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

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DECLARATION

I declare that this research project is my original work and has not been presented in any other university for assessments or award of degree.

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This research project has been submitted for presentation with my approval as the university supervisor.

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DEDICATION

This project is dedicated to God for his faithfulness, my wife Joanne Bugo, my children Tasha and Jayden and to my mum, brothers and sisters for their love, encouragement, support and understanding during my period of study.

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LIST OF ABBREVIATIONS

BC	**:**	Board Composition
BSS	:	Board Size & Structure
CBK	:	Central Bank of Kenya
CEO	:	Chief Executive Officer
CG	:	Corporate Governance
DTMI	:	Deposit Taking Microfinance Institutions
NPM	:	Net Profit Margin
OECD	:	Organisation for Economic Co-Operation and Development
PM	:	Profit Margin
ROA	:	Returns On Asset
ROE	:	Return On Equity
SPSS	:	Statistical Package for Social Sciences Software
VIF	:	Variation Inflation Factors

ABSTRACT

Corporate Governance is an aspect that has gained implementation traction in most organizations across various economies. Regulations have been enhanced by various government agencies and other bodies to enforce institutionalization of corporate governance principles in firms more so after the collapse of big firms in USA. Chapter one of the study explains the concept corporate governance its effects and relationship to the financial performance of organizations. CG entails the aspect of directing and controlling firms with the objective of enhancing sustainable growth. This study aimed at examining the impact of Corporate Governance on financial performance of Deposit Taking Microfinance Institutions in Kenya. Corporate Governance variables included i) Board Size, ii) Board Structure iii) Board Competencies iv) Board Composition and v) CEO Duality; while financial performance was on profitability measure of Return on Equity (ROE). Chapter two provides considerations of theories this study was premised, the study was premised on Resource dependence theory, Stewardship theory, Stakeholders theory and Agency Theory. The theories expound on the reasons as to why implementation of corporate governance principles is a value needed for sustainable growth and performance of firms. Various empirical studies as illustrate in this chapter show that corporate governance is crucial element for improved performance of firms. Chapter three provides study design. The study employed descriptive research design on evaluating the implementation of Corporate Governance and its effects on financial performance of DTMIs in Kenya. Secondary data related to the corporate governance variables and financial performances was obtained from the annual reports and financial statement of all 13 Deposit Taking Microfinance Institution between 2013 and 2017. Data was also sourced from Central Bank Periodic for the period under study. The data obtained was subjected to the diagnostic test and data analysis using regression model, with the aim of establishing the relationship between CG and financial performance as explained in chapter four and five. The research finding using regression model showed 11.8% positive direct effects of the chosen corporate variables on financial performance of DTMIs in Kenya. Board size and CEO duality showed significance effects to financial performance of DTMIs. Apart from board size the other corporate governance variables showed negative correlation with financial performance of DTMIs. This was an indication of a small significance of positive direct correlation between corporate governance and financial performance. The study gave limitation as well as suggestions for further studies

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate Governance remains crucial in management of organizational affairs as it is a tool that management and directors use in controlling and directing affairs of an organization leading to its stability and sustainable growth. Empirical studies have shown that poor Corporate Governance in organizations leads to organizational failure which eventually leads to failure of an economy. This is evidenced by the failure of big companies like the famed Enron (2001), Worldcom (2002), Tyco (2004) and Volkswagen Emission Scandal (2008) among others. Effective Implementation of Corporate Governance Principles in organizations is crucial because the stability and growth of any economy relies on the important role of firms' in driving economic growth by creating economic value. (ICAN, 2009). Failure in organizations is reflected and measured in poor performance of firm's profitability. The need of good management of organizations has inspired attention in the corporate governance of firms, more so in relation to accountability and profitable performance. *(*Dharan & William, 2004).

Various theories have been developed that explain elements and concept corporate governance in management of firms and its relationship to performance. This study will be anchored on Resource Dependence theory, Steward Theory, Agency Theory and Stakeholders Theory. Resource Dependence and Steward Theory consider board of directors of organizations as importance resource needed to facilitate growth of the organization. Resource Dependence considers directors as source of expertise needed to

control an organization. Steward theory considers directors and executive as source of leadership. Poor leadership leads to poor performance. Agency theory consider corporate governance as a corporate tool suitable for harmonization of conflicts between the principle (shareholders) and the agent (Management) and stakeholder theories consider corporate governance as a corporate tool needed to balance **the interest of all corporate stakeholders.**

Implementation of corporate governance principles in various organizations has gained substantial ground, this is based on empirical studies that have been carried out and show that one of the key contributors to corporate failures is poor or ineffective implementation of corporate governance principles. Studies also show that firms with effective implementation of corporate governance principles post good performance result and are aligned to stable and sustainable growth trajectory. Based on recent poor profitability performance of Deposit Taking Microfinance Institutions as indicated in the past financial reports, this study was geared towards examining the extent and effect of corporate governance on financial performance of these institutions. It evaluated various facets of corporate governance principles including board size, board structure, board competences, board composition and CEO duality against profitability of the firms (Oling, 2010).

1.1.1 Corporate Governance

Corporate Governance has a diverse meaning. Garvey and Swan (1994) believe that corporate governance is a tool that determines how the organization's senior management and board of directors run the organizations in terms of making decisions in effecting day to day operation. La Porta, Silanes and Shliefer (2000, 2002) consider corporate

governance as a tool by which owners of an organization guide their interest from exploitation by the executive. Oman (2001) asserts that corporate governance means legislations, guidelines and procedures of controlling and directing executive managers and shareholders. Shleifer and Vishny (1997) consider Corporate Governance as the mechanisms by which creditors guarantee themselves of good returns on their investment in various organizations. CG may also be considered to mean a practise of directing and controlling the relationship between various stakeholders in a company. Tricker (2009) believes that CG provides operation limits in terms of decision making and power to different stakeholders in a firm.

Organization for Economic Corporation and Development-(OECD) (1999) consider CG as away by which organizations are organized and directed. It spells out rights and responsibilities of different people in a firm, for instance, the shareholders, managers, board and other stakeholders. It also outlines guidelines and processes of decisions making within the firm. In so doing, CG offers mechanism for the development of firm's objectives as well as monitoring, evaluating and correcting deviating outcomes so as to realize the set objectives.

Corporate governance is of great value to researches and corporates executives (Managers). It provides a basis of directing and co-ordinating operations of firms. Corporate Governance as a tool provides guidance to both management and shareholders levels of decision making in which case it control shareholders and manager's decision making and operations. Researchers can use the concept to evaluate firm's performance based on the levels of implementation of principles of corporate governance. It helps to

curb firms' failures which are associated with poor corporate governance in this case it leads to economic growth as firms are the drivers of economy (Akpan et al., 2012).

The CG concept has been of greater value in running organizations. In operationalization, it provides guiding principles and code of conduct which are majorly concerned with the practices, systems, processes and procedures that govern operation of firms. Empirical studies have shown that implementation of the principles of Corporate Governance leads to sustainable growth of firms. Corporate Governance therefore, can be looked at as the way in which firms exercise their might in the stewardship of the organization's assets to maximize shareholders' wealth (profitability) while taking into consideration interest of other stakeholders (Robert, 2008).

