

**CORPORATE GOVERNANCE AND PERFORMANCE OF DEPOSIT TAKING
MICROFINANCE INSTITUTIONS IN KENYA**

BY

NAOMI NYAMBURA KIMANI

**A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE
REQUIREMENTS FOR THE AWARD OF THE DEGREE OF MASTER OF
BUSINESS ADMINISTRATION IN FINANCE, FACULTY OF BUSINESS &
MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI**

NOVEMBER 2021

DECLARATION

This research project is my original work and has not been presented for a degree in any other University.

Signature Naomi Date 10th NOV 2021

Naomi Nyambura Kimani

D61/5091/2017

This research project has been submitted for examination with my approval as the University supervisor.

Signature Iraya Mwangi Date 10 NOV 2021

Prof. Iraya Mwangi

ACKNOWLEDGEMENT

I would like to appreciate my supervisor, Prof. Cyrus Iraya Mwangi. He has guided me well throughout this paper. With his guidance, this project was a success. I also appreciate the lecturers at the University of Nairobi, Finance and Accounting department. They shared knowledge with me which enabled me to write this paper and go through the course with ease.

DEDICATION

I dedicate this paper to my family, my husband and my child who were for me supporting me throughout, my parents and siblings.

TABLE OF CONTENTS

DECLARATION	ii
LIST OF ABBREVIATIONS	vii
ABSTRACT	ix
CHAPTER ONE: INTRODUCTION	1
1.1 Background to the Study.....	1
1.1.1 Corporate Governance	2
1.1.2 Financial Performance	2
1.1.3 Corporate Governance and Financial Performance	3
1.1.4 Deposit Taking Microfinance Institutions in Kenya.....	3
1.2 Research Problem	4
1.3 Research Objective	5
1.4 Value of the Study	5
CHAPTER TWO	7
LITERATURE REVIEW	7
2.1 Introduction.....	7
2.2 Theoretical Review.....	7
2.2.1 Agency Theory.....	7
2.2.2 Stewardship Theory	7
2.2.3 Stakeholders Theory	8
2.3 Determinants of Financial Performance	8
2.3.1 Corporate governance	8
2.3.2 Capital Structure	9
2.3.3 Liquidity of the Firm.....	9
2.4 Empirical Review	10
2.4.1 International studies	10
2.4.2 Local Studies.....	12
2.5 Conceptual Framework.....	14
2.6 Summary of Literature.....	15
CHAPTER THREE	16
RESEARCH METHODOLOGY	16

3.1 Introduction.....	16
3.2 Research Design	16
3.3 Population	16
3.4 Data Collection	16
3.5 Diagnostic tests	16
3.6 Data Analysis.....	17
3.6.1 Analytical Model	17
3.6.2 Measurement of Variables	18
3.6.3 Test of Significance	18
CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS	19
4.1 Introduction.....	19
4.2 Descriptive Statistics.....	19
4.3 Diagnostic Tests.....	21
4.4 Correlation Analysis	23
4.5 Regression Analysis.....	23
4.6 Discussions	25
CHAPTER FIVE	27
SUMMARY, CONCLUSION AND RECOMMENDATIONS	27
5.1 Introduction.....	27
5.2 Summary of Findings.....	27
5.3 Conclusions.....	28
5.4 Policy Recommendations	28
5.5 Limitations of the Study	29
5.6 Recommendations for Future Studies.....	29
REFERENCES.....	31
APPENDICES	35
Appendix I: Licensed Deposit Taking Microfinance Institutions In Kenya.....	35
Appendix II: Data Collection Schedule	36

LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
CEO	Chief Executive Officer
COVID	Corona Virus Disease
DTMFI	Deposit Taking Microfinance Institution
MFI	Microfinance Institution
ROA	Return on Asset
ROE	Return on Equity
SACCOs	Savings and Credit Co-operatives
SASRA	Sacco Societies Regulatory Authority
SPSS	Statistical Package for the Social Sciences

LIST OF TABLES

Table 3.1: Measurement of Variables	18
Table 4.2: Descriptive Statistics	19
Table 4.3: Multicollinearity Test	21
Table 4.4: Normality Test	21
Table 4.5: Heteroskedasticity Test.....	22
Table 4.6: Specification Test	22
Table 4.7: Correlation Analysis	23
Table 4.8: Regression Analysis.....	23

ABSTRACT

The study sought to establish the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya based on all 13 DTMFIs licensed by Central Bank of Kenya (CBK). This paper employed descriptive design on 6 deposit taking microfinance institutions that existed between 2011 and 2020. Secondary data were collected from individual firm annual reports published by association of microfinance institutions-Kenya using data collection schedule. Utilizing measures of central tendency and regression investigation, STATA 13 was used for analysis. The study found that board diversity, capital structure and liquidity had a significant relationship with financial performance (return on equity). The study, on the other hand, found that board size, board independence and audit committee had no significant relationship with financial performance. The study concludes that board diversity has a negative effect on financial performance of deposit taking microfinance institutions. It also concludes that capital structure has a positive effect on financial performance and that liquidity has a negative effect on financial performance of deposit taking microfinance institutions in Kenya. The study, finally found that board size, board independence, board diversity, audit committee, capital structure and liquidity made the highest contribution to the change in financial performance of the deposit taking microfinance institutions between 2011 and 2020. The study recommends that deposit taking microfinance institutions in Kenya reduce the number of females in their boards; increase their level of debt in their capital structure; increase their current assets in order to enhance return on equity and reduce the current liabilities to increase their financial performance.

CHAPTER ONE: INTRODUCTION

1.1 Background to the Study

In the last two decades, corporate governance challenges in both the private and public sectors have been a hot topic of debate (Hartarska 2005). Governments around the world has imposed several legislative reforms and regulations on public and private organizations to strengthen their governance systems. It is thus vital to emphasize that the concept of MFI and very large company corporate governance has been a priority on the legislative agenda in developed market economies for more than a decade (Bassem 2009). Furthermore, the concept is gradually gaining traction across the African continent as a priority. Indeed, it is thought that the business sector's poor performance in Africa has made the subject of corporate governance a hot topic in the development debate. As a result, several events have heightened interest in corporate governance, particularly in both developed and developing countries.

Agency, stewardship, and stakeholder theories were used to guide the research. According to agency theory, administrators will not act to boost investor returns unless appropriate management frameworks are put in place by organizations to protect investors' interests (Jensen & Meckling, 1976). The stewardship idea states that managers are excellent stewards of their firms and strive tirelessly to achieve a high level of corporate advantage and investor returns. Stakeholder theory is concerned with how managers and stakeholders operate and perceive their actions and roles in the real world.

Corporate governance has been identified as a critical impediment in improving DTMFI financial performance and expanding microfinance outreach in Kenya (Christian, 2019). Despite the fact that DTMFIs have immense potential for national growth in Kenya, they continue to function badly (Muthama & Warui, 2021). In a nutshell, this low performance reflects weak corporate governance practices by boards of directors or other entities tasked with the job of supervising the DTMFIs. If DTMFIs are to perform well financially and sustainable for social-economic development, they must adopt sound governance (Wanjiru & Omagwa, 2019). Despite the fact that the tight regulatory framework being put in place by Central Bank, corporate governance in deposit taking MFI sector is still weak in Kenya (Mang'unyi, 2017).

1.1.1 Corporate Governance

Corporate governance, according to the Australian Standard (2003), is the method through which organizations are directed, managed, and held accountable. This means that in the course of managing organizations, corporate governance comprises the jurisdiction, responsibility, stewardship, leadership, directions, and controls exercised. Corporate governance, according to O'Donovan (2006), is an internal structure involving policies, processes, and people that lead and control management actions with excellent business intelligence, objectivity, and integrity to serve the demands of shareholders and other stakeholders.

Good corporate governance assists the firm in risk management and the prevention of corruption (Castro, Phillips & Ansari, 2020). Scandals and fraud are much surer to emerge when directors and senior management are really not obligated to adopt a defined governance code. The board must meet regularly to see how well the company works, keep control of the company, and monitor those already in management (McGovern, 2021). Moreover, a good corporate governance system could specifically address every company officer's obligation and encourage them to keep considering them in decision making. The safety of the employees, officials, and administration is also ensured by a competent corporate governance system (Nassar & Jreisat, 2020).

