THE EFFECT OF CORPORATE GOVERNANCE ON THE FINANCIAL PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

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DECLARATION

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

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DEDICATION

I dedicate this research project to my family and friends for their love, support, patience, encouragement and understanding. They gave me the will and determination to complete this research project.

ABSTRACT

The relationship between governance and the performance of microfinance institutions (MFIs) is discussed in this paper. MFI performance encompasses both financial performance and outreach. Good governance in terms of strengthening stewardship, achievement of MFIs' primary objectives and promoting further development of the industry have been asserted as key elements in the literature pertaining to MFI performance. Good corporate governance has become more important due to the demand for transparency and accountability of funds utilized in microfinance activities. Further, MFIs need to have a solid governance framework to minimize the possibilities of management failures which may jeopardize the efficacious application of received funds from other financial institutions and donors.In prior studies, the nature of corporate governance practiced by MFIs is less understood and no substantive work using multiple MFI outcomes over a number of years has been undertaken. The concerns raised in reviews of individual MFIs and normative discussions of what should constitute best practice do point to the need for better understanding of the nature of corporate governance practiced by the MFIs and also, to understand the nature of the relationship that exists between institutional success and corporate governance especially for developing countries. This study therefore identifies and provides a framework for undertaking corporate governance research relating to MFIs.

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LIST OF ABBREVIATIONS

AMFI	Association of Microfinance Institution
BOD	Board of Directors
CEO	Chief Executive Officer
CG	Corporate Governance
DTM	Deposit Taking Microfinance
MFIs	Microfinance Institutions
ROA	Return on Assets
ROE	Return on Equity

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance issues in both the private and public sectors have become a popular discussion topic in the last two decades (Hartarska 2005). There have been some legislative changes and provisions imposed by governments on public and private organizations around the world to improve on their governance arrangements. It is therefore necessary to point out that the concept of corporate governance of MFIs and very large firms have been a priority on the policy agenda in developed market economies for over a decade (Bassem 2009). Further to that, the concept is gradually warming itself as a priority in the African continent. Indeed, it is believed that the relative poor performance of the corporate sector in Africa have made the issue of corporate governance a catchphrase in the development debate. Several events are therefore responsible for the heightened interest in corporate governance especially in both developed and developing countries.

The subject of corporate governance leapt to global business limelight from relative obscurity after a string of collapses of high profile companies. Enron, the Houston, Texas based energy giant and WorldCom the telecom behemoth, shocked the business world with both the scale and age of their unethical and illegal operations. These organizations seemed to indicate only the tip of a dangerous iceberg. While corporate practices in the US companies came under attack, it appeared that the problem was far more widespread. Large and trusted companies from Parmalat in Italy to the multinational newspaper group Hollinger Inc., Adephia Communications Company, Global Crossing Limited and Tyco

International Limited, revealed significant and deep-rooted problems in their corporate governance. Even the prestigious New York Stock Exchange had to remove its director (Dick Grasso) amidst public outcry over excessive compensation (La Porta, Lopez and Shleifer 1999). In Kenya, the issue of corporate governance has been given the front burner status by all sectors of the economy. This is in recognition of the critical role of corporate governance in the success or failure of companies. Corporate governance therefore refers to the processes and structures by which the business and affairs of institutions are directed and managed, in order to improve long term share holders" value by enhancing corporate performance and accountability, while taking into account the interest of other stakeholders (Jenkinson and Mayer, 1992). Corporate governance is therefore, about building credibility, ensuring transparency and accountability as well as maintaining an effective channel of information disclosure that will foster good corporate performance.

1.1.1 Corporate Governance

Corporate governance has been defined in a variety of ways. In general terms, corporate governance is concerned with the organizational structures and processes for decision-making, accountability, control and behavior at the top of organizations. According to Morin and Jarrell (2000), corporate governance is the framework that controls and safeguards the interests of the relevant stakeholders. The Cadbury Report (Cadbury 1992, p. 15) defined corporate governance as "the system by which companies are directed and controlled". This is the widely used definition in the governance context. The Cadbury report further explained that the responsibilities of the board include setting the strategic

aims and implementing the strategies, providing the leadership, supervising the management and reporting to shareholders on their stewardship.

Corporate governance is considered as enhancing the reliability and quality of public financial information, and thereby enhancing integrity and efficiency. The literature on corporate governance suggests that the role of a regulatory authority is important in improving an entity's performance. Governance researchers Bhagat& Black (1998) and Kahan and Rock (2003) highlighted the role of different instruments in implementing corporate governance. These instruments included the board of directors, board size, independent directors, CEO, managers, government, political regime, judiciary and regulatory authority. They further argued that independent directors, CEO, board of directors and managers can improve the performance of the institute through the performance of their fiduciaries The role of the regulatory authority is important to safeguard the stakeholder rights and implement corporate governance policies.

The experience of corporate governance for MFIs is drawn from best practices of any organization which should be customized to features and environment and address the specific problems of these institutions. Corporate governance guides an MFI in fulfilling its corporate mission and protects the institution's assets over time (Mersland& Strom 2009). Good governance in the Kenyan MFIs plays an important role in increasing outreach, improving transparency, accountability, sustainability, profitability, efficiency, effectiveness, responsibility and responsiveness to the changing environments.

1.1.2 Financial Performance

Performance can be defined in many ways. It has been defined as the amount of utility or benefits derived from the firm or the organization by its stakeholders (Rashid, Islam & Anderson 2008). The continued viability of an institution depends on its ability to earn adequate return on its assets and capital. Good earnings performance enables an institution to fund its expansion, remain competitive in the market and replenish and increase its capital evaluation of earnings. The performance relies heavily upon comparisons of key profitability measures such as return on assets and return on equity to industry benchmark and peer group norms. According to Kagalwala and Ram, (2003) many institutions throughout the world have disappeared due to weaknesses in board parameters of risk management functions. Institutions that must survive need Higher Return on Assets (ROA). This is a net after tax profit divided by total assets. It is a critical indicator of profitability. Companies, which use their assets efficiently, will tend to show a ratio higher than the industry norm.

A myriad of financial ratios are available for assessing performance of microfinance institutions (Alternative Credit Technologies 2005).Return on asset (ROA),Operational self sufficiency, Financial self sufficiency, Return on equity (ROE) fall within the domain of profitability measures.ROA measures and tracks MFIs ability to generate income based on its assets. The reason why ROA is the most appropriate measure is due to the fact that it provides a broader perspective compared to other measures as it transcends the core activity of MFIs, namely providing loans and tracks income from all operating activities including investments and also assesses profitability regardless of the

MFIs' funding structure.ROA is expected to be positive as a reflection of the profit margin of the MFI, otherwise it reflects losses.

1.1.3 Effect of Corporate Governance on Financial Performance

The relationship between firms financial performance and corporate governance in microfinance institutions (MFI) utilizing a self constructed global data set on Microfinance Institutions, focused on the effect of board characteristics on the Microfinance Institution's financial performance. The results show that split roles of Chief Executive Officer (CEO) and chairman and a female Chief Executive Officer are important explanations. Therefore, the notion that corporate governance affects the financial performance of Microfinance institutions is not well traced.

The relation between the proportion of outside directors, a proxy for board independence, and firm performance is mixed. Various studies using financial statement data and Tobin's Q find no link between board independence and firm performance, while those using stock returns data find a positive link. Firms with independent boards have higher returns on assets, higher profit margins and larger dividend yields, suggesting that board independence is associated with other important measures of firm performance aside from Tobin's Q. Limiting board size is believed to improve firm performance because the benefits by larger boards of increased monitoring are outweighed by the poorer communication and decision-making of larger groups (Jensen, 1983).

Good corporate governance has been identified as a key bottleneck in strengthening Microfinance Institutions' financial performance. The owners-board relationship concerns how well the board is aligned to owner interests, how well the board is

informed, and how decisive the board is (Black and Kim, 2003). The higher is the score on these dimensions of the board's characteristics, the better is financial performance.