OECD (2014) outlines organizational governance as relationships amongst organizations' board, management and other various stakeholders involved in daily operations an organization. Therefore, firms operationalize corporate governance principles by development code of conduct and code of ethic which define the limits of transactions and decision making for all parties. Through implementation of regulation requirements and in compliance with all applicable and governing laws and guidelines organizations will also operationalize corporate governance. Corporate governance can also be considered in organizations as implementations of a blend of system and processes which include checks and balances used to direct and control organizations as well as making parties accountable. In other ways corporate governance can be considered to mean a framework of regulations, systems, policies, procedures and practices that organizations put in place to direct and control their operations with the aim of balancing the interest of all their stakeholders and risk management (Robert, 2008). For the purposes of this study

corporate governance will be broken down to five variables i) Board size, ii) Board structure, iii) Board Competencies iv) Board composition and v) CEO duality

1.1.2 Financial Performance

Capon, et al (1996) believes there are many ways of evaluating organizational performance. Organizational Financial evaluation might be considered to be absolute for instance sales/net income (profit) or return-based which include profit/sales, profit/capital and profit/equity among others. According to ebstudies Evaluation of financial performance of a firm involves establishing financial strengths and weaknesses as shown in the relationship between the balance sheet items and profit and loss account (ebstudies Journal-1990). In evaluation of financial performance financial analyst should look at effectiveness with which firm's total asset and net asset has been employed. This defines firm's profitability (Helfert, 1991). From the shareholders or owner's perspective financial performance or profitability is indicated by returns obtained on invested funds. (Helfert, 1991).

For the purposes of this study the focus will be return-base particularly profitability as a measure of financial performance of Deposit Taking Microfinance Institutions. Profitability measures include profit margin, return on equity and return on asset. This study considered Return on Equity as a profitability measure for financial performance measurement of Deposit Taking Microfinance firms in Kenya.

Profit Margin is an indication of net income generated against every sale the company makes. A high profit margin is a good indication as it shows that there were low expense ratios compared to sales. In some cases, a smaller margin might not be undesirable, as it

might be occasioned by lowering a sales price to increase unit volume; however net profit margins will decline, in this instance total profit may still go up due to the growth in sales volume. (Ross et al., 1996). Return on Asset provides a relationship of a firm Net Profit against Total Asset. It is an indication of return obtained from the asset employed in a firm. In some instances, analyst can use Net Asset instead of Total Asset. Net Assets is arrived at by subtracting current liabilities from Total Asset. This provides a ration with a factor of only long-term sources (Helfert, 1991). The return or net profit per asset is a good measure of financial performance as it gives profit per shilling of asset invested in a firm (Ross et al., 1996).

On the other hand, Return on Equity is an indication of return in shilling per equity employed in the firm. It shows shareholder gain from equity investment (Ross et al., 1996). Return on Equity is measure showing whether the net income of a firm is appropriate for firm's size or not. Considering the fact that shareholder's worth is the primary goal of any firm analysts are of the opinion that Return on Equity is the best measure of firm's performance. A firm's Return on Equity ratio therefore tells the firm's profitability as well as the efficiency in operation and financial management. A high Return on Equity (ROE) indicates firm's growth giving shareholders assurance of optimized investment by firm management.

1.1.3 Corporate Governance and Financial Performance

Shleifer and Vishny (1997) consider organizations with good corporate governance to confer powers to managers in decision making who then easily invest in profitable investments. This in essence contributes to positive and sustainable financial performance of organizations. Youssef (1991) opine that many studies have established that many

organizations show institutionalization of corporate governance principles by mainly relating them to boards capability to grow shareholders wealth through firm's profitability. OECD (2015) study on causes of financial crisis, main subject being Corporate Governance revealed that financial failure is caused by ineffective organizational corporate governance. As recommendations OECD gave the following areas for standardization and monitoring by firm's board practices, shareholders' exercise of rights, risk management and salary and wage management.

Oling (2010) in the analysis and review of Governance and company performance during the 1990-2001 found out that those companies with effective Corporate Governance made good earnings announcements than those with ineffective governance. Youssef (1991) opines that financial system of a nation would be stable if effective corporate governance is practiced in financial institutions including in Deposit Taking Microfinance Institutions. Corporate governance principles when institutionalized in an organization assist in developing competitive objectives and also provide mechanism of realizing the objectives through monitoring, evaluation and correction of deviations. The system provides authority, direction and oversight to management (Youssef, 2007). Effective governance of Deposit Taking Microfinance Institutions is important considering their financial intermediation role. Deposit Taking Microfinance Institutions provide small credits to small enterprises and in case of ineffective corporate governance their failure becomes eminent which translates to the failure of financial system in the economy.

Akpan et al. (2012) opines that organizations with effective corporate governance have enhanced accountability, fairness and integrity in their operation and decision making which eventually translate to capability to achieve better financial performance in terms of growth, increased liquidity and profitability levels. Changes in corporate governance have in the recent past been enhanced by financial deepening and liberalization factors across many economies in the world including advancement in technology, global operation practices, deregulation of financial sector and implementation of prudential requirements that conforming to international standards of which corporate governance principles and practices is included.

Effective corporate governance practices encompass fairness in management of all stakeholders' interest so as to achieve optimum operational effectiveness which in relation leads to achieving firm's strategic objectives (Akintoye, 2010). The benefit gained by balancing interest of various stakeholders drives financial performance of firms, increase the worth of firms, and grow sales volume as well as reducing capital expenditure. For good corporate reporting by firm principles of corporate governance have to be implemented to the latter. Corporate governance principles could be summarized to include responsibility and accountability, fairness, transparency as well as equity in operation of all firms' transaction (Akintoye, 2010).

CG assist in developing strategies, including outlining firm's short, intermediate and long-term goals of various units. In implementing corporate governance principles employees making decisions and approving contracts are outlined in the framework of controls and system checks. In this process firms make their operations effective by streamlining them and thus increase potential of profit maximization (Robert, 2008).

1.1.4 Deposit Taking Microfinance Institutions

Microfinance involve provision of small credits or loans, savings and other financial services to the poor or low-income clients (The Microfinance Information Exchange (MIX) Micro-finance also imply small-scale financial facilities mainly loans and savings to small or micro enterprises (Robinson, 2001). In Kenya Micro-Finance Institutions are categorised as; Deposit Taking Microfinance Institutions, Non-Deposit-Taking institutions and Informal Money Lending Organizations (for instance, shylocks). Deposit Taking Microfinance firms are licensed, mandated as well supervised by Central Bank through the Microfinance Act, 2006 No.19 of 2006.

Central Bank regulates Deposit Taking Microfinance Institutions through the Microfinance Act, Section 8(2) of The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008. This statute was incorporated in the year 2006 however the Micro Finance Act became active in the year 2008. Currently there are 13 Deposit Taking Microfinance Institutions in Kenya. (CBK, 2016).

Youssef (1991) says implementation of principles of corporate governance by entities in an economy is imperative for growth and development of stable financial system**.** DTMI are poised to carry out due diligence in evaluating their clients, this is aimed at reducing effects of adverse selection and information asymmetry for instance defaults associated with Non-Performing Loans. By the function of directing surplus moneys (deposits) to the scarcity units, DTMI play critical role of driving an economy. In this regard there is a necessity of evaluating implementation of principles of Corporate Governance in DTMI and its effect on financial performance.

1.2 Research Problem

The failure in adoption of corporate governance practices by firms is attributed to poor financial performance of most firms. The evidence relating corporate governance and firm's financial performance varies from firm to firm however it is certainly confirmed form various studies existence of a positive relationship between ethical business practices, compliances and firm sustainable performance; it is however less certain the extent of effect of corporate governance on sustainable financial performance.

Various empirical studies have been carried out to examine extent of implementation of CG principles and its effect on financial performance of various firms. Jesus and Emma (2013) in Latin American Countries sampled 435 firms in a study to examine whether a correlation between corporate governance and earnings exist. The study finding showed that implementation of various corporate variables through implementation of corporate principles positively affect firm's earnings management. In a local study done by Maranga (2012) studying the impact of corporate governance on profitability of SMES's within Nairobi County found out that there is existence of substantial correlation between the SME's profitability and corporate governance.