Corporate governance is gauged through board size and board characteristics (Kyere & Ausloos, 2021). Jiang and Kim (2020) gauged it through board diversity and board composition. On the other hand, Bhagat and Bolton (2019) gauged corporate governance through the number of independent directors compared to the total number of the directors. Alabdullah, Ahmed and Muneerali (2019) measured corporate governance in terms of number of female directors, size of the board, and the number of independent directors.

1.1.2 Financial Performance

Financial performance refers to an establishment's capacity to obtain and allot resources throughout a precise period, as assessed by capital adequacy, liquidity, indebtedness, efficacy, leveraging, and incomes (Fatihudin, 2018). Financial performance illustrated as the extent to which a business's financial soundness is assessed with time (Naz, Ijaz & Naqvi, 2016). Financial performance has many aspects and denotes an establishment's capability to earn revenue and grow (Njeri 2014).

Looking at a business's financial performance might give investors insight into its general wellbeing (Ongore & Kusa, 2013). It's a snapshot of the company's financial health and management success, revealing the capability: if processes and earnings are currently on a fast track, and even the stock price prospects. Its fundamental goal is to provide complete and up-to-date information to shareholders and stakeholders so that they may make informed decisions (Grzyl, Miszewska-Urbańska & Apollo, 2017). It can be used to compare industries in aggregate or to evaluate similar enterprises in the same industry.

Institutional financial performance is typically assessed utilizing a range of ratios, comparisons, performance per budgeting, or a combination of these approaches (Jha & Hui, 2012). To assess corporate performance, the firm measures it in monetary terms using numerous accounting practices such as return on asset, return on equity, return on sales, operation income, net asset value, earnings before interest and tax (Schniederjans 2013). Financial performance is also measured in terms of profitability ratios. Financial performance is also measured in terms of net profits, return on sales, return on assets and investments (Almajali, Alamro & Al-Soub, 2012). Financial or ratio assessment is one of the most effective ways to assess a sector's financial performance (Ahsan, 2016).

1.1.3 Corporate Governance and Financial Performance

Based on the agency theory corporate governance enhances financial metrics in a firm. The theory states that governance attributes improve company performance in numerous ways, through agency cost reduction. Within an individual firm and across an economy, the presence of a strong corporate governance structure provides a level of predictability that is critical for the best possible functional market economy.

Empirically, corporate governance has shown an impact on financial performance of organizations. Some researchers discovered a positive effect (Crocì et al. 2020; Shen et al., 2020). Others discovered a negative effect while others showed a negative effect (Adedeji et. al, 2020; Murhadi, 2021). On the other hand, others indicated no effect (Kyere & Ausloos, 2021; Aktan, Turen, Tvaronavičienė, Celik & Alsadeh, 2018). This shows that the relationship between corporate governance and financial performance shows mixed results.

1.1.4 Deposit Taking Microfinance Institutions in Kenya

Microfinancing 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 DTMFIs 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.

MFIs are for-profit businesses with social goals. MFIs of all sorts strive to achieve both monetary and social objectives, but private equity MFIs, particularly regulated entities, are compelled by laws to preserve liquidity and by design to generate a profit. With these powerful factors pressuring MFIs to emphasize on financial performance, staying engaged on social aims can be difficult for MFIs especially those in emerging economies. As MFIs grow through small operations into bigger, increasingly complex entities, there is need to establish and develop corporate governance structures to enable transition. 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

The impact of corporate governance standards on business financial performance has become a hot topic of discussion. This is significant since key elements like board makeup, board committees, meeting frequency, and general meeting resolutions can all have an impact on financial performance, either directly or indirectly. Corporate governance aims to promote effective and accountable businesses, as well as genuine institutions that are administered with probity, transparency, and stakeholder recognition and rights. A well-functioning corporate governance framework allows an organization to attract investment, raise finances, and strengthen the overall position of the company (Iskander & Chamlou, 2010).

The performance of deposit taking microfinance institutions improved in the year ended December 31, 2019 (CBK, 2020). Despite the sector experiencing improved performance, deposit taking microfinance institutions experienced dwindling financial performance. Just four deposit-taking microfinance organizations declared profits in 2020, while the other nine recorded losses. Kenya Women Microfinance Bank PLC, that posted a pretax loss of Ksh.525 million, was the largest source of the loss-making status (CBK, 2020). The improvement in the financial performance in the deposit taking microfinance institutions would increase the

contribution of the sector to the economy (Korir, 2014). Improved financial performance would also enhance growth in the firms which would create employment opportunities.

The issue of corporate governance and financial performance has been studied by various scholars. Globally, Kyere and Ausloos (2021) studied corporate governance and firms' financial performance in the United Kingdom; Okoye, Olokoyo, Okoh, Ezeji and Uzohue (2020) did research on the effect of corporate governance on the financial performance of commercial banks in Nigeria. Locally, Omware, Atheru, and Jagongo (2020) explored the link in respect to corporate governance and financial performance of selected banks; Gitonga and Miano (2020) looked into the influence of corporate governance strategies on the performance of deposit-taking saccoes in Kiambu; and Munyasia (2018) examined impact of corporate governance on performance of saccoes. Notwithstanding the studies concentrating on corporate governance and performance researchers focused on other firms other than deposit taking microfinance institutions. This shows that a research gap exists in corporate governance field and financial performance in deposit taking microfinance institutions. This study sought to answer the question: what is the relationship between corporate governance and financial performance of deposit-taking microfinance institutions in Kenya?

1.3 Research Objective

To establish the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya

1.4 Value of the Study

Managers gain from an awareness of the importance of corporate governance principles with the purpose of improving their firm's image, which will lead to improved financial performance. The vast majority of businesses engage in initiatives aimed at improving their corporate image, and the ideal people to promote these efforts are the company's directors and managers. It will also assist corporate supervisors and policymakers in investigating corporate governance concerns inside their firms with the goal of enhancing the organization and establishing discipline in the management of Deposit Taking Microfinance organizations.

Scholars interested in pursuing additional research focused at improving Kenya's corporate governance arrangements. In this way, academicians, who are regarded as scholarly people, have a major responsibility in instilling the elements of corporate governance in the minds of young experts, particularly when it comes to inspecting the bearing of different aspects of

corporate governance on the performance of other industry players. This paper will be beneficial as a working document for scientists, particularly those focusing on MFI, investment, and public finance.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This component of scientific report is about the literature, both theoretically and empirically. Conceptualization is sometimes given in combination with financial performance criteria.

2.2 Theoretical Review

This section reviews the various theoretical foundations of this research. This is done by discussing the various corporate governance theories and relating them to corporate governance and financial performance. The theories include agency, stewardship and stakeholders' theory.

2.2.1 Agency Theory

Connection between agents and principals is the foundation of corporate governance. Jensen and Meckling (1976) founded the agency theory. Agency theory describes in what way to best utilize the interaction between representatives and principals in order to control a firm and achieve its objectives. With the rise of the major corporation, there was a greater focus on agency partnerships. Because capital owners (principals) lack the necessary skills and time to properly run their businesses, they entrust control and day-to-day operations to agents (managers). As a result, the separation of ownership and control can lead to agency issues. Principals and agents have clearly defined roles in an agency partnership; principals pick and install directors and auditors to guarantee that a sound governance structure is in place, whereas agents seem to be in charge of the enterprise's daily activities (Noriza & Norzalina, 2007).

According to agency theory and this study, agency costs might result in a large loss of value for investors due to premiums disparity among financial experts and business directors. Furthermore, there is the difficulty of impeccably obtaining an agent whose decisions will affect his own well-being as well as the well-being of the principal, because initiating the agent's activity to the principle's best advantage is a problem.

