matimu
D63/83983/2016
Appendix II: Deposit Taking Microfinance Institutions as at December 2016

1. Faulu Microfinance Bank Limited
2. Kenya Women Microfinance Bank Limited
3. UWEZO Microfinance Bank Limited
4. SMEP Microfinance Bank Limited
5. Remu Microfinance Bank Limited
6. Rafiki Microfinance Bank Limited
7. Century Microfinance Bank Limited
8. SUMAC Microfinance Bank Limited
### Appendix III: Data Collection Form

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