1.1.4 Microfinance Institutions in Kenya

The World Bank defines Microfinance Institutions (MFIs) as institutions that engage in relatively small financial transactions using various methodologies to serve low income households, micro enterprises, small scale farmers, and others who lack access to traditional banking services. According to the Consultative Group to Assist the Poor (CGAP, 2006), Microfinance is the provision of basic financial services to impoverished clients who otherwise lack access to financial institutions. Accordingly, microfinance institutions provide financial services meant to empower people especially women. Their primary aim is to serve as finance institutions that give loans to their clients to set up small business enterprises that will help them sustain a good living. Microfinance institutions provide credit and other financial services to the poor, encourage them to save so that they can have a good standard of living, and provide institutional training for efficient use of loans. The fundamental goal of MFIs in Kenya is to contribute to development which involves reaching more clients and poorer population strata and raising their levels of income and more importantly improving on their welfare.

Microfinance industry in Kenya is under the umbrella of Association of Microfinance Institutions of Kenya (AMFI) Kenya. The Association is a member's institution that was registered in 1999 under the societies Act by the leading microfinance institutions in Kenya to build capacity of the microfinance industry. The main objective of AMFI is provision of general policy guidelines, adherence to ethical practices and direction to the association .The AMFI categorizes microfinance institutions into two categories namely;

Deposit Taking Microfinance and Non Deposit Taking MFIs. This study focused on the microfinance industry as a whole.

1.2 Research Problem

The main challenge of micro finance is to create social benefits and promote financial inclusion by providing financial services to low-income households. This is often referred to as the "double-bottom line" of Microfinance Institutions. The increasing emphasis in recent years on financial sustainability rather than on social mission has led to allegations of mission drift among Microfinance Institutions. It is in this context that the issue of corporate governance of Microfinance institutions becomes increasingly relevant. Microfinance practitioners have recognized that good governance is critical for the success of the MFIs (Campion, 1998). Closer examination of the role of various governance mechanisms is important because MFI managers control significant resources. The microfinance community has experienced some major failures because of inadequacies in its operation, including corporate governance (Labie, 2001). Given its tremendous outreach in recent years, its future growth and financial sustainability depends on how well it is governed and if these corporate governance mechanisms are not followed it will result into collapse and closure of these Microfinance institutions.

The recent waves of corporate scandals in developed countries indicate that there is much room for improvement of governance practices even in countries with well-functioning markets and in industries with established mechanisms of control. Investigating corporate governance practices in microfinance institutions is important because of the significant resources they leverage in regard to poverty alleviation. Good corporate governance has been identified as a key bottleneck to strengthen the financial performance of MFIs and

increase outreach of microfinance Rock et al. (1998). The study is also warranted by the scarcity of empirical research about developing strong governance structures within MFIs that may improve their performance.

Microfinance institutions must achieve a balance between operating as a financial sustainable business and pursuing a mission of general interest: reducing financial exclusion. Corporate governance is related to an institution's internal operating and control procedures. It is important to an institution because it plays a key role in creating transparency and trust for investors and in attracting capital for an institution. Good corporate governance contributes to efficient management and to considering stakeholder interests, boosting the microfinance institution's reputation and integrity and fostering customer trust. Inefficiency in corporate governance standards for example limited board size, gender diversity, inadequate formal procedures of financial reporting and others are the main challenges facing the sector in Kenya and it may upset the fast growth and also lead to poor financial performance of the microfinance institutions. As a result, various corporate governance reforms have been specifically emphasized on appropriate changes to be made to the board of directors in terms of its composition and size

Even though many studies have been conducted to identify the relationship between corporate governance practices and firm performance, there are limited scholarly studies conducted for the microfinance industry in relation to corporate governance. Kerubo (2011) focused on corporate governance practices in microfinance institutions and did not focus on its impact on the financial performance of these institutions, Mbithe (2011) focused on the effect of corporate governance on the financial performance of Deposit Taking Microfinance institutions in Kenya and left out Non-Deposit Taking

microfinance, and Ngure (2007) conducted a survey of the relationship between corporate governance on the performance of microfinance institutions in Kenya and the focus was organizational performance. Therefore this necessitated the need to study the effect of Corporate Governance on the financial performance of the microfinance industry as a whole given the tremendous growth of this industry. The empirical analysis of good corporate governance practices in relation to MFIs is still at an immature stage and it is important to conduct more studies in this field to enhance MFIs' development. However, there is plenty of empirical evidence in the financial literature that supports the view that good corporate governance enhances the performance of a firm. The same rationale recommends that good governance practices of MFIs would enhance their performance and reduce risk. Therefore, it is important to examine the empirical evidence of corporate governance mechanisms that improves firm performance. Therefore, in order to understand the governance practices that contribute to enhance the financial performance of the MFIs in Kenya, this study aimed to examine the effect of corporate governance on the financial performance of MFIs in Kenya.

1.3 Objectives of the study

The general objective of the study it to examine the effect of corporate governance on the financial performance of Microfinance Institutions in Kenya.

To meet the above objective the research specific objectives of the study are;

i. To examine the impact of gender diversity of boards on the financial performance of microfinance institutions.

ii. To establish the effect of board size on the financial performance of microfinance institutions.

iii. To examine the impact of CEO duality on the financial performance of microfinance institutions.

iv. To examine the impact of independent board of directors on the financial performance of microfinance institutions.

1.4 Value of the Study

This study is of immense value to the Institutions regulators, investors, academics and other relevant stakeholders in the following ways;

Boards of directors will find the information of value in benchmarking the financial performance of their Institutions against that of their peers. It will also enable the board to establish the role of corporate governance on the performance of microfinance institutions; this will enable the stakeholders to do away with conflict of interest between the agents (managers) and principals (owners) of the institution. The regulator will be able to highlight the successes and challenges of corporate governance in Microfinance Institutions and thereby helping policy makers such as Association of Microfinance Institutions of Kenya (AMFIK) to make informed decisions. Because of the formation of their boards it will be easy for the policy makers to detect loopholes within the management of the institution and thus advice the Microfinance Institutions or take further action. It further provides an insight into understanding the degree to which the Microfinance Institutions that are reporting on their corporate governance have been compliant with different sections of the codes of best practice and where they are experiencing difficulties. Finally, the result of this study will also serve as a data base for further researchers in this field of research.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Corporate governance (CG) refers to the broad range of policies and practices that stockholders, executive managers, and boards of directors use to manage themselves and fulfill their responsibilities to investors and other stakeholders. Over the past decade, corporate governance has been the subject of increasing stakeholder attention and scrutiny. The study of corporate governance has assumed greater importance in recent years with issues such as transparency, managerial accountability, corporate governance failures, weak board of directors, protection of minority shareholders, investor. These issues have become household phrases and have attracted considerable attention in the current debate on corporate failures and reforms. In recent times, it has been increasingly recognized that some companies in certain sectors including microfinance institutions have violated their social contract with consumers, shareholders, regulators and the community at large.

2.2 Theoretical Literature Review

The following Section reviews the theoretical perspectives of a board's accountability that is relevant for this study, drawn on agency theory, stewardship theory, stakeholder theory and resource dependency theory as main corporate governance theories.

2.2.1 Agency Theory

Much of the research into corporate governance derives from agency theory, which posits that corporate governance is necessary in order to ensure that the principal-agent problem is mitigated (Berle& Means 1932). An 'agent' is someone who performs work on behalf

of another individual (i.e. the principal). The difficulty that arises from the principal-agent relationship is that it is not possible for principals to contractually define everything that the agent should do in every conceivable situation. The 'ideal' or 'complete' contract is impossible due to bounded rationality. The problems arising from the principal-agent relationship may be exacerbated by three factors: hidden information, sunk costs and opportunism (Fama& Jensen 1983b).

The role of the governing board and the agency problem has been examined in a large body of literature and researchers examined the impact of board structure as the monitoring mechanism to mitigate the principal agent problem which is the main focus of agency theory.