Most of previous empirical studies have been carried out on commercial banks and listed firms which are highly regulated leaving out microfinance institutions which play crucial economic role as well as support in financial deepening and inclusion in an economy. This study was then premised on lack of sufficient knowledge (research gap) on the effect of corporate governance on financial performance of Deposit Taking Microfinance Firms. The objective of this study was to examine the level of implementation of corporate governance principles and the effects on profitability of Deposit Taking

Microfinance Institutions. In the recent years Most DTMI have reported low profitability with a few recordings positive income, this could be premised on weak corporate governance practices and this is a concern demanding an evaluation of level of corporate governance of DTMI in financial industry in Kenya. Ineffective application of principles of corporate governance can be noted as a contributing factor in Deposit Taking Microfinance Institutions' slowdown in financial performance.

It could be observed that the past financial slowdowns as shown in the recent financial reports of Deposit Taking Microfinance Institutions could be caused by poor oversight and regulatory measures which form key component of the principles function of corporate governance. It is on the backdrop of this poor profitability performance that this research is designed to find out the level of institutionalization of corporate governance principles and practices and the relationship with financial performance. This study was addressing the research question; what is the effect of corporate governance on financial performance of Deposit Taking Microfinance Institutions in Kenya.

1.3 Research Objective

The objective of this study was to examine the impact of corporate governance on financial performance of Deposit Taking Microfinance Institutions in Kenyan.

1.4 Value of the Study

This study will provide a picture of the level of implementation of CG principles by Deposit Taking Microfinance Institutions in relation to the stipulation provided by the regulators including Central Bank of Kenya and Kenya Bankers Association. The study

was meant also bring out the association concerning practices of corporate governance and financial performance of DTMIs.

From the study various corporates will gain an understanding on how to improve their sustainable growth and profitability through implementation of corporate governance codes and principles. This study will also provide a good foundation for scholars and academicians to carry out further study in future in the area corporate governance with a view of improving and finding solutions associated with Corporate Governance and sustainable financial performance of organizations.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter investigates existing literature, theories and concepts relating to the study on assessments of effects of corporate governance on financial performance of Deposit Taking Microfinance Institutions in Kenya with a view of identifying existing gaps in theory and practice.

2.2 Theoretical Review

Corporate governance has evolved over time and theories, concepts and models have been put forward to describe the concept, theory and practice in the corporate world. This study has been premised on below theories.

2.2.1 Resource Dependence Theory

Resource Dependence theory was developed by Pfeffer and Salancik in 1978. It believes that board of directors of organization are a crucial source of resources needed for growth of a company. It believes that non-executive board can be a source of expertise which provides skills, knowledge and experience needed to steer and grow an organization. In this case the theory believes that in a pointing board of directors more so when a pointing non- executive board of directors', skills and knowledge levels of persons to be appointed should be a key factor for consideration. Poorly skilled board members in the line of business might not provide the much-needed expertise resource needed to grow a company. A board composition with poorly skilled members might be a source of failure in implementation of corporate governance principles which in relation will lead to poor

performance of an organization. It proposes defining a composition of board with wide skills, knowledge and experience in the line of business as well as having a good composition of non-executive (independent) members. This is believed to provide guidance for instance in developing and reviewing strategies of an organization.

In consideration of implementation of principles of corporate governance in firms, this theory believes that a skilled, knowledgeable and experienced board will provide guidance in terms of running the firm by provision of supervision and oversight to the management which in tandem leads to improved performance of a firm. This study will consider this theory in relation to the board composition competencies. This involves considering the board of directors in relation to skills, knowledge, expertise and experience in relation to the business of the Deposit Taking Microfinance Institutions and how this affects the performance of the firms.

2.2.2 Agency Theory

Agency theory was fronted by Jensen and Meckling in 1976 in their classical writing which postulates that managers (agents) are self-centred and would only work on gaining more from a company than benefiting the shareholders. It believes management of any organization needs to be checked by the board and their interest controlled because if their interests are not checked they may bring down an organization. It believes the principle (board and shareholders) should keep a continuous eye on the operations of the management to ensure growth of shareholders wealth. The principle is thus duty-bound in supporting the concern of executive managers to the bigger interest of all other stakeholders through the board. (Jensen & Meckling; Hairs & Raviv, 1970)

In consideration of corporate governance, the theory believes that managers (agents) are opportunistic and therefore the shareholders (principle) should come up with a suitable board that will effectively carry out the functions of control, supervision and oversight to ensure an organization is maintained in a compliant manner (Stiles & Taylor, 2001). This study will evaluate the relationship between implementation of CG doctrines in harmonization of agents (executive) demands and how this effect on profitability of the firms. Issues of audit committee reports in relation to firm's executive management of the firm and remunerations will be considered as reflected in agent principle harmonization

2.2.3 Stewardship Theory

This theory was put forward by Donaldson, and Kay (1995). Contrary to agency theory this theory believes that managers are not self-centred but have long-term interest in leading a company to prosperity. Just as the shareholders and the board would want their company to grow is the same way the executive would like the company to grow. This theory doesn't believe in controlling managers but believes in a combined effort of the management and the shareholders through the board to steward the company into greater performance. This theory proposes a unifying command between executive and board in CEO duality.

Once the operation command of the board and executive is unified the interest of propelling an organization to greater growth will get a greater boost. The theory believes separating the management from the board will lead to creation of rifts which might lead to failure of organizations and so the CEO should as well act as the chairman in the board as the two roles are geared towards long-term stewardship of the company. In

consideration of corporate governance, the theory believes that a unified leadership leads to strength in implementation of corporate governance principles which provide a framework for good management of firms and hence leads to growth and improved performance. (Davis & Donaldson, 1997). This study will explore how combined leadership as demonstrated in CEO duality impact on performamnce of firms. The study will also investigate effect of separated CEO and Board Chair on financial performance of firms.

2.2.4 Stakeholder Theory

The stakeholder theory was initially developed by Ed Freeman in the 1980s. The theory believes in inclusion and balancing of all stakeholders' interest in running an organization. The theory believes in fairness, transparency and accountability in making decisions as well as transacting on behalf of a company. The theory goes beyond the interest of creating shareholders wealth but believes in considering the benefits and interest of all stakeholder to a company which include employees, suppliers, customers, shareholders, government and regulatory bodies, local community and the society at large.

In line with corporate governance, the theory believes in adoption of code of ethics by companies and continuous compliance with all the principles of corporate governance. (Williamson, 2012). This study will evaluate effects of board structure and composition as well as committee's implementation of corporate governance principles and effects on financial performance of Deposit Taking Microfinance Institutions.

2.3 Determinants of Financial Performance of DTMI

There are various factors determining the financial performance of Deposit Taking Microfinance Institutions some of them include Interest rates spread, Size of Loan Book, operation cost, laws and changes in regulations as well as risk management among other factors.

2.3.1 Corporate Governance

OECD (2015) study on causes of financial crisis, main subject being Corporate Governance revealed that financial failure is caused by ineffective organizational corporate governance. As recommendations OECD gave the following areas for standardization and monitoring by firm's board practices, shareholders' exercise of rights, risk management and salary and wage management.

Corporate governance principles when institutionalized in an organization assist in developing competitive objectives and also provide mechanism of realizing the objectives through monitoring, evaluation and correction of deviations. The system provides authority, direction and oversight to management (Youssef, 2007). Deposit Taking Microfinance Institutions provide small credits to small enterprises and in case of ineffective corporate governance their failure becomes eminent which translates to the failure of financial system in the economy.