2.2.2 Stewardship Theory

According to the proprietor of the hypothesis (Donaldson & Davis, 1994) managers are exceptional stewards of their companies, working diligently to attain abnormal company profit and shareholder returns. Their argument is that senior executives will not annoy shareholders

because of a paranoid fear of jeopardizing their reputation. As a result, corporate executives are viewed as trustworthy individuals who are excellent custodians of the resources allocated to them.

Advocates of this theory argue that higher company performance is linked to a higher percentage of inside executives working to maximize shareholder profit (Yasser, Al Mamun & Seamer, 2017). The reason for this is because internal executives have a greater understanding of the business, they manage than outside directors, allowing them to make better decisions. In the case of a prevailing dynamic shareholder, particularly when a substantial investment is a government or a member of a family, boards might become simply repetitive.

2.2.3 Stakeholders Theory

Freeman (1984) came up with this theory. This theory is associated as to how stakeholders perform and perceive their actions and roles in the real world. The instrumental stakeholder theory is concerned with how managers should conduct in order to favor and work in their own best interests (Jones, 2016). In some texts, their own interests are construed as the organization's interests, which are normally to maximize profit or shareholder value. This suggests that organizations will be more successful in the future if executives address stakeholders in accordance with the stakeholder idea.

Customers, suppliers, employees, and community groups are just a few of the significant stakeholder groups for adherents of the stakeholder theory of the firm (Boatright, 2012). Shareholders have a stake in the company's success or failure and are affected by it. A firm has varied responsibilities to various stakeholder groups, just as it has diverse responsibilities to its investors. The company and its managers have unique responsibilities to guarantee that shareholders get a fair return on their investment, but they also have responsibilities to other stakeholders that go beyond what is required by law (Mejia, 2021).

2.3 Determinants of Financial Performance

This section describes the determinants of financial performance. The relationship with financial performance is also shown based upon the findings of various authors that have studied the variables.

2.3.1 Corporate governance

Corporate governance is a key factor affecting financial performance. Corporate governance affects financial performance through independence of the board, it's size and gender

composition. Per the agency literature, supervision and advising roles of governance aspects as per the controlling and directing managerial actions which enhances business performance in a variety of ways, including reducing information asymmetry. Khatib et al. (2020) underlined corporate governance's policy-making role, stating that directors have an impact on business performance through policy setting.

Empirically, corporate governance has produced mixed results on financial performance. Croci et al. (2020) established that corporate governance improved financial metrics in firms. This was supported by Shen et al. (2020) who indicated a direct effect of corporate governance on financial performance. However, Adedeji et al (2020) established a negative effect of corporate governance on financial performance.

2.3.2 Capital Structure

Capital structure, as defined by Naveed, Ramakrishnan, Anuar, and Mirzaei (2015), is a collection of several sources of funds that businesses use to fund day-to-day operations and future expansion. It is based on equity and debt composition, also known as hybrid financing. The process by which an organization finances its short- and long-term financial needs, preferred stock, and common stock, is referred to as capital structure (Osaretin & Michael, 2014). It is referred to as owner equity and debt carrying interest, which includes short-term bank loans. Capital structure is the process of establishing the structure, methods, and processes that protect the business's operations and ensure that it is run wisely to increase the value of equity in the longer term by making sure that managers are responsible for the actions. It also improves the organization's performance (Kajananthan & Nimalthasan, 2013).

Dao and Ta (2020) found a weak and direct consequence of corporate governance on financial performance. Nguyen and Nguyen (2015) on the other hand established that a negative effect of corporate governance on financial performance. The findings concur with those of Banerjee and Anupam De (2015) who established that there existed an adverse connection between corporate governance and financial performance. However, Wangombe and Kibati (2019) exhibited that corporate governance had no consequence on financial performance.

2.3.3 Liquidity of the Firm

Liquidity refers to the ease with which assets can be converted into cash (Graham, 2010). According to Padachi (2016), organizations must balance their liquidity levels for the purpose of improving their financial performance. Organization liquidity has indeed been identified as a factor influencing a company's financial performance (Almajali et al 2012).

According to Graham (2010), liquidity is measured using liquidity ratios. They are the current assets to current liabilities ratio and the quick assets less inventory to current liabilities ratio. It has been discovered that the current ratio provides a more realistic measure of liquidity. As a result, the current ratio is used as a measure of liquidity in this study. Nyabwanga et al (2013) discovered that liquidity and financial performance had a favorable link. Liquidity had a detrimental impact on financial performance, according to Kamau and Njeru (2016). However, Enekwe, Nnagbogu, and Agu (2017) discovered no link between the two.

2.4 Empirical Review

This section reviews similar studies done by other researchers. The international and local studies were reviewed with the critical review done to show the gap.

2.4.1 International studies

In the United Kingdom, Kyere and Ausloos (2021) investigated corporate governance and financial performance. By means of cross-sectional regression methods, corporate governance procedures stand evaluated on 2 financial performance pointers: return on assets and Tobin's Q. The results of an empirical test conducted on 252 companies on London Stock Exchange in 2014 exhibit a direct or adverse link, nonetheless occasionally no influence, between corporate governance procedures and financial performance. This study relates corporate governance and financial performance similar to my research. The paper used return on assets and Tobin's Q to represent financial performance. In my study I used return on equity to measure financial performance. This research also seems to use listed firms similar to my research which makes it great piece to review. It also used secondary data like my study which I believe supports my methodology. However, the results may be different as the research was done in London which may experience different economic conditions from Nairobi, Kenya. The paper based the analysis on all listed companies with my study focusing on DTMFIs which may give different results.

Aktan et al. (2018) looked into the corporate governance and performance of Bahraini financial enterprises. Research is based on annual data from all Bahrain Bourse-listed financial firms from 2011 to 2016. A company's return on assets (ROA) is directly with ROE inversely influenced by board size, ownership structure, and the credibility of its auditor, while its return on investment (ROI) is adversely influenced by the fraction of independent directors as well as the number of business session conducted each year. ROI as well as ROE are not affected by CEO duality, implying that this was not an important factor in determining organizational

effectiveness. Furthermore, the size and leverage of a company are proven to have a negative and minor impact on its performance. This paper despite adopting variables similar to my study, they targeted financial institutions other than specifically DTMFIs. Return on assets was used as the measure of financial performance which is a different measure from return on equity used in my research. The research shows that corporate governance influences the measures of financial performance differently which creates a confusion on the relationship.

During the COVID-19 epidemic, Khatib and Nour (2021) evaluated the influence of corporate governance on firm performance in Malaysia. 188 non-financial enterprises from Malaysian market will be used as a sampled data set for this report's 2019-2020 period. The COVID-19 outbreak had such an influence on all company features, the study states. There is, however, no substantial difference between the period prior to and following the COVID-19 contagion. In addition, the study found that the size of the board has a significant direct influence on performance. Meetings of executive and audit committees appeared to have a considerable detrimental impact on pre-COVID-19 and post-COVID-19 performances. This paper seems to base the corporate governance and firm performance on the event called Covid-19. However, my paper does not adopt an event study methodology but a descriptive type. The analysis was based on non-financial firms with the current research based on financial firms of DTMFIs. The research used data from a 2-year period with my research basing research on a 10-year period. The Malaysian market may differ in terms of economic conditions with the Kenyan market hence may not give similar results.

Murhadi (2021) looked and examined how corporate governance affects firm performance and dividends in three Asian countries. A selection of manufacturing establishments from 3 third world nations is used in this study. Indonesia, Malaysia, and Thailand, to name a few. Board qualities and ownership structure are the parameters that are used to describe corporate governance. The size of the board, the independence of the board, and the gender of the board are all factors to consider, while the ownership structure includes both managerial and institutional ownership. The findings suggest that corporate governance has no substantial impact on firm performance or dividends in Indonesia. In Malaysia, on the other hand, a female board has a beneficial impact on both performance and dividend payments. In Thailand, institutional ownership has a detrimental influence on both performance and dividends paid. Leverage and firm size have an influence on productivity and dividends across all three states, as per statistics. This was a comparative study which makes it different from my study. The research was based on manufacturing firms other than DTMFIs which may produce differing

results. The study also added dividends to firm performance as the independent variables. Some variables of corporate governance show favourable effect of corporate governance on firm performance with some elements of corporate governance showing adverse effects.