2.2.2 Stewardship Theory

According to stewardship theory, corporate governance is necessary to ensuring that the organisation is headed in 'the right direction, with this direction referring to the interests of stakeholders, (Donaldson, T & Preston 1995). As Saltman et al. (2000) argued, stewardship theory revolves around the notion that leaders can instill a common set of values and understanding within an organization and that stewardship has the capacity to subsume and incorporate concerns about efficiency into a more socially responsible, normative framework. Stewardship theory finds a strong relationship between stewards and the success or the performance of the firm and therefore the stewards protect the organization and maximize the performance and try to satisfy most of the stakeholder groups in an organization.

According to stewardship theory, the position of the CEO and Chairman is held by a single person and the power to determine strategy and the future of the organization is the responsibility of a single person. According to Davis, Schoorman and Donaldson (1997), the focus of stewardship theory is on structures that facilitate and empower rather than monitor and control, and thus this theory has a relaxed view of the separation of the role of chairman and CEO which supports appointment of the CEO as the chair of the governing board with dual leadership and a majority of specialist executive directors rather than non-executive directors (Clarke 2004).

2.2.3 Stakeholder Theory

The significance of stakeholder theory is that it recognizes that organizations are not controlled or affected purely by those that exercise ownership rights in the organisation. As Freeman et al. (2004) argued: the notion that shareholders govern the corporation is largely a fiction; typically, executives have the greatest power'. In this sense the conventional model of the corporation, in both legal and managerial forms, has failed to discipline 'self-serving' managerial behavior. The fundamental consequence of stakeholder theory for corporate governance is that it necessitates governance structures that promote alignment not just between agents and principals, but between agents, principals and parties who have broader, but reasonable, interests in the organisation. It is precisely because of this multifaceted approach to understanding corporate governance: that corporate governance should be responsive to multiple, competing interests, which provide intellectual rigour to a stakeholder framework.

According to Smallman (2004), the main criticism of stakeholder theory is focusing on identifying the problem of who constitutes genuine stakeholders. Another argument is

that meeting stakeholders' interests also leads to corruption, as it offers agents the opportunity to divert the wealth away from shareholders to others.

2.2.4 Resource Dependency Theory

According to the resource dependency theory, directors bring resources such as information, skills, key constituents (suppliers, buyers, public policy decision makers, social groups) and legitimacy that will reduce uncertainty which in turn reduces the transaction cost and the potential of linking the organization with the external networks. This provides opportunity to gather more information and even skills in various specialties. Lawrence and Lorsch (1967) linked the resource dependency theory as an environmental influence on corporate governance and they argued that successful organizations possess internal structures that match external environmental demand. Pfeffer (1972) confirmed this argument and explained that board size and its composition is a rational organizational response to the conditions of the external environment and he further argued that external independent directors may serve to connect the external resources with the firm to overcome uncertainty, which is very important for long term sustainability. This was emphasized in the corporate governance which explains that a majority of external members could bring the most needed business skill into institutions. Further resource dependency theory was supported through appointment of external members to the board as a way of obtaining multiple skills and because of their opportunities to gather information and networking in various ways.

2.3 Determinants of Corporate Governance

Codes of good governance are a set of best practices recommendations issued to address deficiencies in a country's governance systems by recommending a set of norms aimed at

improving transparency and accountability among top managers and directors. In most legal systems, codes of good governance have no specific legal basis, and are not legally binding. Thus, enforcement is generally left to the board of directors and external market forces. It is only in a few countries (e.g. Nigeria- in the case of the corporate governance for banks, Germany and the Netherlands in Europe) that the law attaches explicit legal consequences to the codes. Even if, compliance with code recommendations is traditionally voluntary, empirical evidence shows that publicly quoted companies tend to comply with the codes more than non-quoted firms. Consequently, Fernandez-Rodriquez et al. (2004) study suggests that the market reacts positively to announcements of compliance with the codes.

The content of codes has been strongly influenced by corporate governance studies and practices. This is because, they touch fundamental governance issues such as fairness to all shareholders, accountability by directors and managers, transparency in financial and non-financial reporting, the composition and structure of boards, the responsibility for stakeholders interests and compliance with the law . Since, the core of codes of good governance lies in the recommendations on the board of directors. However, following the dominant agency theory (Jensen, 1983) governance codes encourage the board of directors to play an active and independent role in controlling the behavior of top management. In particular, scholars and practitioners recommend for increasing number of non-executive and independent directors; the splitting of Chairman and CEO roles; and the development an evolution procedure for conducting board meetings frequently. The introduction of these practices is considered necessary factors in order to avoid governance problems, and to increase firm performance.

2.3.1 Board Diversity

The board diversity concept suggests that boards should reflect the structure of society and properly represent the gender, ethnicity and professional backgrounds of those within it. Boards of directors in a company need to have the right composition to provide diverse viewpoints. Board diversity supports on the basis of moral obligation to shareholders, stakeholders and for commercial reasons by obtaining extensive decisions (Daily & Dalton, 2003).Gender diversity is considered part of the broader conception of board diversity and many scholars have shown that few women sit on corporate boards. When compared to men, most women directors possess staff/support managerial skills, such as legal, public relations, human resources and communications rather than operating and marketing skills. Based on the indication given by many empirical studies, it is important to further explore the impact of gender diversity of boards on MFI performance as it leads to better corporate governance provides diverse viewpoints, values and new ideas to the boards and provokes lively boardroom discussions

2.3.2 Board Size

It is defined as the number of both Executive Directors and Non-Executive Directors on the Board of the Institution. The size of the board should be large enough to incorporate key skills and perspective and or Small enough to allow for the active involvement of all the members and the smooth functioning of meetings. There is a belief that the number of directors can affect the performance of a company, especially its financial performance. A number of scholars have contended that larger boards have their benefits and when board size increases firm performance also goes up as more board members provide greater monitoring, advice and make available better linkages to the external

environment (Pfeffer, 1972). It is easier for larger boards to monitor their managers' activities more effectively, but it would be difficult for the CEO to control the board.

2.3.3 Board Independence

There are many different measurements on the composition of the governing board, and these are varied as number of directors, number of outside directors, number of independent directors in the board etc. The concept of board independence was grounded on agency theory. Independent board members provide potentially greater oversight and accountability of operations, as they are less likely to be subject to the principal-agent problem themselves. This is because as independent members do not have inherent self-interests per *se* and are instead guided by the interests of the stakeholders who appointed them (La Porta et al. 1999). For this reason, a greater percentage of independent members in the boards should promote positive performance.

2.3.4 CEO Duality

CEO duality occurs when the CEO and chairman positions are held by the same person in an organisation (Rechner& Dalton 1991).Board leadership structure is an important corporate governance mechanism, which is reflected in the positions of chairman of the board and CEO. Both agency theory and stewardship theory have addressed the leadership structure of the board. Separation of the role of CEO and chairman of the board is largely grounded in the agency theory (Daily & Dalton 1993) which assumed that due to the agency problem, it is necessary to monitor the performance of the CEO and the board to protect the stakeholders' rights including shareholders. According to Lam and Lee (2008) combining the role of chair of the governing board and the CEO might result in CEO dominance, which will lead to ineffective monitoring of the

management and monitoring by the board. Advocates of stewardship theory argue that combining the two roles strengthens the leadership and empowers the leader to quick action especially on critical decisions. Dehaene, De Vuyst and Ooghe (2001) found that combined leadership structure has a significant impact on financial performance.

2.4Empirical Literature Review

The literature carries mixed results concerning the association between corporate governance and financial performance of firms both on the foreign front and local front as seen from the empirical studies.

2.4.1 Foreign Evidence

Black, Jang and Kim (2003), in a study of 526 Korean firms attempted to find out whether there is a significant relationship between corporate governance and share prices. The findings of the study showed that there is a significant relationship between corporate governance and share prices, i.e. firms with better corporate governance structure.