2.3.2 Interest Spread

DTMI play important role of intermediation, this involves getting money from depositors (savers/surplus) in the form of deposit and lending to the borrowers (deficit) in the form of loan or credit. The margin between interest rate on credit and interest on deposit forms

Interest Rate Spread. The spread influence the level of revenue generation, the larger the interest rate spread the better for Deposit Taking Microfinance. If the cost of deposits is high, the spread margin will shrink and this will eat into the interest charged on loans borrowing. This suppresses the interest income inflows into the bank. If the cost of deposit (interest charged on deposits) is low then banks as intermediaries will enjoy a good margin of spread, thus gaining more revenue from the difference in cost of credit and deposits. Interest controls through capping affect the spread margin thus affecting interest income gained by Deposit Taking Microfinance Institutions.

2.3.3 Laws and Changes in Regulations

Various regulations and guidelines and changes in regulations in the financial sector affect financial performance of financial institutions, for instance the recent adoption of IFRS 9 on loan provisioning demands increased provision for loans to lower the risk associated with bad debts and Non-Performing Loans. This will affect Net Income reported by Deposit Taking Microfinance Institutions. Interest rate capping is another regulation that has affected interest income by Deposit Taking Microfinance Institutions. Capping interest rate increases chances of increase in the value of Non-performing Loans this is because interest rate charged is market regulated covers all risk associated with borrowing which will lead to improved and sustainable financial performance. Controlled interest rate (Interest Rate Capping) suppresses the market forces regulation mechanisms which eventually suppress expected gains by Microfinance Institutions.

2.3.4 Size of Loan Book

The bigger the loan book, the higher the returns in terms of interest income earned from the credit/loan disbursed. On the other hand, a small loan book fetches less income from interest on loans. The bigger the loan book in terms of the volume of loans per segment will lead to increased inflow of revenue from customer transactions. A small loan books will relate to a small revenue generation which may lead to poor financial performance.

2.3.5 Operation Cost

Operation cost which include the branch operation and administration, the cost of staff and other expenses eat into the revenue generated. The high the cost of operation in relation to the revenue earned on interest, investment and other operations might lead to lower profitability. For sustainable financial performance there should be a balance strike between expenditure on operation cost and revenue- income earnings

2.3.6 Risk Management

Risk management encompasses adequate controls and oversight in processes, procedures and systems which lead to prevention and management of risks. For instance, good controls avert cases of fraud, reputation risk, poor on-boarding of customers, poor investments, poor hiring of staff among other risk origins. All these factors may lead to loss of revenue. Adequate risk management is also required in product development, pricing, strategy reviews including reviewing market expansion strategies. Cases of bank runs can be controlled by having adequate controls and good risk management procedures.

2.4 Empirical Review

Akeyo (2012) using descriptive statistical analysis did a study on effect of corporate governance on performance of International Non-Governmental Organizations in Somalia. The study established that most of the INGOs practiced various governance practices. Using systematic analysis in the study he analysed four corporate governance practices (audit committee, transparency and disclosure, board meetings, board size and board composition) separately and all of them together. The study discovered a positive relationship between levels of implementation of principles of CG and performance of the INGOs, however the connection was insignificant. Based on the findings she came to the conclusion that lack of good corporate governance structures leads to mismanagement of resources, earnings management, incompetency and lack of transparency. The study was well conducted considering the methodology used and data modelling applied as well as in and presentation of the study findings. Though the study methodology and analysis of the finding states existence of a connection between CG and firms' financial performance, the study didn't bring out inferences in connection between effects of corporate governance on long-term sustainable financial performance of the International Non-Organizations in Somali which spans a period of time.

Kaur and Gill (2012) in India sampled 134 firms from Bombay Stock Exchange in a research on impact of corporate governance on profitability. They used descriptive survey as a methodology and considered financial result of the companies consistently from 2000-2005 (6 years period). The finding of the study showed a positive relationship for institutional investor ownership firms and financial performance. This study finding brings out a positive relationship over a period of time which brings out the correlation

between implementation of corporate governance and sustainable financial performance. This is because investors consider corporate governance as a continuous aspect of corporate management which should be exercised continuously.

Jesus and Emma (2013) using descriptive analysis in Latin American Countries by sampling 435 firms carried out a study to examine whether a correlation between corporate governance and earnings exist. In the study variables of corporate governance were tested against companies earning. In Data modelling and analysis, they used a combination of regression analysis in time series and cross-section analysis. The study finding showed that implementation of various corporate variables positively affects firm's earnings management. The methodology used in the study was appropriate for the study, the findings shows a positive relation between corporate governance and financial performance.

Oling (2010) carried out a study and analysed relationship of CG and firm's performance between1990-2001 using descriptive statistical analysis as a methodology. The finding of the study was that firms that effectively implement corporate governance principles posted higher earnings announcement than their counterparts with ineffective corporate governance. The study proves the belief by shareholders that a firm with good corporate governance has a long-term sustainable growth and this is the reason to why these firms continue to post high earnings announcements.

Opiyo (2011) using descriptive survey methodology carried out a project to find out whether exists a correlation between implementation of Governance principles and profitability of Sacco's operating in Nairobi, Kenya. He sampled ninety-eight (98) Saccos

from a total population of one hundred and thirty-one was selected. The governance attributes examined were number of board meetings, gender board composition, audit committee and managing director's duality which were independent variables. The dependent variables used in the study were the return on assets and return on investments. Data analysed using regression analysis. The study established no existence of substantial consequence of corporate governance implementation on return on assets but found a significant correlation between CG and return on investments. Methodology was suitable for the study and the finding brought out a positive correlation between CG and Saccos financial performance.

Maranga (2012) using descriptive statistical studied impact of corporate governance on profitability of SMES's within Nairobi County. The study examined adoption of the various corporate governance practices within the sampled SMEs in Nairobi County such as CEO duality, board composition, board structure and period the SMES has been in operation and how they affect their financial performance. The population included all the SMEs in Nairobi County operating as at 30th December 2013 and a sample from each category of business was identified and used to collect information. The study finding showed existence of a substantial correlation between the SME's profitability and corporate governance.

Aduda, Chogii and Magutu (2013) using descriptive statistical methodology investigated the importance of board composition with regard to percentage of non-executive and executive directors, board size, and unified CEO and Chairman responsibility on profitability of actively trading companies at the NSE between 2004 to 2007. Regression analysis and Tobin Q ratio were applied on the secondary data. The findings of the study

showed significance relation between CG and both the Return on assets and Tobin Q ratio. The methodology used was suitable for the study and the finding is a confirmation of a positive relationship between corporate governance and firm's financial performance.

2.5 Conceptual Framework

This Conceptual Framework explains connection between corporate governance variables against financial performance variables (dependent variable). Various theories and concepts of Corporate Governance including stewardship, stakeholders, agency and resource dependence have been factored to gather the independent variables. It is also backed by OECD (2015) on principles of corporate governance.