Okoye, Olokoyo, Okoh, Ezeji, and Uzohue (2020) investigated the impact of corporate governance on commercial bank financial performance in Nigeria. It employed the amount of the bank's governing board' stake as a surrogate of corporate governance, and even financial performance metrics like return on assets and return on equity. The researcher utilized firm size as a controlling variable. The estimation method employed was the Generalized Method of Moments. Ownership concentration, directors' shareholding, and company size each have a substantial influence on the level of finance performance of Nigerian banks, according to the research. In addition, the research shows that lagging return on equity seems to have a considerable influence on current performance. This paper used variable similar to my study. However, the research targeted commercial banks other than DTMFIs. Return on equity which will be adopted in my current research was used as one of the measures of financial performance. The Generalized Method of Moments was used for analysis with my research using a panel data regression model.

Rwakihembo, Kamukama, and Nsambu (2020) considered the size of corporate boards and their financial performance in Ugandan private limited firms. In addition to a cross-sectional study approach, the work used a positivist paradigm. In Western and Central Uganda, researchers acquired quantitative data from 394 businesses. Companies' board members and executives were given an open questionnaire to fill out. The data was analyzed using Pearson correlation and standard regression procedures. The data revealed a substantial positive association between the firm's performance and board size among private enterprises. This paper was based on private limited firms in Uganda with this research adopting DTMFI banks in Kenya. Primary data was utilized with my research utilizing secondary data. Pearson correlation was adopted for analysis with the current study adopting panel regression analysis.

2.4.2 Local Studies

Omware, Atheru, and Jagongo (2020) considered the link between corporate governance and financial performance of Kenya's Nairobi Securities Exchange-listed commercial banks. This study employed a cross-sectional and analytical research approach. The participants for this research were 11 banks listed for the Kenya Stock Markets. To acquire a sample representation of the complete population, purposeful sampling was performed. In this example, five of the

eleven bank CEOs were interviewed. The sampled bank's Chief Executive Officers and Senior Management Officers were given questionnaires to collect primary data. On the questionnaire survey plan, every other element had to address the study's distinctive components and ensuring that they were justifiable data gathering techniques. The Spearman Correlation Coefficient and Multiple Regression Analysis were performed to quantify the degree of the association and predict financial success, respectively, using the Statistical Package for Social Scientists. The investigation showed that corporate governance variables improved performance of commercial banks. This research targeted listed commercial banks other than DTMFIs. Primary sources other than secondary sources were utilized. The Spearman Correlation Coefficient and Multiple Regression Analysis were adopted with the current study adopting a panel data regression model. SPSS was used for analysis with my research using STATA software.

Gitonga and Miano (2020) investigated the influence of corporate governance requirements on the performance of deposit-taking saccos in Kiambu County, Kenya. The research design includes survey design to obtain information on the corporate governance in SACCOS in Kiambu County, Kenya. The study made use of both qualitative and quantitative methods. SASRA records and statistical data as from Ministry of Cooperatives were used to compile secondary data. To obtain primary data, top leadership of the selected SACCOS were given a closed-ended survey. In Kiambu County, Kenya, the target demographic was eight deposit-taking SACCOS and 200 SACCO managers. Every SACCO had quite a different number of responders in terms of size and number of top managements. Quantitative reports were generated using the SPSS Software, that are displayed in this research as tabulations, proportions, and descriptive statistics, along with inference information created using a linear relationship. Corporate governance practices have a direct influence on the performance. Despite the research basing the analysis on corporate governance and performance, the research was done in deposit taking Saccos other than deposit taking MFIs. Primary data was utilized other than secondary data. SPSS Software was used for analysis other than STATA software that will be used in my paper.

Munyasias (2018) examined the impact of corporate governance on the performance of Kakamega County's Saccos. The investigation used a descriptive survey as its research design. Study participants comprised departmental heads, Chief executives, two members of the Board of Directors, and 10 members of Kakamega County's selected six SACCOS. The data was collected from the respondents via a questionnaire. The measures of central tendency stats were

used for analysis. Management evaluations of Sacco governance have a considerable impact on Sacco performance. This paper was based in Saccos other than DTMFIs. Primary sources other than secondary sources of data were adopted. The paper shows that corporate governance impacts performance but fails to show the kind of relationship. The research adopted measures of central tendency for analysis with my research using panel regression model.

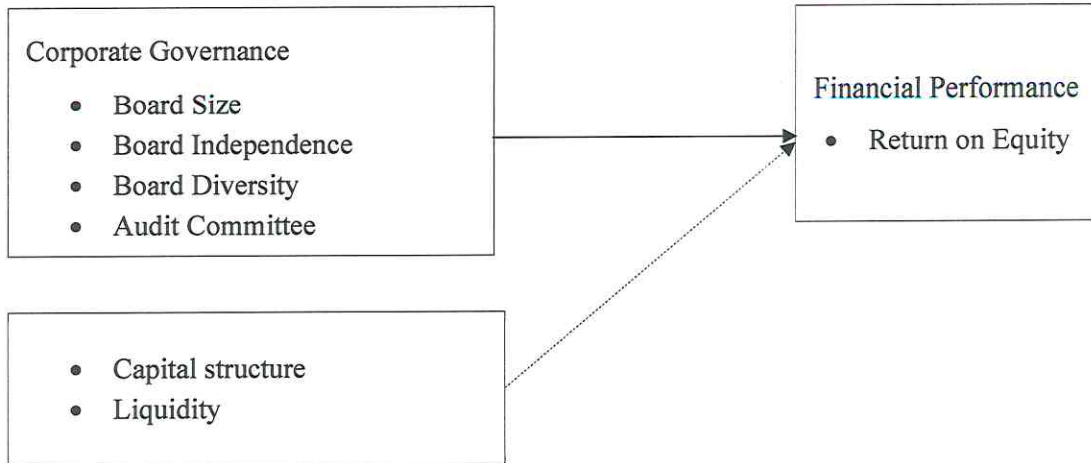
Mwendia (2018) looked into the financial performance and corporate governance policies of deposit-taking savings and credit co-operatives in Nairobi City County, Kenya. The study employed a descriptive research design. Around 2012 and 2016, approximately 37 Saccos in Nairobi City were studied. For the period, enterprises displayed phenomenal monetary development. Investigation gathered information utilizing a prepared form and historical information from financial reports submitted with the Sacco Society Regulatory Authority by Saving and Credit Cooperatives. SPSS-22 statistical analysis software was used to evaluate the data. The researchers used correlation and regression analysis. The size of the board of directors displayed a considerable adverse affiliation by financial performance. Financial performance is favorably connected with the gender mix of the board, members' educational backgrounds, ethnicity and transparency/accountability. This paper focused on deposit taking Saccos other than deposit taking MFIs. It was based on a five-year period similar to my research. Secondary sources of data were utilized similar to this research. SPSS was used to do analysis other than STATA. Correlation and linear regression was used for analysis with the current research using panel regression.

2.5 Conceptual Framework

The variables of the study were conceptualized graphically with their relationship shown by figure 2.1. The independent variable was corporate governance as measured by board size, board independence, board diversity and audit committee, while dependent variable was financial performance. Corporate structure and liquidity were used as control variables.

Independent Variable

Dependent Variable



Control Variables

Figure 2.1: Conceptual framework

2.6 Summary of Literature

Relevant topics that have been explored extensively in the literature. Regardless of the fact that there is a ton of research on corporate governance and financial success, much of the empirical research has been done outside of Kenya. The association between corporate governance and financial success was found to be equivocal within that research. The local studies that have focused on other sectors other than Saccos. The studies have also been done for different periods other than the focus period for this study [2011 and 2020].

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Methodology is discussed in detail in this article. The research design, populace, information gathering, and analytical tools are discussed in this section.

3.2 Research Design

This paper employed descriptive design. The descriptive design helps researchers describe a given population's characteristics or attributes while establishing the relationship between variables (Siedlecki, 2020). This design enabled the researcher to describe the attributes of corporate governance and financial performance. The design also enabled the researcher to show how corporate governance attributes relates to financial performance. This shows that the design was relevant and fits the research.