Brown and Caylor (2004) created a broad measure of corporate governance, Gov-Score, based on a new dataset provided by Institutional Shareholder Services encompassing eight corporate governance categories: audit, board of directors, charter/bylaws, director education, executive and director compensation, ownership, progressive practices, and state of incorporation. In their findings they reported a positive relationship between the quality of CG and their measures of profitability.

Dalton, Ellatran, Johnson (1998) who carried out metal analysis of 54 empirical studies of board composition to ascertain their relationship with performance consequently, the

study found little evidence of a relationship between board composition and firm financial performance.

Gompers, Ishii, metric (2003),Used the incidence of 24 unique governance rules and constructed a Governance Index to proxy for the level of shareholders rights at about 1500 large firms during the 1990s.The study investigated and found out that firms with sound corporate governance practices enjoy higher valuations, higher profits and higher sales growth.

Kajola (2008) examines the relationship between four corporate governance mechanisms (board size, board composition, chief executive status and audit committee) and two firm performance measures (return on equity, ROE, and return on asset ,ROA.The findings show that significant relationship exists between corporate governance and firm's performance.

Klapper and Love (2004), for fourteen emerging markets found a high positive association between better governance and performance using firm level data with return on assets as a proxy for financial performance .The results appear to confirm a positive relationship between governance standards and firm value. More importantly, the relationship seems to be stronger in countries with less developed standards, although affirming that this may vary among countries.

2.4.2 Local Evidence

On the local front the literature on corporate governance and its effect on financial performance of local firms likewise carry a mixture of results which were based on

different the different theoretical perspectives and research methodologies taken into consideration.

Kioko (2014), studied the effect of corporate governance on the financial performance of companies listed at the Nairobi Securities Exchange using descriptive research design and the study findings concluded that on the overall corporate governance had a positive impact on financial performance of these firms and that the mechanisms individually, had mixed outcomes on their impact on financial performance.

Kiragu (2013) studied the effect of corporate governance on the financial performance of insurance companies in Kenya. The study established that, generally, a weak, negative but statistically significant correlation between financial performance of insurance companies in Kenya and corporate governance. The study concluded that corporate governance has mixed results on its influence on the financial performance of insurance companies in Kenya. Whereas financial performance of insurance companies in Kenya are significantly influenced by board composition (the ratio of outside directors to total number of directors) and leverage (ratio of total liability to total assets), the performance is not significantly influenced by board size and the number of members of members in the risk committee.

Mboi (2011), looked at the various governance mechanisms and their impact on firm's financial performance of Tea factories in Kenya using descriptive research design ascertained that there is a positive relationship between corporate governance and firm's financial performance. The findings also suggested that power separation has a significantly positive impact on performance while board composition and board size had a significantly negative impact on performance.

Ngure (2007) used a survey design carried out a survey a survey of relationship between corporate governance and performance in microfinance institutions in Kenya. The study found out that 70 per cent of MFIs have boards consisting of up to 10 members while 30 per cent of the MFIs have over 10 members in their board of directors. When the relationship between corporate governance and performance was explored using financial aspects of the MFIs, the study found out that there exist a relationship between different aspects of corporate governance and firm performance. Specifically, the study found out that board size was positively correlated with firm's performance

Otieno (2010), used the ordinary least squares, examined the impact of corporate governance on the financial performance of Financial Institutions listed at the Nairobi Securities Exchange. Accordingly, the evidence from the study suggested that corporate governance has a significant impact on the performance of financial institutions in Kenya, as measured by return on assets.

The review of the empirical literature on corporate governance reveals that there is the need for separation of power between the position of the board chairman and the CEO in order to enhance independence of the board to serve as an effective monitoring device. Evidence from empirical studies on board size produced both positive relationships with the quality of managerial decisions, and the relation between board committees and board effectiveness and efficiency also produced mixed results. Similarly, findings have generally shown that the greater the stock of insider top management, the smaller the incentive to indulge in management fraud and hence the smaller the possibility of fraud. It can therefore be concluded that the relationship between corporate governance and firm's specific variables is not absolute but relative.

2.5 Summary of the Literature Review

The chapter has critically analyzed the theory of corporate governance and its application to contemporary microfinance institutions .The notion of 'corporate governance' and its theoretical underpinnings were discussed. Corporate governance involves a number of inter-related and mutually supportive components. These components centre on creating transparency, responsibility and accountability and to reinforcing these aspects. The intended outcomes are furthermore aimed at mitigated principal-agent problems and promoting the long term interests of stakeholders. The above sections of literature have also uncovered that corporate governance comprises of attributes such as board size, board diversity and CEO Duality and board independence. This review also revealed that the board plays a critical role in ensuring smooth adoption and implementation of corporate governance practices in microfinance institution. Financial performance is also reviewed and was measured using Return on Assets (ROA) shown as the key dimensions of measuring financial performance in the Microfinance Institutions. All in all, this literature forms an underpinning for the establishment of the association between corporate governance and financial performance of microfinance institutions.

Most studies have made advanced contribution to the understanding of corporate governance practices in MFIs, identifying and developing an appropriate governance structure. However, most of these studies on MFIs are international and hence local studies have not been carried out sufficiently to show how governance structure mechanisms will impact MFIs financial performance. In prior studies, the nature of corporate governance practiced by MFIs are less understood and no substantive work using MFI outcomes such as ROA over a number of years has been undertaken. The

concerns raised in reviews of individual MFIs and normative discussions of what should constitute best practice do point to the need for better understanding of the nature of corporate governance practiced by the MFIs and also, to understand the nature of the relationship that exists between financial performance and corporate governance. This study points to the need for further empirical research for MFIs using micro-econometric techniques, such as regression analyses of panel data to support the conceptual literature currently available. A positive impact of this study for the microfinance industry is to observe how MFIs can be strengthened to achieve better financial performance. The findings should encourage MFIs to consider further significant governance factors which will improve and sustain the industry.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the methodology that was used in the study. It outlines the overall methodology that was used to carry out the research. It encompasses the research design, the research population, data collection methods and analysis of data which aided in achieving the study objectives.

3.2 Research Design

A research design is the arrangement of conditions for data collection and analysis of data in a manner that aim to combine relevance to research purpose with economy in research procedure and decisions regarding a research study.

This study seeks to employ a co relation design. A co relational design is one in which two or more quantitative variables are used to determine if there exists a relationship between the two variables. Theoretically, any two quantitative variables can be correlated as long as you have scores on these variables. However it is probably a waste of time to collect and analyze data when there is little reason to think these two variables would be related to each other. Mugenda and Mugenda (2003) explain that a co relational research is used to explore the relationship between variables and this is consistent with this study which seeks to establish if there is a relationship between corporate governance and financial performance of Microfinance Institutions

3.3 Population

A population is the total collection of elements about which a researcher wishes to make some inferences about. The population for this study consisted of 7 Deposit Taking Microfinance Institutions and 22 Non -Deposit Taking Microfinance Institutions.

Therefore, the target population of this study consisted of all the 29 registered Microfinance institutions in Kenya registered under the Association of Microfinance Institution of Kenya (see appendix 1) as at 31st December 2012.

3.5 Data Collection

Secondary data sources are to be used because the research is a typically quantitative study and data shall be obtained from the Annual reports which were sourced from Association of microfinance Kenya annual report .The data collected consisted of gender of the board, board size, independent directors, CEO duality and return on assets. The data covered a period of four years ranging from the year 2009 to 2012. A secondary data collection sheet was used to collect the required data.

Table 3.1 Variables used in the study and their respective measurement

Variable	Measurement
Return on Assets (ROA)	Net income before donations / Average assets
Board Diversity	Measured in terms of gender diversity and specifically the percentage of women directors to the total members in the board.
Board size	Total number of members in the board.