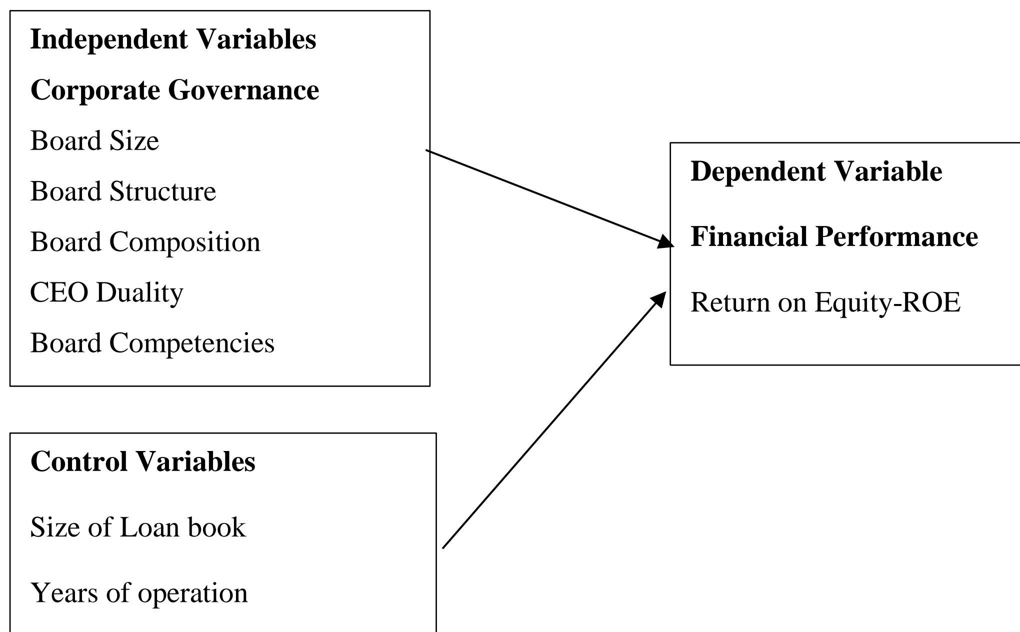

Figure 1: Conceptual Framework

2.6 Summary of Literature Review

This chapter has reviewed various theories and concepts supporting implementation of CG principles and the effects it has on financial performance of Institutions. Resource Dependence and Stewardship theories believe that CG is a key factor for driving sustainable growth of an institution. These theories consider corporate governance as a tool that control and direct organizations to grow. This is premised on the fact that the theories consider the boards of governance to have requisite knowledge, expertise, skills, experience and ability to develop and implement strategies of an organization as well as oversight and supervise the functions of the executive. Agency and Stakeholders theories provide mechanism of harmonizing operations of the firm as well as managing conflicts.

This chapter has also reviewed various empirical studies. The findings of various empirical studies show that effective implementation of corporate governance principles facilitate growth and profitability of institutions and on the other hand ineffective corporate governance lead to mismanagement of firm resources which eventually lead to collapse of an organization.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter document discussions on the kind of research design employed in the study, giving reasons why the design chosen was suitable for the study. The section also discusses the population of the study objects. It also explains nature of data to be collected and data collection method suitable for the nature of data. The study also explains data analysis tools to be used in the study. It looks at the appropriateness of the chosen tool and how the tools will be used to infer the outcome.

3.2 Research Design

In this study, descriptive survey was the research design since the objective of the research was to examine effects of corporate governance on financial performance of Deposit Taking Microfinance Firm's in Kenyan. Secondary data was sourced from financial statements of 13 DTMIs in Kenya. The Data collected was modelled and analysed using statistical tools and models to find out the relationship between corporate governance and financial performance.

3.3 Population

Population of the study was 13 Deposit Taking Microfinance Institutions in Kenya, (currently 13 in number, CBK, 2016).

3.4 Data Analysis

Data collected was subjected to diagnostic test and various statistical analysis methods and models so as to get connection between corporate governance and financial performance.

3.4.1 Diagnostic Test

Diagnostic tests were carried out on the data collected; this was to ascertain that the data collected was accurate and reliable for making population inferences. Some of the tests conducted on the data include normality, homoscedasticity and multi collinearity tests.

3.4.1.1 Normality Test

After collection of data, Normality Test was done using SPSS software to provide evidence of normal data distribution. Normality test was done using Shapiro-Wilk W and Kolmogorov-Smirnov Test.

3.4.1.2 Multicollinearity Test

Multicollinearity test was done to ascertain whether inaccurate variables were used in the study or whether variables computed from others were included in the data set. This is to avoid variables with multicollinearity predispositions because presence of multicollinearity in the data set affects regression result. Multicollinearity test was done using Variation Inflation Factors (VIF) on corporate governance variables to identify correlation between predictor variables and the strength of that correlation. The test was done using SPSS Statistical software to calculate Variation Inflation Factor for each independent variable.

3.4.1.3 Homoscedasticity

Homoscedasticity test was carried to establish the level of error term between independent and dependent variable. Presence of homoscedasticity across all variables affects the result of regression model. Using SPSS statistical software homoscedasticity was tested using scatter plots.

3.4.2 Analytical Model- Regression Model

After data collection and diagnostic tests done, data analysis was done using Statistical Package for Social Science Software. Regression Analysis was used to determine relationship between independent variable (corporate governance) and dependent variable (financial performance).

Below was a regression equation that was be used for this study:

$Y = \beta0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + \beta_4 * X_4 + \beta_5 * X_5 + €$

Where:

Y= Measure of financial performance of DTMFIs in Kenya. Return On Equity was the measure of financial performance of DTMI.

$\beta_{0=}$ Constant Term or value at y intercept.

$\beta_1, \beta_2, \beta_3, \beta_4, \beta_5$ illustrations of measures of Coefficients of Independent Variables (Corporate Governance Variables)

$X_{1=}$ Board Size - This constitute the number of directors in a firm and measured by natural logarithm of the total number of board members.

X_2 Board Structure- Board Structure defines the organization of the board into various operational committees. Board structure defines roles and the performance of the board and the company in general. Board Structure was evaluated based on availability of committees. The board with committees scored 1 while board without committees scored 0.

$X_{3=}$ Board Competencies- Board Competencies encompass diversity of technical and functional knowledge, skills and experience of the board members. Diversity was measured in terms of knowledge, skills and experience in i) Business related (Finance, Accounting, Marketing etc) ii) ICT, iii) Legal Practices, iv) Administration and Management and v) others. Total score was five for any firm with all the requisite skills that form fully diversified board.

$X_{4=}$ Board Composition- this was measured as a ration of the number of independent members in the board against total number of board members. Independent directors inject professionalism and bring the needed operation perspective that is objective and balanced since they are experienced professionals and are neither connected to the company nor its management.

$X_{5=}$ CEO-Chairman duality is an aspect where the CEO doubles up as the chairperson of the board. This was considered a binary variable. The measurement was 1 if the CEO doubles up as the chairperson and 0 if not.

€= Error Term or the error (residual) of observation. (This is a random error in prediction that is variance that cannot be accurately predicted by the model).

Data collected was be tabulated, logically organized, coded and cleaned-up into quantifiable forms to facilitate use of quantitative analysis tools as established in descriptive statistic research design. Regression will be used to establish correlation coefficients of independent (corporate governance) variables.

3.4.3 Test of Significance

In examining significance levels, hypotheses were tested using T-test, F- test and $R^{2.}$ This was in a bid to get the P-value for evaluating null and alternative hypotheses. To add precision to the findings as well as check on adequacy, Analysis of Variance (ANOVA) was also conducted. The tests aided evaluate hypothesis and provide precision against regression model results. F-test also aided finding out whether model used in data analysis provided suitability to the collected data. R-Squared on the other hand provided evidence of how well regression model fits the data.

CHAPTER FOUR

DATA ANALYSIS, RESEARCH FINDINGS AND DISCUSSIONS

4.1 Introduction

This chapter document research findings and data analysis. The study was set to assess effect of corporate governance principles on financial performance of DTMIs in Kenya. Secondary data was obtained from 13 DTMIs in Kenya. The chapter consist of illustrations of diagnostic tests, quantitative data analysis using various statistical tools and regression analysis and interpretation of the study findings. The empirical findings are then used to draw recommendations.

4.2 Response Rate

The study focused on Thirteen (13) Deposit Taking Microfinance Institutions in Kenya as shown by Central Bank data of December 2017. Secondary data was collected from all 13 DTMIs from annual reports and financial statement and as well from Central Bank periodic reports for the period under study.

4.3 Diagnostic Test

Diagnostic tests were carried out on the data collected to ascertain that the data collected is accurate and reliable for making population inferences. Some of the tests that were done include normality, homoscedasticity and multi collinearity tests.