3.3 Population

Population relates to the conglomerate of units from which the researcher wants to make inferences to (Murphy, 2016). This research population was all DTMFIs in Kenya licensed by Central Bank of Kenya (CBK). There were thirteen (13) Deposit Taking Microfinance Institutions in Kenya (CBK, 2020). The DTMFIs licensed between 2011 and 2020 were targeted. The period was preferred as it offered the most recent data on corporate governance and financial performance of DTMFIs. This period saw a total of six (6) licensed DTMFIs in Kenya.

3.4 Data Collection

This investigation was based on data sources that are secondary in nature. The information was gathered from licensed DTMFIs for a period of ten years between 2011 and 2020. The data was collected from individual firm annual reports published by AMFI. A data collection schedule was used to collect data as shown by Appendix II. The data collection schedule contained information on board of directors, non-executive directors, female directors and CEO directors. The schedule was also containing data relating to total debt, total equity, profit after tax, current assets, and current liabilities.

3.5 Diagnostic tests

This research paper carried out various diagnostics to check on the assumptions of regression models. This involved multicollinearity, normality, heteroskedasticity and model specification. Multicollinearity defines the linearity nature of independent or predictor variables. It occurs when independent variable's display nearly or linear relationship (Burns & Burns, 2018). Variance Inflation factor (VIF) was adopted for multicollinearity test.

Normality test assumes the normally distribution of residuals around the mean. The study adopted the Shapiro-wilk test for normality. The null hypothesis is that residuals are normally distributed. If the p-value is above 0.05 we fail to reject the null hypothesis. Where the p-value is less than 0.05 we reject the null hypothesis.

Heteroskedasticity test was done to establish whether the error term variance is constant over time. Homoscedasticity stipulates a write up with similar scatter. One basic assumption of OLS is that over time the error term should vary. The null hypothesis is that the error term is constant over time. Breusch Pagan Test was done to check for heteroscedasticity.

The specification test detects predictor variable in regression models. The Hausman specification test was used and assisted determine if a predictor variable is endogenic. The null hypothesis is that the random effect model is preferred and the alternative hypothesis is the fixed effects model. The test assisted in picking between random effect models or fixed effect models.

3.6 Data Analysis

Utilizing measures of central tendency and regression investigation, the data was analyzed. STATA 13 was used to generate the statistics. Descriptive statistics related to frequency, percentage, mean, standard deviation, minimum and maximum. Panel regression model was used to establish the effect of corporate governance on financial performance. Pearson correlation model was used to show the relationship between the variables.

3.6.1 Analytical Model

The panel regression model took the form of:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 X_{4it} + \beta_5 X_{5it} + \beta_6 X_{6it} + e$$

Where;

Y_{it} - Financial performance as measured by return on equity of firm i at time t ,

β_0 is the constant term

X_{1it} – Board size as indicated by the number of directors of firm i at time t ,

X_{2it} – Board independence indicated by ratio of non-executive to total directors of firm, i at time, t

X_{3it} – Board diversity indicated by ratio of female directors to board members of firm, i at time, t

X_{4it} – Audit Committee as gauged by ratio of audit committee members in the board of firm i at time t

X_{5it} – Capital structure as gauged by debt-to-equity ratio of firm i at time t

X_{6it} – Liquidity measured by current ratio

ϵ = Other predictor variables

3.6.2 Measurement of Variables

Table 3.1: Measurement of Variables

Variable Type	Variable	Indicators	Measurement
Dependent	Financial performance	Return on Equity	Profit after tax/total equity
Independent	Board size	Number of directors	directors in the board
	Board Independence	Ratio of Non-executive to total directors	Non-executive/total directors
	Female diversity	Ratio of female directors to total directors	female directors/total directors
	Audit Committee	Number of members in Audit Committee	Audit committee/Total directors
Control	Capital Structure	Debt to equity ratio	Total debt/total equity
	Liquidity	Current ratio	Current assets/current liabilities

3.6.3 Test of Significance

The significance of the model was checked using Anova which made use of the F-tests. The p-values of the F-statistics showed whether the model adopted fits the data. Where the p is below 5%, the model is assumed to be significant and vice versa.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION OF FINDINGS

4.1 Introduction

This section of the paper gives the analysis of data based on the objective and the variables adopted in the study. The presentation and discussion of the findings is also done in this section. The analysis is based on the variables where:

Y is financial performance as measured by return on equity

X₁–Board size measured by the number of directors,

X₂ – Board independence measured by ratio of non-executive to total directors

X₃– Board diversity measured by ratio of female directors to the board members

X₄ –Audit Committee as measured by ratio of audit committee to board members

X₅ –Capital structure as measured by debt-to-equity ratio

X₆ –Liquidity measured by current ratio

4.2 Descriptive Statistics

The descriptive statistics describes the data based on the mean standard deviation, minimum and maximum. The descriptive statistics are based on the variables. The statistics were summarized based on the objective of determining the relationship between corporate governance and financial performance of deposit-taking microfinance institutions in Kenya.

Table 4.2: Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Y	60	-4.650278	29.70368	-192.5408	52.94118
X1	60	5.916667	2.345509	3	11
X2	60	69.6661	15.32505	33.333	100
X3	60	30.35427	10.19884	11.111	66.667
X4	60	65.78857	30.28717	18.182	133.333
X5	60	5.420815	5.355467	.0446168	20.42883
X6	60	48.64767	48.7169	12	298

From the findings, between 2011 and 2020, financial performance (return on equity) of the microfinance firms averaged at -4.65% with a standard deviation of 29.70%. This shows that deposit taking microfinance institutions in Kenya have a low return on equity with majority

having a negative return on equity. This is an indication that deposit taking microfinance institutions in Kenya were making losses between 2011 and 2020. The return on equity ranged between -192.54-52.94% showing that the return on equity varied across the firms within the period. The findings also showed that board size as measured by number of directors displayed a mean value of 5.92 with a standard deviation of 2.35. This is an indication that between 2011 and 2020, deposit taking microfinance institutions showed an average of 6 directors in the board. The board size ranged between 3 and 11. This is an indication that the smallest board of deposit taking microfinance institutions in Kenya is 3 directors with the largest having had 11 directors between 2011 and 2020. It also indicates a substantial difference in the board sizes across deposit taking microfinance institutions in Kenya.

Board independence measured by ratio of non-executive to total directors showed a mean of 69.67% between 2011 and 2020. This indicates that non-executive directors formed the majority of the directors in deposit taking microfinance institutions in Kenya between 2011 and 2020. It showed a standard deviation of 15.33% with a range of 33.3-100. This shows that non-executive directors varied across deposit taking microfinance institutions in Kenya between 2011 and 2020.

Board diversity measured by ratio of female directors to the board members showed a mean of 30.35%. This indicates that, between 2011 and 2020, deposit taking microfinance institutions in Kenya had 30% of their directors being women. The board diversity showed a standard deviation of 10.2% with the ratio ranging between 11.11 and 66.67 in the same period. This indicates that despite the board diversity varying across firms, it did not vary that much in the period between 2011 and 2020.

Audit Committee as measured by ratio of audit committee to board members showed a mean of 65.79%. This indicates that, between 2011 and 2020, deposit taking microfinance institutions in Kenya had an audit committee of 66% compared to the board of directors. It also shows that deposit taking microfinance institutions in Kenya had a sizeable audit committee between 2011 and 2020. The audit committee showed a standard deviation of 30.29% with the ratio ranging between 18.18 and 133.33 in the same period. This indicates that despite the deposit taking microfinance institutions in Kenya having audit committees between 2011 and 2020 its percentage compared to the board varied across the firms.

In addition, capital structure as measured by debt-to-equity ratio showed a mean of 5.42%. This shows that between 2011 and 2020, deposit taking microfinance institutions had low debt levels

compared to equity. The capital structure showed a standard deviation of 5.36% with the ratio ranging between 0.045 and 20.43 in the same period. This indicates that despite the capital structure varying across firms, it did not vary that much in the period between 2011 and 2020.