Board Independence	Percentage of external members to the total members in the board.
CEO Duality	Yes=1 , No=0

3.5 Data Analysis

In order to establish the effect of corporate governance on the financial performance of MFIs as the overall objective, the study used regression analysis. The various governance practices about board independence, board size, board diversity and CEO duality were analysed using descriptive statistics particularly the mean, median, standard deviation etc and inferential statistics; correlation and multiple regression. The SPSS version 16 statistical packages were used to analyze the data.

3.5.1 Analytical model

Regression analysis was used to establish the relationship between corporate governance and financial performance of MFIs. The representation of the model is given in the equation below:

The general representation of the equation above is as follows:

$$\mathbf{Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \varepsilon t}$$

Where:
Y = Financial Performance determined by return on assets (ROA);

β_0 = Constant;

β_1 - β_5= regression coefficients;

X1=Board diversity;

X2=Board size;

X3=Board Independence;

X4=CEO Duality;

εt = Error term;

3.5.2 Test of Significance

T-tests can be used to determine whether there is a significant difference between two sets of means. Therefore t-tests using SPSS statistical program would be employed in this study. Conducting the t-tests requires that the normality of the data is not violated. The P-values of results of the multiple regression analysis shall be used to test for significance of the relationship between variables. The significance level to be used shall be 0.05 (5%) to test for significance where any P-value of less than 0.05 shall indicate a significant relationship.

CHAPTER FOUR

DATA ANALYSIS, FINDINGS AND DISCUSSION

4.1 Introduction

This chapter presents analysis and findings of the study as set out in the research methodology. The study findings are presented on the effects of corporate governance on the financial performance of Microfinance Institutions Kenya. The data was gathered from the MFIs, and AMFI sources.

4.2 Descriptive Statistics

The study examined the mean and standard deviation of the study variables. Table shows the findings of the study.

Table 4.1 Overall descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
Board Size	29	2	15	7.14	2.696
Gender Diversity	29	0.00	0.83	0.309	0.232
Board Independence	29	0.20	0.90	0.683	0.187
Ceo Duality	29	0	1	0.24	0.435
Financial Performance	29	-0.02	0.10	0.029	0.034
Valid N (list wise)	29				

Source: Research findings

The descriptive statistic in table 4.2 shows that the average board size was 7.14 members with the highest and the least board size at 15 and 2 members respectively. The average ratio for gender diversity (percentage of women on the board of directors) was 0.83 being

the highest and 0 being the least with a standard deviation of 0.23. The average ratio of independent directors to total number of the board of directors is 0.68 with 0.9 being the highest and 0.2 being the lowest and a standard deviation of 0.43.The average financial performance for the MFIs measured by ROA (Net income before donations/Average assets of the institution) was 0.029 and standard deviation of 0.03.

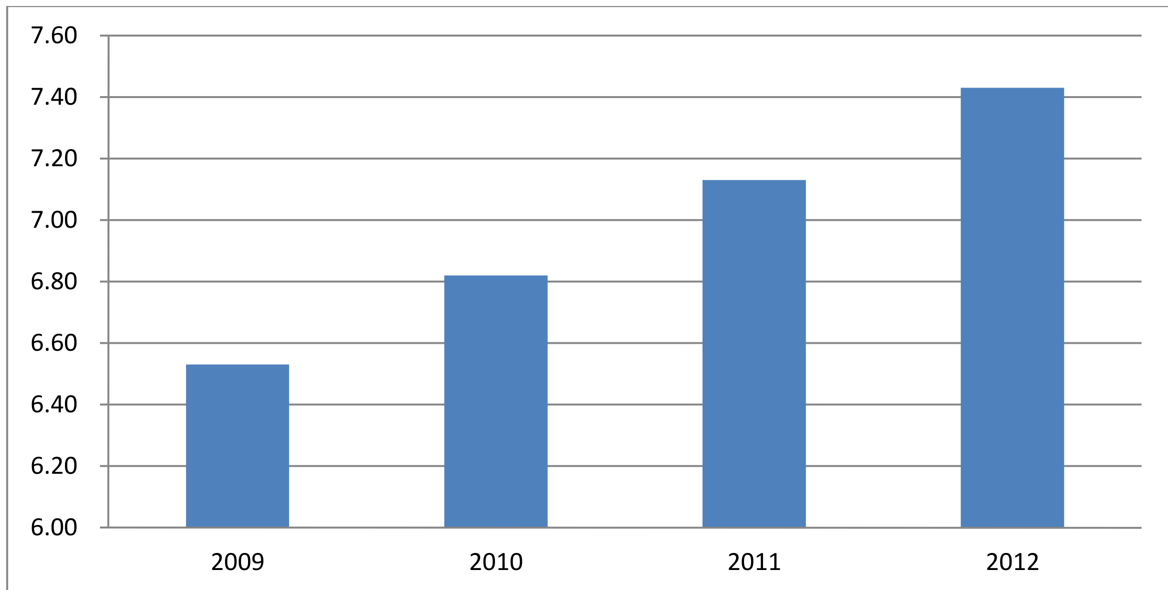
4.2.1 Board Size

Table 4.2 Board Size

Year	Board Size
2009	6.53
2010	6.82
2011	7.13
2012	7.43

From (table 4.2) it is evident that board size for the microfinance institutions has been on the rise. Only 13.8% of the MFIs had board members exceeding 10 while the rest of the 86.2% of MFIs had their board members below 10.The analysis also revealed that 20.7% of the MFIs had the number of board members below 5.However, on average the results are consistent with Labei (2001) recommendation that transforming MFIs should have between 5 and 11 members.

Figure 1 Bar graph showing board size trend



From (Figure 1) it is clear that in the year 2012 the board size on average for the MFIs was high at 7.14 members while in the year 2009 the board size was relatively low at 6.53 members. The reason for the increase is attributed to the need to offer leadership to these institutions.

4.2.2 Board Independence

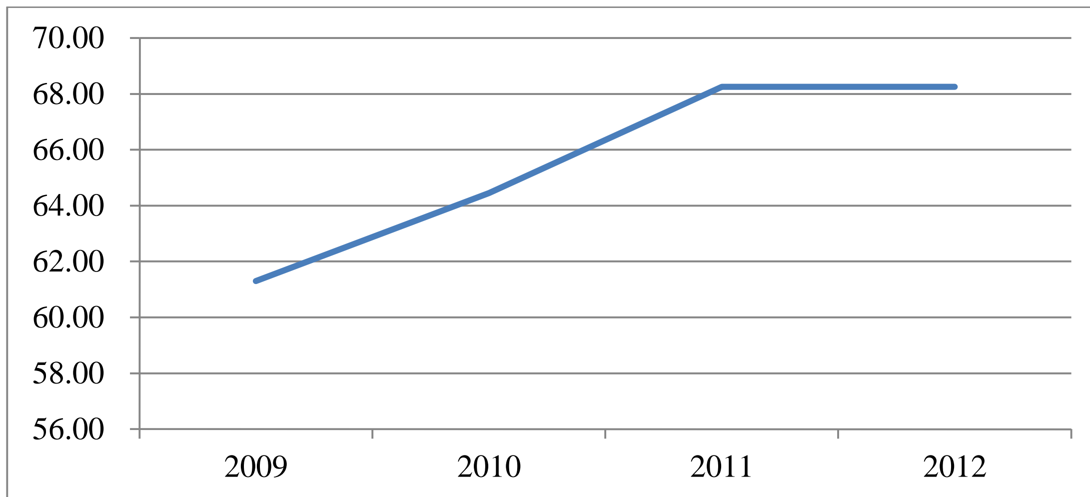
Table 4.3 Percentage of independent directors on the board

Year	Board Independence
2009	61.30%
2010	64.45%
2011	68.25%
2012	68.25%

The analysis from Table 4.3 shows that the independent members of the MFIs board ranged between 68.25% and 61.30%.It was noted that most MFIs had more independent board members in their board due to the diverse skills that they bring and also the important oversight role that they play in managing the enormous resources bored by the

MFIs. Having sufficient number of independent board members and truly independent process of appointing them, are essential components of effective governance (Cadbury 1997).