4.3.1 Normality Test

Using statistical software SPSS Normality Test was done using Shapiro-Wilk Test and Kolmogorov-Smirnov test to provide evidence of a collected data being normally distributed.

The assumed objective or null hypothesis of the test was that the data is normally distributed. The software was configured such that, when significance or p-value is greater than α (0.05), it is insignificant and the null hypothesis is not rejected. The vice versa is true. The Kolmogorov-Smirnov test was more conclusive than the Shapiro-Wilk test and in the result Kolmogorov-Smirnov was given preference over Shapiro-Wilk in interpretations.

Table 1: Normality Test Result- Board Size

Normality Tests Output

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Size	.116	57	.055	.946	57	.013

a. Lilliefors Significance Correction

Considering Kolmogorov-Smirnov the p value is greater that α (0.05), showing insignificance and an indication that data is normally distributed.

Table 2: Normality Test Result- Board Structure

Normality Tests Output

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Structure	.425	57	.000	.595	57	.000

a. Lilliefors Significance Correction

The p value is less that α (0.05), showing significance and thus null hypothesis is rejected showing the data is not normally distributed

Table 3: Normality Test Result- Board Competencies

Normality Tests Output

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Competencies	.334	57	.000	.733	57	.000

a. Lilliefors Significance Correction

The p value is less that α (0.05), showing significance and thus null hypothesis is rejected showing data is not normally distributed.

Table 4: Normality Test Result - Board Composition

Normality Tests Output

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Board Comp	.159	57	.001	.911	57	.000

a. Lilliefors Significance Correction

The p value is less that α (0.05), showing significance and thus null hypothesis is rejected showing the data is not normally distributed

Table 5: Normality Test Result-CEO-Chairman Duality

Normality Tests Output

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Duality	.501	57	.000	.461	57	.000

a. Lilliefors Significance Correction

The p value is less that α (0.05), showing significance and thus null hypothesis is rejected showing the data is not normally distributed.

Table 6: Normality Test Result- ROE

Tests of Normality

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
ROE	.370	57	.000	.531	57	.000

a. Lilliefors Significance Correction

The p value is less that α (0.05), showing significance and thus null hypothesis is rejected showing the data is not normally distributed

4.3.2 Multicollinearity Test

This was done using the Variation Inflation Factor. The analysis for multicollinearity was configured such that if the VIF statistics are less than 10, then no presence of multicollinearity between the predictor variables. On the other hand, if the Tolerance statistics are more than 0.2, then no presence of multicollinearity between the predictor variables.

Table 7: Multicollinearity Test Result

Coefficients[a]

Model		Collinearity Statistics	
		Tolerance	VIF
1	Board Size	.525	1.905
	Board Structure	.711	1.406
	Board Competencies	.802	1.247
	Board Composition	.543	1.843
	Duality	.347	2.882

a. Dependent Variable: ROE

From table 7 above there is no presence of multicollinearity between predictor variables because VIF values are less than 10 and as well there is no Tolerance value that is less than 0.2.

4.3.3 Homoscedasticity Test

Homoscedasticity test was carried out to establish the level of error term between independent and dependent variables. This was done using scatter plots. The plotted points must form a line of best fit to indicate homoscedasticity.

Figure 2: Homoscedasticity Test Board Size

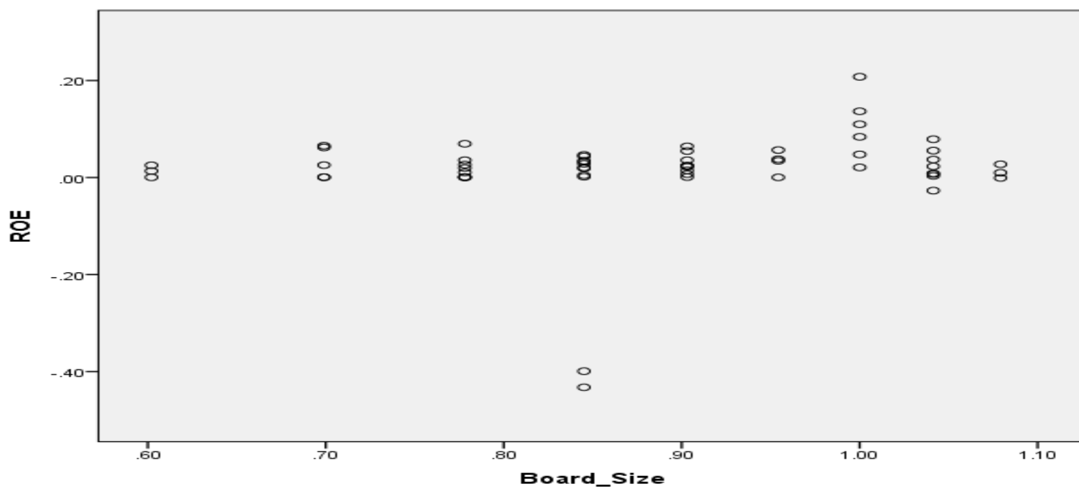

Figure 2 shows lack of line of best fit hence no homoscedasticity but presence of heteroscedasticity for Board Size Variable

Figure 3: Homoscedasticity Board Structure

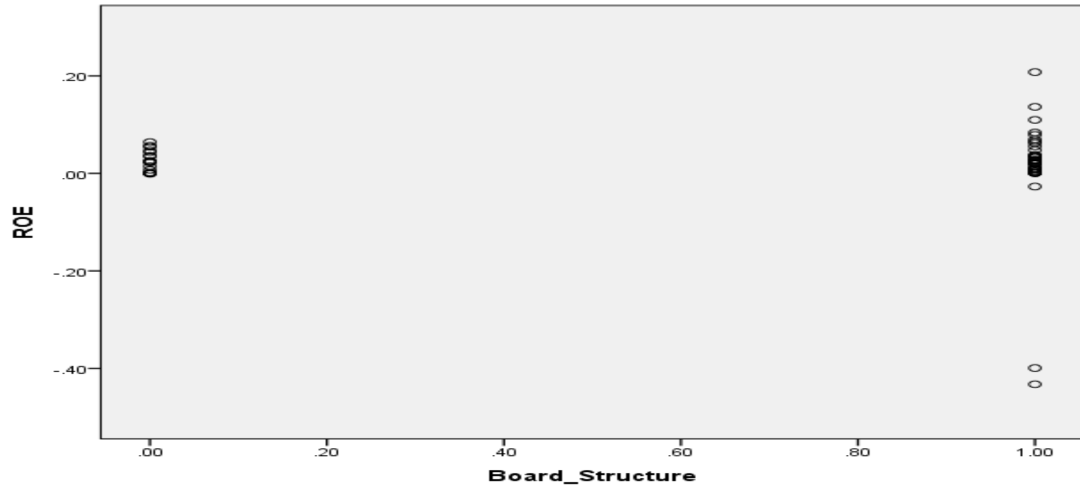

Figure 3 shows majority of plots on the right-hand side of which line of best fit can be drawn hence an indication of presence of homoscedasticity.