Liquidity measured by current ratio showed a mean of 48.65%. This indicates that, between 2011 and 2020, deposit taking microfinance institutions had a low liquidity ratio (less than 1). Hence, the deposit taking microfinance institutions have low capability of meeting their current liabilities when they fall due. The liquidity showed a standard deviation of 48.71% with the ratio ranging between 12 and 298 in the same period. This shows that the liquidity ratio of deposit taking microfinance institutions in Kenya varies so much across the firms.

4.3 Diagnostic Tests

Table 4.3: Multicollinearity Test

Variable	VIF	1/VIF
X1	1.52	0.658834
X2	1.40	0.712785
X5	1.36	0.735034
X4	1.20	0.835333
X3	1.17	0.856299
X6	1.16	0.860563
Mean VIF	1.30	

Using the Variance Inflation Factor, the researcher tested for multicollinearity. Results showed individual VIF values below 5 with tolerance variables less than 2. The data showed a VIF value of 1.30. This indicate that the data has very low levels of multicollinearity making it a non-issue in the data.

Table 4.4: Normality Test

Shapiro-Wilk W test for normal data

Variable	Obs	W	V	z	Prob>z
Y	60	0.80600	10.545	5.078	0.00000
X1	60	0.96888	1.692	1.133	0.12860
X2	60	0.95021	2.706	2.146	0.01594
X3	60	0.96891	1.690	1.131	0.12903
X4	60	0.97829	1.180	0.357	0.36064
X5	60	0.86734	7.211	4.258	0.00001
X6	60	0.59300	22.123	6.675	0.00000

The researcher sought to establish whether the data utilized was normally distributed. Shapiro-Wilk test was adopted. From the results, financial performance as measured by return on equity (Y), board independence (X2), capital structure (X5) and liquidity (X6) displayed a significance value of less than 5%. The researcher assumes that the data of the variables was not normally distributed. On the other hand, board size (X1), board diversity (X3), and audit committee (X4) displayed significance values of more than 0.05. Hence, the researcher assumes that the data for the variables was normally distributed.

Table 4.5: Heteroskedasticity Test

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
Ho: Constant variance
Variables: fitted values of Y

F(1 , 58) = 2.47
Prob > F = 0.1214
```

The study sought to test heteroskedasticity in the data using Breusch–Pagan statistics. Findings showed an insignificant Breusch–Pagan statistic (F-test) of 2.47 with a significance value of 0.1214. The significance value is greater than 0.05, hence, the researcher assumes that the error term is constant over time. This shows that there are no heteroskedasticity in the data.

Table 4.6: Specification Test

```
hausman random fixed

      _____ Coefficients _____
      (b)          (B)          (b-B)          sqrt(diag(V_b-V_B))
      random      fixed      Difference      S.E.
-----
X1      -7.806427    -8.405517     .5990898     .3541704
X2       .2650296     .3289329    -.0639033     .0653516
X3     -.3855653     -.399278     .0137127     .
X4     -.1149922     -.1577307     .0427385     .0271938
X5     -.9576093     -.0728579    -.8847514     1.010846
X6       .033541     .0468921    -.0133512     .0076317

      b = consistent under Ho and Ha; obtained from xtreg
      B = inconsistent under Ha, efficient under Ho; obtained from xtreg

Test: Ho: difference in coefficients not systematic

      chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)
              = 0.70
      Prob>chi2 = 0.9945
      (V_b-V_B is not positive definite)
```

The researcher undertook a specification test to establish the preferred model between random and fixed effect. The test was done using Hausman test. The null hypothesis of this test assumes that random effect model is preferred. From the results, the Chi2 showed a significance value of 0.9945, which is greater than 5%. Hence the researcher does not reject the null hypothesis that the preferred model is random and assumes that the random effect model was preferred.

4.4 Correlation Analysis

Table 4.7: Correlation Analysis

	Y	X1	X2	X3	X4	X5	X6
Y	1.0000						
X1	-0.1609	1.0000					
X2	0.0667	0.0267	1.0000				
X3	-0.8482	-0.1354	0.1523	1.0000			
X4	-0.1262	0.1145	-0.1220	0.2597	1.0000		
X5	0.3784	-0.0689	-0.3061	-0.0066	0.1474	1.0000	
X6	-0.2744	-0.1215	-0.1249	0.0104	0.0784	-0.0228	1.0000

Critical Correlation=0.254

The researcher sought to establish the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya. From the findings, correlation analysis show that board size has a correlation coefficient of -0.1609. This indicates that board size has a weak negative relationship with financial performance. On the other hand, board independence showed a weak positive relationship with financial performance (Corr=0.0667). On the other hand, board diversity showed a strong positive relationship with financial performance (corr=0.8482); audit committee showed a weak negative relationship (corr=0.1262), capital structure showed a weak positive relationship; while liquidity showed a negative weak relationship. Board diversity, capital structure and liquidity showed a significant relationship with financial performance.

4.5 Regression Analysis

Table 4.8: Regression Analysis


```

Random-effects GLS regression           Number of obs   =       60
Group variable: COD                    Number of groups =        6

R-sq:                                   Obs per group:
    within = 0.1508                      min =       10
    between = 0.9281                     avg =      10.0
    overall = 0.3230                     max =       10