Figure 2 Trend of the percentage of independent directors



From the above figure it is evident that the percentage of independent directors had been rising for the years 2009 to 2010 having the independent members of the board increase from 61.30% to 64.45%.However, in 2011 and 2012 the percentage of independent directors has remained relatively stable at 68.25% for the MFIs.

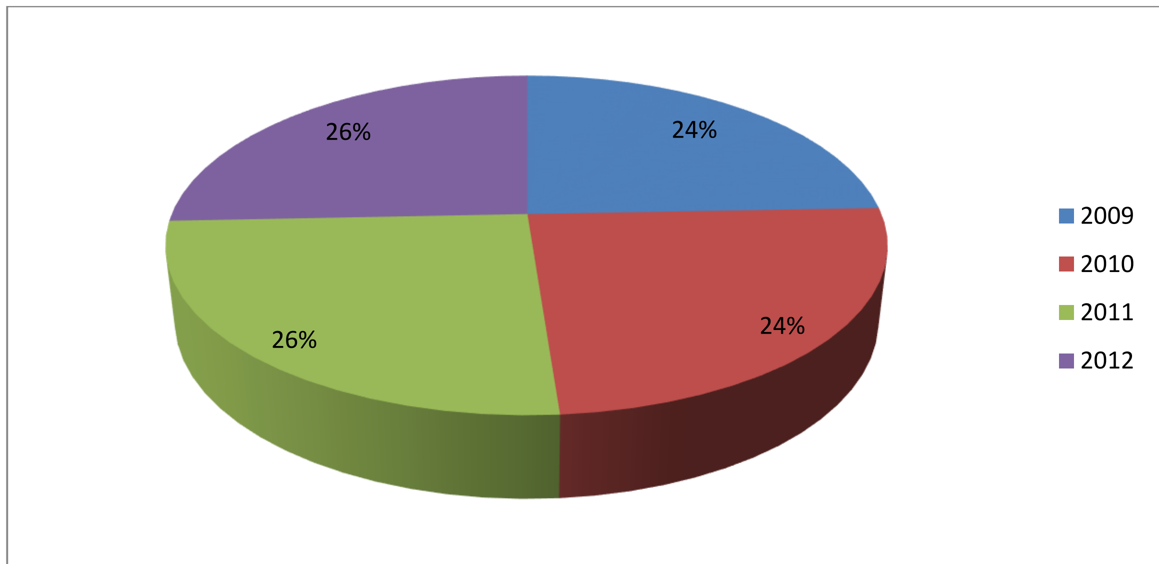
4.2.3 Board Diversity

Table 4.4 Percentage of women on the board

Year	Board Diversity
2009	29.50%
2010	29.50%
2011	30.88%
2012	31.00%

From the analysis above it is evident that the MFI boards have fewer women on the boards and therefore the aspect of the board diversity has not been realized since gender diversity is one of the aspects of the board diversity. The two thirds gender rule as envisaged by the Kenyan constitution has not been achieved. Therefore the industry has not achieved the minimum33.33% benchmark.

Figure 3 Distribution of women directors among the MFIs



In terms of gender diversity, women make up less than a third of the positions in the board of directors. From (figure 3) above the year 2011 and 2012 saw the boards of the several MFIs admit more women into their board and this accounted for 26% on average for both years. Though the percentage was low it was better compared to the years 2009 and 2010 this represented a 2% increase down from 24% in 2009 and 2010

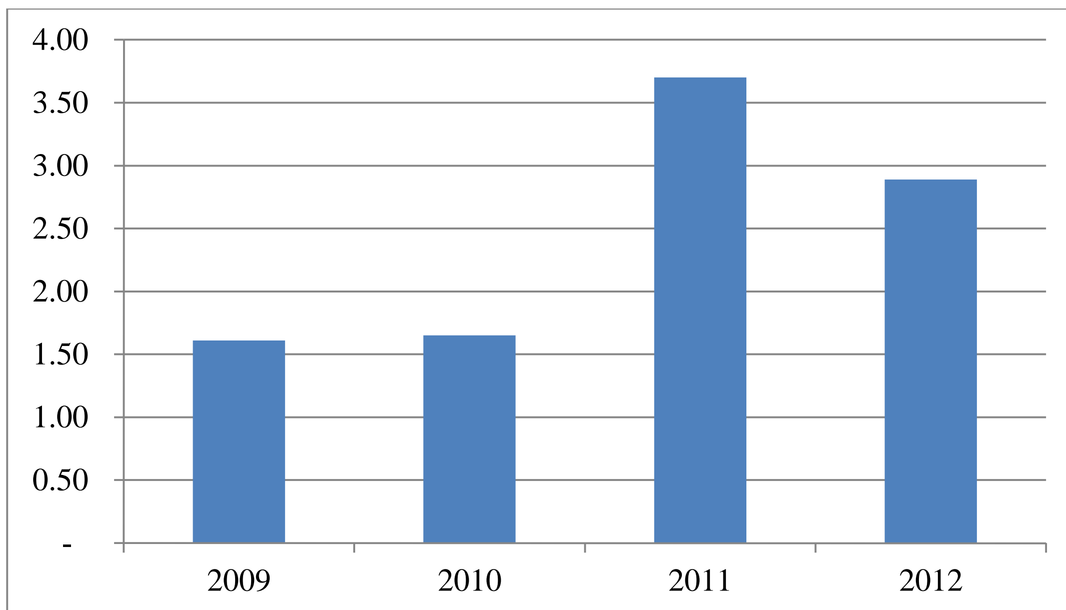
4.2.4 Financial Performance

Table 4.5 Financial performance of the MFIs

Year	ROA
2009	1.61%
2010	1.65%
2011	3.70%
2012	2.89%

The MFIs exhibited mixed reporting on the ROA their performance based on the return on asset has been rising for the first three years from 2009 to 2011 after which it declined

Figure 4 Financial performance trends for the MFI industry

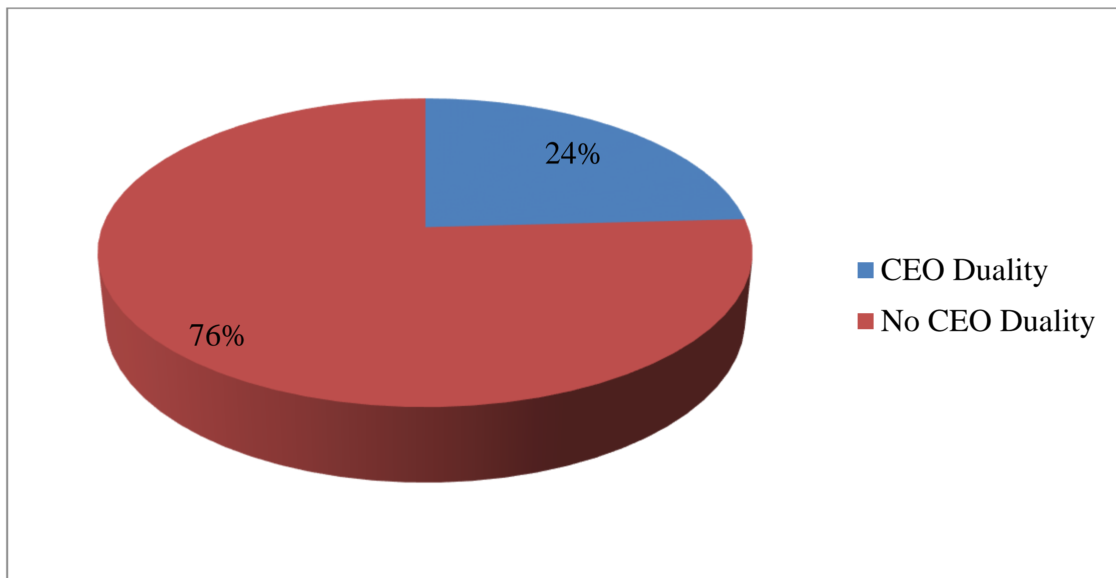


The year 2011 saw the highest return on asset for the industry being recorded as it stood at 3.70% after which it declined to 2.89% in 2012 which represented a decrease of 0.81%.In 2009 and 2010 the industry return on asset was stable though relatively low standing at 1.61% and 1.65% for 2009 and 2010 respectively.