Figure 4: Homoscedasticity Board Competencies

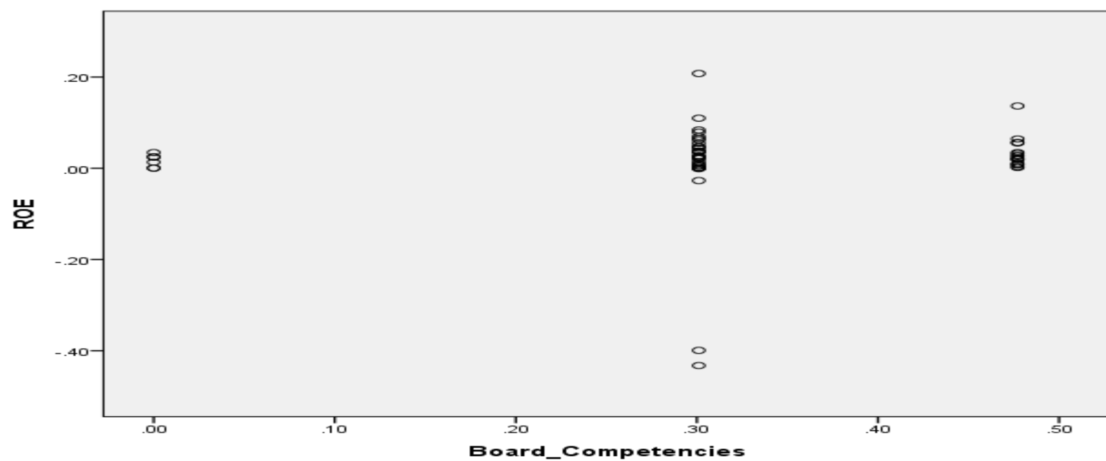

Figure 4 shows lack of line of best fit hence no homoscedasticity but presence of heteroscedasticity for Board Size Variable

Figure 5: Homoscedasticity Board Composition

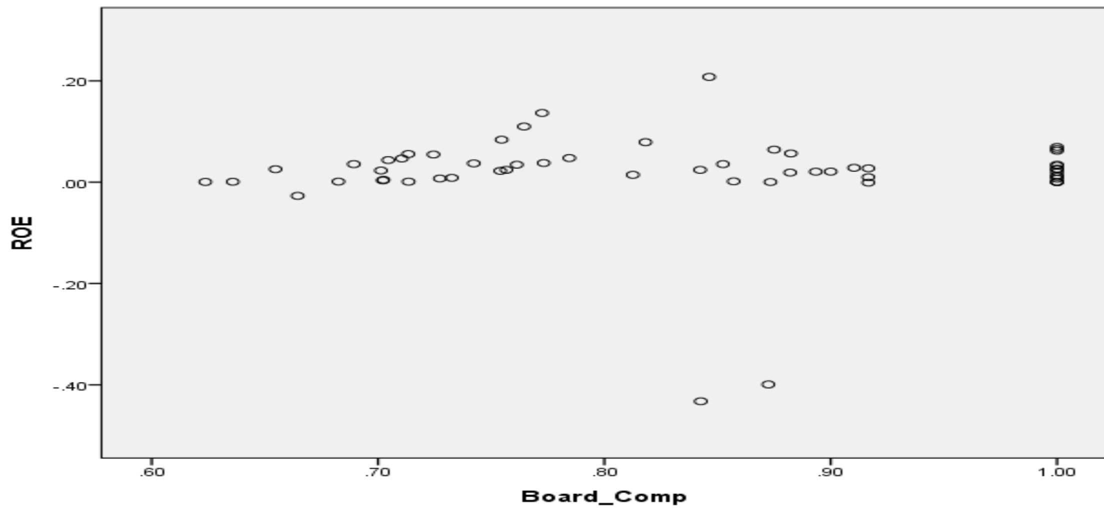

Figure 5 shows pattern in which line of best fit can be drawn hence an indication of presence of homoscedasticity.

Figure 6: Homoscedasticity output -CEO-Chairperson Duality

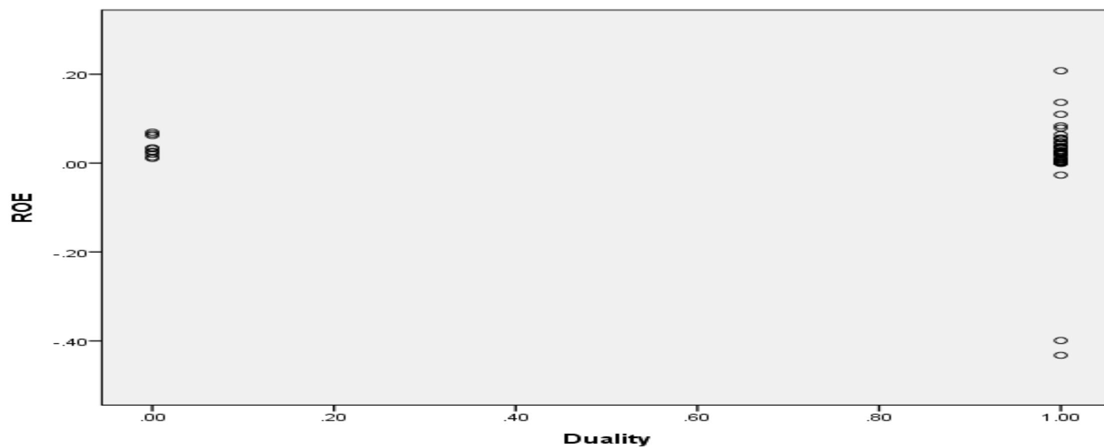

Figure 6 shows majority of plots on the right-hand side of which line of best fit can be drawn hence an indication of presence of homoscedasticity. In all considerations the presence of normality and homoscedasticity in an independent data series, indicate also presence of linearity.

4.5 Regression Analysis

A multivariate regression analysis was done on the variables both dependent –ROE and Independent variables of Corporate Governance including Board Size, Board Structure, Board Competencies, Board Composition and CEO-Duality.

4.5.1 Regression Model

Table 8: Model Summary

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.343[a]	.118	.032	.08993

a. Predictors: (Constant), Duality, Board Competencies, Board Structure, Board Composition, Board Size

From the outcome in the Table above, the value of R square was 0.118, a discovery that 11.8% of the deviations in ROE is caused by corporate governance variables included in the study. Other variables not included in the model justify for 88.2% of the variations in ROE.

4.5.2 Analysis of Variance

Table 9: Analysis of Variance

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.055	5	.011	1.364	.253[b]
	Residual	.412	51	.008		
	Total	.468	56			

a. Dependent Variable: ROE

b. Predictors: (Constant), Duality, Board Competencies, Board Structure, Board Composition, Board Size

F-test was carried out to establish the significance of the overall model. The formulae for calculating the critical value for the F test is;

$\mathbf{F} = (SSE_1 - SSE_2 / m) / SSE_2 / n\text{-}k$

Where; SSE = Residual sum of squares,

m = Number of restrictions

k = Number of independent variables.

Using F-Test Tables a critical value of 2.39660478 was obtained. To test for significance, F-Test obtained must be greater than the critical value. The F statistic indicated in the study findings (1.364) is less than the critical value (2.39660478), thus the overall model

is not significant to predict stock ROE. Corporate governance therefore cannot be used to explain financial performance.

4.5.3 Coefficients of Regression Analysis

Table 10: Model Coefficients

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	T	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	.080	.161		.499	.620	-.243	.403
	Board Size	.259	.129	.366	2.018	.049	.001	.518
	Board Structure	-.051	.030	-.265	-1.699	.095	-.111	.009
	Board Competencies	-.024	.098	-.036	-.243	.809	-.221	.173
	Board Composition	-.178	.135	-.234	-1.312	.195	-.449	.094
	Duality	-.124	.053	-.521	-2.334	.024	-.231	-.017

a. Dependent Variable: ROE

Considering the coefficients of the variables, regression equation can be drawn as shown as:

$$Y = \beta 0 + \beta_1 * X_1 + \beta_2 * X_2 + \beta_3 * X_3 + \beta_4 * X_4 + \beta_5 * X_5 + €$$

$$Y = 0.080 + 0.259 * X_1 - 0.051 * X_2 - 0.024 * X_3 - 0.178 * X_4 - 0.124 * X_5 + €$$

Going by the equation if all factors are zero the ROE will be equivalent to 0.080

The significance of the individual coefficients was established using the T-Test. The T-Test critical value of ± 2.003241was obtained from the T tables. It was a two tailed test at the 5% significance level. Only board size and duality have a significant effect on ROE at the 95% confidence interval as exhibited by their t-statistic values which are +2.018 and -2.334 respectively thus greater than ± 2.003241 which is the critical value. Board size has a positive effect while duality has a significant effect.