corr(u_i, X) = 0 (assumed)              Wald chi2(6)    =      25.28
                                           Prob > chi2     =      0.0003

```

Y	Coef.	Std. Err.	z	P> z	[95% Conf. Interval]
X1	-.3585098	.2741375	-1.31	0.191	-.8958093 .1787898
X2	.0201892	.0403378	0.50	0.617	-.0588715 .0992499
X3	-.1145273	.0553006	-2.07	0.038	-.2229145 -.0061401
X4	-1.204627	.7955231	-1.51	0.130	-2.763824 .3545694
X5	.0574489	.0181177	3.17	0.002	.0219389 .092959
X6	-.0238501	.0115484	-2.07	0.039	-.0464846 -.0012157
_cons	3.40368	4.196166	0.81	0.417	-4.820655 11.62801
sigma_u	0				
sigma_e	3.7551873				
rho	0	(fraction of variance due to u_i)			

From the results of the regression, the model shows a significant Wald statistic ($W=25.28$; $\text{Sig.}=0.0003$). This shows that the random effects model significantly fits the data. The random effect model is a between regressor model, hence the R squared (between) was used in the interpretation. The results showed a between R squared value of 0.9281. This indicates that board size, board independence, board diversity, audit committee, capital structure and liquidity together contribute 92.81% change in financial performance of deposit taking microfinance institutions in Kenya. Other factors contribute the remaining 7.19% change in financial performance of deposit taking microfinance institutions in Kenya.

The regression coefficients show a constant value of 3.404. This indicates that if the predictor variables were held constant, the financial performance of deposit taking microfinance institutions would stand at 3.404 between 2011 and 2020. Further, a unit increase in board size would lead to a decrease in financial performance of deposit taking microfinance institutions by 0.359. The effect was not significant as the significance value was greater than 5% (0.191). This indicates that board size has a negative but insignificant effect on financial performance of deposit taking microfinance institutions in Kenya. Further, a unit increase in board independence would lead to increased financial performance of deposit taking microfinance

institutions by 0.020 with a significance of 0.617. This indicates that board independence has a positive but insignificant effect on financial performance of deposit taking microfinance institutions. On the other hand, a unit increase in board diversity would decrease financial performance of deposit taking microfinance institutions by 0.115 significant at 5% significance level (sig.=0.038). This indicates that board diversity has a negative but significant effect on financial performance of deposit taking microfinance institutions.

The findings also showed that a unit increase in audit committee would decrease financial performance of deposit taking microfinance institutions by 1.205 (sig.=0.13). This indicates that audit committee had a negative but insignificant effect on financial performance of deposit taking microfinance institutions. Further, a unit increase in capital structure (debt to equity ratio) would increase financial performance of deposit taking microfinance institutions by 0.057 (sig.=0.002). This indicates that capital structure has a direct and significant effect on financial performance of deposit taking microfinance institutions. Finally, unit increase in liquidity would decrease financial performance of deposit taking microfinance institutions by 0.024 significant at 5% significance level (sig.=0.039). This indicates that liquidity has a negative but significant effect on financial performance of DTMFIs.

4.6 Discussions

The researcher sought to establish the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya. Correlation analysis show that board size had a weak, negative and insignificant negative correlation coefficient with financial performance. This indicates that board size had a weak negative relationship with financial performance. The differ with those of Croci et al. (2020); Aktan et al. (2018) who found a positive relationship between board size and financial performance.

Board independence showed a weak, positive and insignificant correlation with financial performance. This shows that board independence had a weak and positive relationship with financial performance. The findings support Croci et al. (2020) who established that corporate governance improved financial metrics in firms. They however differ with Aktan et al. (2018) who found a negative relationship between independent directors and financial performance.

On the other hand, board diversity showed a strong negative relationship with financial performance. This was shown by the correlation coefficient which was greater than 0.5. The results are similar to Adedeji et al (2020) who established a negative relationship between corporate governance on financial performance. The findings differ with the findings of

Murhadi (2021) who found a positive relationship between board diversity in terms of females in the board and financial performance. Audit committee showed a weak negative relationship. The findings concur with those of Khatib and Nour (2021) who found a detrimental relationship between audit committees and financial performance. They differed with those of Shen et al. (2020) who indicated a direct effect of corporate governance on financial performance.

Further, capital structure showed a weak positive relationship with financial performance. The findings concur with those of Dao and Ta (2020) who found a weak and direct relationship of corporate governance on financial performance. The findings, however, differ with those of Nguyen and Nguyen (2015) who established that a negative relationship existed between corporate governance and financial performance. They also differ with those of Wangombe and Kibati (2019) exhibited that corporate governance had no consequence on financial performance.

On the other hand, liquidity showed a negative weak relationship which concurred with the findings of Kamau and Njeru (2016). The findings differed with those of Nyabwanga et al (2013) who discovered that liquidity and financial performance had a favorable link as well as those of Enekwe, Nnagbogu, and Agu (2017) discovered no link between the two.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This section of the paper summarizes the outcomes of analysis. The summary is based on the objective of the investigation. The paper sought to establish the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya. This section also provides the reader with the conclusions and recommendations based on the findings. The limitations and areas for further research are also indicated within this section of the paper.

5.2 Summary of Findings

From the descriptive statistics, deposit taking microfinance institutions showed an average financial performance (return on equity) of -4.65% between 2011 and 2020. The findings also showed that, within the same period, board size averaged at 5.92; board independence at 69.67%; board diversity at 30.35% and audit committee at 65.79%. In addition, capital structure showed a mean of 5.42% with liquidity showing a mean of 48.65% between 2011 and 2020.

From the correlation analysis, board size showed a weak negative correlation coefficient with financial performance. On the other hand, board independence showed a weak positive correlation coefficient; board diversity showed a strong positive correlation coefficient while audit committee showed a weak negative correlation with financial performance. On the other hand, capital structure showed a weak positive correlation coefficient while liquidity showed a negative weak correlation coefficient with financial performance. Board diversity, capital structure and liquidity showed a significant relationship with financial performance. However, board size, board independence and audit committee showed insignificant correlation coefficients.

From the results of the regression, the board size, board independence, board diversity, audit committee, capital structure and liquidity together contributed 92.81% change in financial performance. The findings showed that a unit increase in board size led to a decrease in financial performance. In addition, board independence insignificantly increased financial performance, board diversity significantly decreased financial performance, while audit committee insignificantly decreased financial performance. Further, capital structure

significantly increased financial performance with liquidity significantly decreasing financial performance of deposit taking microfinance institutions.

5.3 Conclusions

Based on the outcomes, this paper concluded that deposit taking microfinance institutions in Kenya have a low return on equity with majority having a negative return on equity. The study also concludes that deposit taking microfinance institutions in Kenya are experiencing financial performance challenges through low returns on equity. The study further concludes that board size of deposit taking microfinance institutions in Kenya averages at six (6) directors with the smallest board having three (3) directors and the largest having eleven (11). The study also concludes that deposit taking microfinance institutions in Kenya have a large proportion of non-executive directors with more than 30% of their directors being women. The study also concludes that deposit taking microfinance institutions in Kenya have sizeable audit committees. The study also concludes that deposit taking microfinance institutions in Kenya have low debt levels compared to equity based on the low liquidity ratio found in the analysis. In addition, the study concludes that the deposit taking microfinance institutions in Kenya have low capability of meeting their current liabilities when they fall due.

The study also concludes that board diversity, capital structure and liquidity have a significant relationship with financial performance of deposit taking microfinance institutions in Kenya. This investigation, on other hand, concludes that board size, board independence and audit committee have no significant relationship with financial performance of deposit taking microfinance institutions in Kenya. The study concludes that board diversity has a negative effect on financial performance of deposit taking microfinance institutions. It also concludes that capital structure has a positive effect on financial performance and that liquidity has a negative effect on financial performance of deposit taking microfinance institutions in Kenya. The investigation, finally concludes that board size, board independence, board diversity, audit committee, capital structure and liquidity are the major determinants of financial performance of DTMFIs in Kenya.

5.4 Policy Recommendations

From the findings showed that among the corporate governance measures only board diversity had a significant relationship. However, the relationship was negative. Hence, the researcher recommends that deposit taking microfinance institutions in Kenya reduce the number of

females in their boards. This would enable the firms to experience improved returns on equity, hence displaying improved financial performance.