4.2.5 CEO Duality

On average the CEO Duality was even across the board for the four years in that on average the role of the CEO and chairman was split across the board except for 7 microfinance institutions whose CEO was also the chairman of the board. The rest of the 22 institutions had separate roles for the CEO.

Figure 5 Representation of CEO Duality among the MFIs



The study sought to establish whether there was separation of powers between the board chairperson and the CEO. From the figure 2.1 24% of the MFIs had the role of the CEO and chairman combined as one Dalton (1987) argued that when the board chairman is also the CEO, the board intensity to monitor and oversee management is reduced as a result of lack of independence and conflict of interest while 74% of the MFIs had the role of CEO and chairman and literature seems to consistently argue that separate individuals for the post of CEO and chairman leads to a better corporate governance system.

4.3 Correlational Analysis

Pearson correlation was performed to determine the degree of relationship between the study variables.

Table 4.6 Pearson Product Correlation Coefficients (r)

	Board size	Board Diversity	Board Independence	Ceo Duality	Financial Performance (ROA)
Board size	1				
Board Diversity	-0.266	1			
Board Independence	-0.388*	0.298	1		
Ceo Duality	-0.434*	0.101	-0.395*	1	
Financial Performance (ROA)	-0.149*	0.031*	0.012*	0.12	1

*Correlation is significant at the 0.05 level (2-tailed)

Source: Research findings

There was a significant negative relationship between board independence and board size (r= -0.388, P-value < 0.05). The results indicate a significant negative relationship between board independence and CEO duality(r = -0.395, P-value < 0.01). This implies that well defined and streamlined independent directors reduced on the CEO duality. The Pearson correlation coefficient above indicates the following relationships; There was a significant negative relationship between CEO Duality and board size (r = -0.434, P-value < 0.05). This implies that CEO Duality reduces on board size reduces. The Pearson

correlation coefficient above showed that there was a positive significant relationship between financial performance and board independence (r=0.012, $P < 0.05$) this implied that board independence improved on financial performance. Board diversity also proved to have a significant positive relationship with financial performance (r=0.031, $P < 0.05$) while CEO duality did not exhibit a significant relationship with financial performance though it was positive. Lastly, board size showed a negative relationship with financial performance.

4.4 Regression Analysis

Regression analysis was used to determine the effect of corporate governance on the financial performance of microfinance institutions in Kenya. The following regression model was adopted for the study:

Table 4.7 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	0.319[a]	0.482	0.457	0.00351

a. Predictors: (Constant), Ceo Duality, Board Diversity, Board Independence, Board Size

The model summary (Table 4.4) indicated that there was a strong positive relationship between the dependent and the independent variables. The value of R Square was 0.48 indicating that 48 % of the changes in financial performance (ROA) could be explained by the independent variables for the study (board independence, board size, board diversity and CEO Duality).

Table 4.8 Analysis of Variance

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	0.367	4	0.118	3.681	0.031[a]
	Residual	0.430	24	0.011		
	Total	0.633	28			

a. Predictors: (Constant), Ceo Duality, Gender Diversity, Board Independence, Board Size

b. Dependent Variable: Financial Performance

The Analysis of Variance (ANOVA) reveal that composite effect of the four variables (board independence, board size, board diversity and CEO Duality) on financial performance (ROA) of microfinance institutions in Kenya is significant as indicated by the P values (0.031) i.e. less than 0.05 and F value (3.681).

Table 4.9 Regression model

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	Std. Error	Beta	T	Sig.
1	(Constant)	0.025	0.215		2.303	0.000
	Board Size	-0.217	0.063	-0.477	-3.334	0.041
	Board Diversity	0.424	0.032	0.281	3.292	0.016
	Board Independence	0.523	0.042	0.321	3.093	0.002
	Ceo Duality	0.232	0.019	0.125	2.107	0.026

a. Dependent Variable: Financial Performance (ROA)

The regression model becomes:

$$\mathbf{ROA = 0.025 - 0.217X_1 + 0.424X_2 + 0.523X_3 + 0.232X_4 + \epsilon t}$$

From the regression analysis Constant = 0.025, shows that if all the independent variables are all rated as zero, the financial performance (ROA) of MFIs in Kenya would rate at 0.025. The level of confidence for the analysis was set at 95%. Therefore, the P- value less than 0.05 imply that the independent variable is significant. The regression results show that financial performance (ROA) of microfinance institutions in Kenya is significantly influenced by board independence (p=0.002) and gender diversity (P=0.016). However, the regression analysis shows that the board negatively impacted financial performance (ROA) (B=-0.217).Similarly, there was significant relationship between financial performance and CEO Duality (P=0.026). The nature of regression coefficients shows the type of relationship between the variables. Negative regression coefficients shows an inverse relationship exist between independent and dependent variables. The independent variables in the regression model with positive coefficient have a direct relationship with the dependent variable. All the independent variables except board size which had a negative regression coefficient had positive regression coefficients. Therefore, increase in board independence, gender diversity and CEO Duality lead to an increase in financial performance (ROA) of MFIs in Kenya. The Board size however, negatively impacted on the financial performance. This implied that increase in the size of board members led to the reduction of in financial performance of MFIs in Kenya.

4.5 Interpretation of the Findings

In summary, this study found that implementation of proper corporate governance mechanisms is an important element in the financial performance of microfinance

institutions. From the regression equation it was revealed that corporate governance as measured through analysis of Board Size, Board independence, CEO duality and board diversity to a constant zero, financial performance of MFIs would stand at 0.025. A unit increase in Board Size would lead to decrease in financial performance of MFIs by a factor of 0.217, unit increase in Board independence would lead to increase in financial performance of MFIs by a factor of 0.523, a unit increase in CEO duality would lead to increase in performance of MFIs by a factor of 0.232 and unit increase in board diversity would lead to increase in financial performance of the MFIs by a factor of 0.424.At the 0.05 level of significance and 95% level of confidence, Board independence had a 0.002 level of significance; Board diversity had a 0.016 level of significance; CEO duality had a 0.026 level of significance while Board Size showed 0.041 level of significance. Therefore, the most significant factor is Board independence. Overall Board independence had the greatest effect on the financial performance of MFIs, followed by board diversity and CEO Duality .Board size and had the least effect to the financial performance of MFIs.

Corporate governance has positive relation with financial performance hence the introduction of various governance mechanisms will improve the financial performance MFIs. Many different claims by different authors explaining the impact of corporate governance on performance have been explored and analyzed vis-à-vis the findings of the study. Competing explanations to the various arguments have also been shown .It was not, however possible to state the relationship between financial performance of MFIs and some of the prepositions because of lack of relevant comparative data from other groupings of MFIs.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMENDATIONS

5.1 Introduction

The chapter provides the summary of the findings from chapter four, and it also gives the conclusions and recommendations of the study based on the objectives of the study. The objectives of this study were to investigate the effects of corporate governance on the financial performance of microfinance institutions in Kenya

5.2 Summary

The study aimed at investigating the effect of corporate governance on the financial performance of microfinance institutions in Kenya. The study concentrated on the following key corporate governance practices; board size, board independence, CEO duality and board diversity, On the other hand financial performance was measure Return on Assets. The Pearson Correlation and regression analysis were used to find out whether there is a relationship between the variables to be measured (i.e. corporate governance and financial performance of MFIs) and also to find out if the relationship is significant or not. The proxies that were used for corporate governance are; board size, board independence, board diversity and CEO Duality. In summary the study found that the board size affected financial performance negatively while all the other independent variables affected the financial performance of MFIs positively. There was a significant relationship between Corporate Governance and financial performance of MFIs. Results are also in agreement with Gompers quarterly survey (Gompers and Metrick 2008), that a link existed. The financial performance of MFIs was significantly explained by board independence, CEO duality and board diversity. The multiple regression models

indicated that 48% of the financial performance of MFIs was contributed by board independence, board diversity and CEO duality. Results are also consistent with (Hartarska 2009) whose findings showed a negative relationship between board size and financial performance of microfinance institutions.