4.6 Interpretations of Research findings

Using R squared output, the study findings show that Corporate Governance variables used in the study in unison insignificantly affect ROE (financial Performance) of Deposit Taking Microfinance Institutions by 11.8%. This is represented by R^2 0.118 as shown in table 8. This is an indication that other factors not considered in the study consists of 88.2%. This model shows insignificant relationship between corporate governance variables used in the study and financial performance of DTMIs represented by Return on Equity.

The coefficients as shown in Table 10 explains the variation in dependent variable (ROE) that can be attributed to changes in independent variables including board size, board structure, board composition, board competencies and CEO-Duality. The coefficient table show that the constant value β0 is 0.080 and the values of β_1, β_2, β_3, β_4, β_5 are 0.259, -0.051, -0.024, -0.178, -0.124 respectively for board size, board structure, board competencies and CEO-Duality. This indicates that a part from board size which positively affect the ROE the other corporate governance variables negatively affect ROE.

The significance of the individual coefficients was established using the T-Test. The T-Test critical value of ± 2.003241was obtained from the T tables. It was a two tailed test at the 5% significance level. Only board size and duality have a significant effect on ROE at the 95% confidence interval as exhibited by their t-statistic values. Board size has a positive effect while duality has a significant effect.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter presents summary of findings, draw conclusions and recommendations to the study of effects of Corporate Governance on Financial Performance of DTMIs in Kenya. The study also document limitations of the study and provided suggestion of areas for further research in this chapter.

5.2 Summary of findings

The objective of the study was to establish the effect of Corporate Governance on Financial Performance of Deposit Taking Microfinance Institutions in Kenya. Corporate Governance was the independent variable while financial performance was dependent variable. Corporate Governance as independent variable consisted of board size, board structure, board, board competencies composition and CEO-Chairperson Duality. Based on past empirical studies these variables were considered to possess high effects on financial performance of DTMI. The study was focused on 13 Deposit Taking Microfinance Institutions in Kenya.

Descriptive survey was the research design of the study. This was premised on the factor that there were only 13 Deposit Taking Microfinance. Secondary data was collected from all 13 DTMIs. The data collected was tested using diagnostic tools like normality, multicollinearity and homoscedasticity. In data analysis, regression analysis was the statistical model used. The study also considered error as a substantive component of

other variables not factored in the research model which could have significant effect on the research findings.

The model showed that corporate governance independent variables (board size, board structure, board competencies, board composition and CEO duality) used in the study in unison had 11.8% effect on financial performance of DTMIs as represented by R squared. This is an indication of significance effect from other factors not considered in the model which had 88.2% contribution. This is an indication of insignificance effect of the chosen corporate governance variables on financial performance as represented by ROE. Going by coefficients of individual predictor variables, a part from board size the other variables had negative effects on return on equity as a financial performance measure. Also looking at the P values only two variables board size and CEO Duality had significance effect on financial performance of DTMIs in Kenya.

5.3 Conclusion

This study examined effects of corporate governance on financial performance of DTMIs in Kenya. It was premised on Resource Dependence theory, Steward Theory, Agency theory and Stakeholders theory. Secondary data was collected from annual reports and financial statement of Deposit Taking Microfinance Institutions as well as Central Bank periodic reports for the period under study.

Secondary data collected was subjected to regression analysis. The model showed that corporate governance variables (board size, board structure, board competencies, board composition and CEO duality) factored in the study had 11.8% effect on financial performance of DTMIs as represented by R squared. This is an indication of significance

effect from other factors not considered in the model which had 88.2% contribution. The model thus showed insignificance effect of the chosen corporate governance variables on financial performance as represented by ROE.

In conclusion it can be said that corporate governance if looked in isolation has little or insignificant effect on financial performance of Deposit Taking Microfinance Institutions in Kenya. Corporate Governance is thus a factor that affects other functions and operation of DTMIs which in a sequential or chain reaction enhance their financial performance.

5.4 Recommendations

Based on the findings, it's apparent that Corporate Governance has little or insignificant effect on financial performance of DTMI if looked in isolation. The study recommends implementation of corporate governance principles in DTMIs in Kenya with a view to evaluating the effects on the other corporate functions, operations and departments, as these would bring out the long-term positive effects on financial performance. Failure in implementation of corporate governance principles can lead to unethical practices like insider lending, fraud, poor supply and contract management which might lead to collapse of Deposit Taking Microfinance Institutions and eventually have a ripple effect in the financial system of the economy.

From the data collected the study also recommends that the directorship should have persons with technical, functional and industry knowledge, skills and experience in Deposit Taking Microfinance management. Independent professionals should be including on the board to provide strategic direction to the firms.

Various supervisory and regulatory bodies and agencies like Central Bank and Association of Microfinance Institutions in Kenya (AMFI-K) should also exert efforts and insists on member institutions to embrace corporate governance by implementing corporate governance principles with strict adherences to the practice.

5.5 Limitations of the study

The study used secondary data of which some corporate Governance variables were qualitative data. Qualitative data was thus converted into quantitative data for analysis and in conversion process the grading could have been influenced by the researcher's knowledge, experiences and skills regarding corporate governance and practices of Deposit Taking Microfinance Institutions in Kenya. This kind of measurement is majorly subjective and dependent of researcher's opinion and judgement thus creating some level of predispositions in the research.

The study period was short as the study was considered five years, in this case most of corporate governance variables had not changed; these could have contributed to less significance of the effect of corporate governance on financial performance of DTMIs as found out by the model.

Control variables were not factored in the data analysis model posing a change of absolute correctness in findings. It could be that other factors affect more financial performance of DTMI than corporate governance factor.

5.6 Suggestions for Further Research

The findings of this study were limited to establishing the effect of Corporate Governance on financial performance of Deposit Taking Microfinance Institutions in Kenya. The study didn't factor in control variables. Further studies would be appropriate in which control variables are factored in the model to establish the relationships and effects of governance on financial performance of DTMI in Kenya.

The study narrowed down to secondary data, it is also recommended that further group studies should be carried out with a view of collecting data from different sources both secondary and primary, subjecting the data into expertise discussion groups in the process of conversion of qualitative data to quantitative data so as to get accurate variable measurements. This will eventually lead to high level of precision on finding as well as support in drawing appropriate conclusions and recommendations.

The study also focused on one profitability measure of financial performance of DTMI that is to say; Return on Equity. Further studies should also be carried out to establish the effects of governance on performance of other profitability measures such as Net Profit Margin and Return on Asset.

The study was conducted for a period of five (5) years from 2013-2017, this probably could be the course of small realization of significance of the effects of corporate governance on financial performance of Deposit Taking Microfinance Institutions in Kenya. A suggestion for longer period of study should thus be designed to establish whether the effects of governance on financial performance of DTMIs will have significance variation.

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APPENDICES

Appendix I- List of Deposit Taking Microfinance Institutions

Kenya CBK Licensed Deposit Taking Microfinance Institution pursuant to Section 8(2) of The Microfinance (Deposit-Taking Microfinance Institutions) Regulations, 2008,

Table of Deposit Taking Microfinance Institutions

No	Name of Deposit Taking Microfinance		
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		
9	U & I Microfinance Bank Limited		
10	Daraja Microfinance Bank Limited		
11	Choice Microfinance Bank Limited		
12	Caritas Microfinance Bank Limited		
13	Maisha Microfinance Bank Limited		

Source: Central Bank Website- (www.centralbank.org)