The findings also showed that debt to equity ratio as a measure of capital structure in deposit taking microfinance institutions in Kenya had a positive relationship with return on equity as a measure of financial performance. From this, the researcher recommends that deposit taking microfinance institutions in Kenya increase their level of debt in their capital structure. This would increase the debt-to-equity ratio, hence improve their return on equity

On the other hand, the findings showed that liquidity ratio had a negative and significant relationship with return on equity. This means that liquidity leads to the reduction in the financial performance of firms. Hence, this research recommends that deposit taking microfinance institutions in Kenya increase their current assets in order to enhance return on equity. The deposit taking microfinance institutions in Kenya also need to reduce the current liabilities which would increase the liquidity ratio leading to higher returns in equity.

5.5 Limitations of the Study

This research was limited to the relationship between corporate governance and financial performance of deposit taking microfinance institutions in Kenya between 2010 and 2020. This study was, therefore, limited to the variables and measures adopted in research. The measurement of financial performance through return on equity may give differing results if other measures like net profit margin or return on assets is used.

It was also limited to deposit taking microfinance institutions in Kenya. This may limit the generalizability of the findings to other sectors. The study is also limited to Kenya where other countries may give different results given that the policies and economic conditions are different. The study was limited by the period of study. The study was done for a period of 10 years between 2011 and 2020. A different period may give different results.

The study was also limited to the data and research methods adopted. The researcher adopted secondary sources of data. The data has a challenge in that its historical in nature. The researcher also adopted the use of annual data. This may increase the error in the data especially where monthly and quarterly data is available. This was overcome by using most recent data and recommending for further research.

5.6 Recommendations for Future Studies

This study sought to establish the relationship between corporate governance and financial performance of DTMFIs in Kenya between 2010 and 2020. Hence, the researcher recommends that other researchers do a similar paper on other factors other than corporate governance influencing financial performance of DTMFIs in Kenya. The researcher also recommends a similar study using different measures of corporate governance and financial performance to compare the results. The research also recommends a similar study utilizing different period other than 10 years which was the period for this study. The study also recommends a similar study utilizing primary other than secondary data. This would enable the researcher to remove the historical nature of the data. Other researchers can undertake similar research in other sectors other than microfinance sector in Kenya.

REFERENCES

- Adedeji, B. S., San Ong, T., Uzir, M. U. H., & Hamid, A. B. A. (2020). Corporate governance and performance of medium-sized firms in Nigeria: does sustainability initiative matter? *Corporate Governance: The International Journal of Business in Society*.
- Ahsan, M. K. (2016). Measuring financial performance based on CAMEL: A study on selected Islamic banks in Bangladesh. *Asian Business Review*, 6(1), 7-56.
- Aktan, B., Turen, S., Tvaronavičienė, M., Celik, S., & Alsadeh, H. A. (2018). Corporate governance and performance of the financial firms in Bahrain. *Polish Journal of Management Studies*, 17(1), 39-58.
- Alabdullah, T. T. Y., Ahmed, E. R., & Muneerali, M. (2019). Effect of board size and duality on corporate social responsibility: what has improved in corporate governance in Asia?. *Journal of Accounting Science*, 3(2), 121-135.
- Almajali, A. Y., Alamro, S. A., & Al-Soub, Y. Z. (2012). Factors affecting the financial performance of Jordanian insurance companies listed at Amman Stock Exchange. *Journal of Management research*, 4(2), 266.
- Bhagat, S., & Bolton, B. (2019). Corporate governance and firm performance: The sequel. *Journal of Corporate Finance*, 58, 142-168.
- Boatright, J. R. (2012). Contractors as stakeholders: Reconciling stakeholder theory with the nexus-of-contracts firm. *Journal of Banking & Finance*, 26(9), 1837-1852.
- Castro, A., Phillips, N., & Ansari, S. (2020). Corporate corruption: A review and an agenda for future research. *Academy of Management Annals*, 14(2), 935-968.
- Castro, A., Phillips, N., & Ansari, S. (2020). Corporate corruption: A review and an agenda for future research. *Academy of Management Annals*, 14(2), 935-968.
- Dao, B. & Ta, T. (2020). A meta-analysis: capital structure and firm performance. *Journal of Economics and Development*, 22(1), 111-129.
- Fatihudin, D. (2018). How measuring financial performance. *International Journal of Civil Engineering and Technology (IJCIET)*, 9(6), 553-557.
- Gitonga, E., & Miano, A. (2020). The Effect of Corporate Governance Practices on Performance of Deposit Taking Savings and Credit Cooperative Societies in Kiambu

- County, Kenya. *International Journal of Business Management, Entrepreneurship and Innovation*, 2(2), 64-81.
- Grzyl, B., Miszewska-Urbańska, E., & Apollo, M. (2017). Building Information Modelling as an opportunity and risk for stakeholders involved in construction investment process. *Procedia engineering*, 196, 1026-1033.
- Iskander, M., & Chamlou, N. (2010). *Corporate governance: A framework for implementation*. The World Bank.
- Jha, S., & Hui, X. (2012). A comparison of financial performance of commercial banks: A case study of Nepal. *African Journal of Business Management*, 6(25), 7601-7611.
- Jiang, F., & Kim, K. A. (2020). Corporate governance in China: A survey. *Review of Finance*, 24(4), 733-772.
- Jones, T. M. (2016). Instrumental stakeholder theory: A synthesis of ethics and economics. *The Corporation and Its Stakeholders*, 205-242.
- Khatib, S. F., & Nour, A. N. I. (2021). The impact of corporate governance on firm performance during the COVID-19 pandemic: evidence from Malaysia. *Journal of Asian Finance, Economics and Business*, 8(2), 943-952.
- Korir, S. (2014). *The effect of credit risk management on financial performance of deposit taking microfinance institutions in Kenya* (Doctoral dissertation, University of Nairobi).
- Kyere, M., & Ausloos, M. (2021). Corporate governance and firms' financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), 1871-1885.
- Kyere, M., & Ausloos, M. (2021). Corporate governance and firms' financial performance in the United Kingdom. *International Journal of Finance & Economics*, 26(2), 1871-1885.
- McGovern, G. (2021). Outward Bound Instructors' Experience of Stress: Storms, Students, and Role Strain. *Journal of Experiential Education*, 10538259211012714.
- McGovern, G. (2021). Outward Bound Instructors' Experience of Stress: Storms, Students, and Role Strain. *Journal of Experiential Education*, 10538259211012714.

- Mejia, S. (2021). Which Duties of Beneficence Should Agents Discharge on Behalf of Principals? A Reflection through Shareholder Primacy. *Business Ethics Quarterly*, 31(3), 421-449.
- Munyasia, G. W. (2018). Assessment of Corporate Governance on Performance of Savings and Credit Cooperative Societies in Kakamega County. *International Journal of Advances in Agriculture Sciences*.
- Murhadi, W. R. (2021). The Effects of Corporate Governance on Company Performance and Dividends in Three Asean Countries. *Media Ekonomi dan Manajemen*, 36(2), 230-242.
- Murphy, M. (2016). Population definitions for comparative surveys in education.
- Mwendia, R. (2018). *Corporate governance practices and financial performance on deposit-taking savings and credit co-operatives in Nairobi City County, Kenya* (Doctoral dissertation, Doctoral dissertation, Kenyatta University).
- Nassar, M., & Jreisat, A. (2020). The application of corporate governance rules in the UAE. *International Journal of Economics and Business Research*, 19(3), 223-244.
- Nassar, M., & Jreisat, A. (2020). The application of corporate governance rules in the UAE. *International Journal of Economics and Business Research*, 19(3), 223-244.
- Naveed, M., Ramakrishnan, S., Anuar, M. A., & Mirzaei, M. (2015). Factors affecting speed of adjustment under different economic conditions: Dynamic capital structure sensitivity analysis. *Journal of Chinese Economic and Foreign Trade Studies*.
- Naveed, M., Ramakrishnan, S., Anuar, M. A., & Mirzaei, M. (2015). Factors affecting speed of adjustment under different economic conditions: Dynamic capital structure sensitivity analysis. *Journal of Chinese Economic and Foreign Trade Studies*.
- Naz, F., Ijaz, F., & Naqvi, F. (2016). Financial performance of firms: evidence from Pakistan Cement Industry. *Journal of Teaching and Education*, 5(01), 81-94.
- Okoye, L. U., Olokoyo, F., Okoh, J. I., Ezeji, F., & Uzohue, R. (2020). Effect of corporate governance on the financial performance of commercial banks in Nigeria. *Banks and Bank Systems*, 15(3), 55.
- Omware, I. M., Atheru, G., & Jagongo, A. (2020). Corporate governance and financial performance of selected commercial banks listed at Nairobi Securities Exchange in Kenya. *International Academic Journal of Economics and Finance*, 3(5), 75-91.

- Ongore, V. O., & Kusa, G. B. (2013). Determinants of financial performance of commercial banks in Kenya. *International journal of economics and financial issues*, 3(1), 237.
- Osaretin, I. S., & Michael, C. I. (2014). The determinants of capital structure of listed firms in Nigeria. *European Journal of Accounting Auditing and Finance Research*, 2(10), 96-111.
- Rwakihembo, J., Kamukama, N., & Nsambu, F. K. (2020). Corporate board size and financial performance of private limited companies in Uganda. *International Journal of Business Strategies*, 5(1), 1-14.
- Yasser, Q. R., Al Mamun, A., & Seamer, M. (2017). Do corporate boards affect firm performance? New evidence from an emerging economy. *International Journal of Productivity and Performance Management*.

APPENDICES

Appendix I: Licensed Deposit Taking Microfinance Institutions In Kenya

1. Caritas Microfinance Bank Limited
2. Century Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited
6. Kenya Women Microfinance Bank Limited
7. Maisha Microfinance Bank Limited
8. Rafiki Microfinance Bank Limited
9. Remu Microfinance Bank Limited
10. SMEP Microfinance Bank Limited
11. Sumac Microfinance Bank Limited
12. U & I Microfinance Bank Limited
13. Uwezo Microfinance Bank Ltd

Appendix II: Data Collection Schedule

Year	Non-executive directors	Board members	Female board members	Audit Committee	Total liabilities	Current liabilities	Current assets	Total assets	Net profit
					Shs. '000	Shs. '000	Shs. '000	Shs. '000	Shs. '000
2011									
2012									
2013									
2014									
2015									
2016									
2017									
2018									
2019									
2020									