5.3 Conclusion

This research has considered the effects of corporate governance on the financial performance of the MFIs in Kenya. Corporate governance is essential in the activities of the MFIs. The study established that the majority had board of directors with a small board size. In addition the study have revealed that the independence of the board is maintained since the board has enough number of independent directors, also the findings showed that board diversity in terms of gender has not yet been achieved as some MFIs had no women in their boards completely which depicts a situation of boards not being gender diverse. The study found that, board size did not play an important role in enhancing financial performance of MFIs. The study confirms that setting up good corporate governance structures is an important factor in financial performance of MFIs in Kenya. From the research findings, the relevance of corporate governance structures is practical because it influences financial performance. A better understanding of corporate governance is attained when the governance structures are studied and analysed separately as compared to when the study is done broadly and generalised.

Adoption and adherence to good corporate governance practices can greatly assist the MFIs, irrespective of their size, by introducing better management practices, strong internal control mechanisms and greater opportunities for growth. Corporate governance brings new strategic outlook through external independent directors; and thus enhances

firms' competitiveness. Good governance mechanisms increase investors' confidence in addition to enhanced performance. Investors would consider investing more where there is a culture of good corporate governance because of reduced risk and a higher assurance of returns on their investment though better financial performance.

5.4 Recommendations for Policy and Practice

The study has shown that establishment of good corporate governance structures positively impacts the financial performance of MFIs. Microfinance institutions could benefit from the findings of this study and those performed by other scholars to develop an improved code of regulations that would enhance the financial performance of the microfinance industry. The percentage of independent directors in the board should be raised even higher since they provide a more objective oversight over the decision making, expertise and links to markets. The independent members should take the lead role in monitoring activities of the firm's operations. Microfinance institutions should embrace board diversity by increasing the percentage of women directors in the board given their expertise skills in operations management and enhance the roles of the Board.

The study showed a negative relationship between the board size and financial performance. That implies the size of the board does not matter but it should be large enough to incorporate key skills and perspective and or Small enough to allow for the active involvement of all the members and the smooth functioning of meetings.MFIs should be concerned more with the quality or value added by members appointed to their boards on top of need for independent directors and observing the best practices of the board size of nine recommended by regulators. CEO duality was prevalent in only a few of the institutions studied yet it is seen to have an impact on financial performance.

However CEO duality is not completely absolute. There is therefore a need to develop practical criteria as a guide when and where separation of the CEO and Board Chairman roles is desirable.

5.5 Limitations of the Study

Corporate governance practices may be dictated by the contextual situations or the environment where the firms operate. These interrelations were not investigated in this study. Observations which were not the main objectives of this study show governance structures such as the board diversity, CEO duality, independent directors and size of the board may be affected by factors such as the ownership type and structure, size of the operation and cross-border territorial dimensions. The types of approaches used in measuring corporate governance mechanisms and financial performance might provide limited results, and different research designs could produce different results. The researcher encountered various limitations that were likely to hinder access to information sought by the study. The research was limited by time in that the research was undertaken in a short period with limited time for doing a wider research. The study relied principally on the financial statements and reports of the directors. Additionally, Social desirability effects may affect the reports and the conclusions will have to be taken in light of this limitation. Again the data for this study are of December 31, 2012 and any developments after this date are not included in this research. Lastly, employing proxies for actual corporate governance mechanisms and MFIs financial performance outcomes may not accurately capture the actual mechanisms or outcomes experienced by MFIs due to factors such as inflation, market competition and organisation culture which could impact the reliability of empirical results and also result in measurement error.

5.6 Suggestions for Further Research

The study explored the effect of corporate governance on financial performance of MFIs in Kenya. The results of this study should provide a suitable basis for further research in order to arrive at a generalised acceptable practise on corporate governance. Further research should cover governance practices outside Kenya including other elements of corporate governance mechanisms, and also studies should be done on those MFIs that fall outside AMFK and also other sectors of the economy such as agricultural sector. Emerging organisations and board complexities such as stock ownership by executives and board members, block ownership, and executive compensation should be incorporated in the research on corporate governance structures. Statutory bodies such as the Capital Markets Authority and academic institutions including universities should research more on corporate governance practices with an aim of establishing a code of conduct or governance framework that is applicable across all the industries. Such a code of conduct should be based on scientific research and encompass broad disciplines such as accounting, social sciences and legal profession.

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APPENDICIES

Appendix I-List of registered MFIs in ascending order used in the study

1. AAR Credit Services
2. BIMAS
3. Century DTM
4. ECLOF Kenya
5. Faulu Kenya DTM
6. Greenland Fedha
7. Jitegemea Credit Scheme
8. Juhudi Kilimo
9. Kenya Agency for the Development of Enterprise and Technology (KADET)
10. Kenya Entrepreneurship Empowerment Foundation (KEEF)
11. Kenya Women Finance Trust Limited DTM (KWFT)
12. Microafrica Kenya Ltd
13. Milango Kenya
14. Molyn Credit Ltd
15. Musoni Kenya Ltd
16. Opportunity Kenya
17. Pamoja Women Development Programme (PAWDEP)
18. Platinum Credit
19. Rafiki DTM Limited
20. Remu DTM Limited
21. Rupia Microcredit Limited
22. Samchi Credit Limited

23. SISDO
24. SMEP DTM Limited
25. Spring Board Capital
26. SUMAC DTM Limited
27. Taifa Option Microfinance Limited
28. Yehu
29. Youth Initiatives-Kenya (YIKE)

Appendix II-Data for the MFIs used in the study

Microfinance Institution	BOARD SIZE	BOARD DIVERSITY (Percentage of women on the board)	BOARD INDEPENDENCE (Percentage of Non-Executive directors)	CEO DUALITY 1=YES, 0=NO	ROA
AAR Credit	5	-	0.63	0	0.04
BIMAS	7	0.44	0.56	0	0.01
Century DTM	6	0.44	0.67	0	-0.02
ECLOF Kenya	8	0.50	0.75	0	0.02
Faulu DTM	7	0.43	0.71	0	-0.01
Greenland Fedha	10	-	0.67	0	0.01
Jitegemea Credit	5	0.43	0.86	0	0.01
Juhudi Kilimo	4	0.75	0.75	0	0.03
KADET	7	0.43	0.57	0	0.04
KEEF	7	0.83	0.75	1	0.03
KWFT DTM	3	0.70	0.80	0	0.01
Microafrica Kenya	4	0.25	0.75	1	0.01
Milango Kenya	7	0.43	0.86	1	0.02
Molyn Credit	5	0.60	0.40	1	0.01
Musoni Kenya	7	0.57	0.86	0	0.03
Opportunity Kenya	4	-	0.75	0	-0.01
PAWDEP	3	0.67	0.67	1	0.00

Platinum Credit	7	-	0.57	0	0.00
Rafiki DTM	4	-	0.50	0	-0.02
Remu DTM	5	0.40	0.60	0	0.01
Rupia Microcredit	8	0.63	0.88	0	0.02
Samchi Credit	5	-	0.20	1	0.00
SISDO	7	0.43	0.71	0	0.02
SMEP DTM	6	0.83	0.43	0	0.01
Spring Board Capital	9	0.64	0.82	0	0.01
SUMAC DTM	7	-	0.71	0	0.02
Taifa Option	4	0.50	0.25	1	0.01
Yehu	9	0.44	0.89	0	0.01
YIKE	8	0.50	0.75	0	-0.01

Source: AMFIK