EFFECT OF BOARD CHARACTERISTICS ON FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN KENYA

BY

MOHAMED ELMI HASSAN ABDI

A RESEARCH PROJECT PRESENTED IN PARTIAL FULFILMENT OF THE REQUIREMENTS FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN FINANCE, SCHOOL OF BUSINESS, UNIVERSITY OF NAIROBI

December 2018

DECLARATION

This research project is my original work and has not been submitted to any other college, institution or university.

Signature …………………………………….. Date ……………………………

Mohamed Elmi Hassan

D63/5842/2017

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

Signature …………………………………….. Date ……………………………

Dr. Josephat Lishenga

Lecturer, Department of Finance and Accounting

School of Business

University of Nairobi

ACKNOWLEDGEMENTS

Msc-finance program has been demanding course, completing it had been long waited achievement and my determination. My appreciation goes to the omnipotent Allah for giving me the resistance, assurance and capacity to finish up this program. Likewise, I need to thank my family for their help ethically and fiscally. Exceptional much gratitude goes to my director Dr. Josephat Lishenga for his direction, accessibility, counsel and recommendations amid my examination period. Much obliged to the educators, administrate and my schoolmates of University of Nairobi for their help amid this course.

DEDICATION

This study is dedicated to my family brothers, sisters, uncle, aunt, father, mother and my wife for their continuous inspiration during this study

TABLE OF CONTENTS

LIST OF TABLES

LIST OF FIGURES

ABBREVIATIONS AND SYNONYMS

CAR	-	Capital Adequacy Ratio
CEO	-	Chief Executive Officer
NEDs	-	Non-Executive Directors
NIM	-	Net Interest Margin
PCSEs	-	Panel Corrected Standard Errors
RDT	-	Resource Dependency Theory
ROA	-	Return on Assets
ROE	-	Return on Equity
VIF	-	Variance Inflation Factors
MFI		Microfinance institutions

ABSTRACT

The board of directors plays the monitoring function as advocated for by the agency theory and providing resources as supported by the resource dependence theory. However, despite such efforts, corporate failures have been continuously seen in both created and creating nations with the revealed instances of the fall of Enron in 2001 andWorld.Com in 2002, which are credited to the poor administration rehearses by the top managerial staff. The main objective of this study was to examine the effect of board characteristics on financial performance of microfinance banks in Kenya. This investigation tried to look at the impact of board attributes on money related execution of microfinance banks in Kenya. The investigation embraced an expressive research structure and the number of inhabitants in the examination was made of the 13 of microfinance banks in Kenya. The investigation altogether utilized auxiliary information, which was gathered utilizing an information accumulation sheet of the microfinance banks in Kenya for a time of 5 years from 2013 to 2017 and connection and relapse examination was utilized to dissect the gathered information. The examination found a positive and immaterial connection between board autonomy and budgetary execution and a negative and irrelevant connection between board estimate and money related execution. The investigation additionally settled a negative and critical connection between board sex, board nationality and monetary execution. The outcomes at last settled that bank estimate had a positive and factually noteworthy association with money related execution of microfinance banks in Kenya. The investigation presumed that board sex assorted variety; board nationality and bank estimate essentially impacts money related execution of microfinance banks in Kenya. The outcomes uncovered a positive and immaterial connection between board autonomy and money related execution of microfinance banks in Kenya. The investigation in this manner suggests that the administration of microfinance banks ought to put resources into advantages for guarantee that they appreciate the advantages of economies of scale related with size Future researchers can carry out an investigation on the connection between board attributes and different sorts of microfinance organizations.

CHAPTER ONE: INTRODUCTION

1.1 Background of the Study

Banks' board takes an essential task in the ample control of complex financial institutions. When there is dullness in bank borrowing dealings, the responsibility of the board is more essential as other stakeholders for instance debt-holders and share-holders are notable to enforce successful governance to the banks (Pathan, 2009). Since bank operations have become further complex, aggressive and dense, directors' board is as the keepers of excellent company governance perform takes a key part via effectual supervision along with management. The complex character of banks made financial institutions' governance more rigorous (Gafoor, Mariappan & Thyagarajan, 2018). In isolation, the part of the directors' board in the regulation of banks has approached in rising analysis from both the policy makers along with examiners in the outcome of the 2008 worldwide economic crisis (Sarkar & Sarkar, 2018).

The theoretical linkage among board characteristics with company performance is affirmed by the agency conjecture, the resource dependency hypothesis and the stewardship theory. The agency presumption supports that the directors' board hold the duty of monitoring the organization in shareholders' name to evade interest conflict between the agent and the principal (Hidayat & Utama, 2017). Resource dependence speculation posits that when companies appoint an associate to a board of directors, it anticipates the executive to employ their proficiency, knowledge and along with experience to give the company useful counsel along with advice to improve its status as well as legitimacy (Jermias & Gani, 2014). The stewardship presumption identifies the essence of control schemes that allow the steward and provides utmost in dependence established on confidence (Hassan & Lukong, 2012).

Commercial institutions are essential as they offer vital monitoring task in the control of their borrowers for instance by reducing borrowers' wages managing activities (Pathan, 2009). In Kenya, commercial banks are closely regulated and supervised by the central bank of Kenya, corporate governance issues related to board composition are clearly spelt out under the banking Act and prudential guidelines but the onus of determining the appropriate board composition is on individual banks (OWANDE, 2016). According CBK (2017) there two banks met financial difficulties due to the weak internal control and also their growth decline of MFI with 7 percent of total assets.

1.1.1 Board Characteristics

Board characteristics simply refer to the board size, board autonomy, gender diversity of the board, board nationality or ethnicity, duality of the CEO with board chair and the board structure (Abu, Okpeh & Okpe, 2016). The size of the board signifies the overall head tally of executives placed on the company board. Board size is known as part of the exceptional traits of active board shaving substantial other than deliberate effect on the independence of the board and the general company governance equality (Saleh, 2016). The size of the board influences the contemplation quality amid associates with capacity of the board to arrive at a good number of encouraging company opportunities (Lawal, 2012).

Boards are termed to be autonomous as the measure of sovereign, outer supervisors not associated with best chiefs of the organization is more (Ilaboya and Obaretin, 2015). The board comprises of official and non-official who are either self-ruling or non-self-sufficient chiefs. The non-official supervisors need to partake in assessing the dealings of the CEOs and official chiefs to ensure that the interests of the investors are all around thought about and to incorporate to aptitudes and capability collection of the administrators (Johl, Kaur and Cooper, 2015). The official administrators utilize their powerful occasions in the partnership that they coordinate; they perceive the organization superiorly than the non-official chiefs and in this way can assemble better decisions. The freedom of the board is measured as the extent of self-ruling administrators accessible on the leading group of the money related foundation (Jadah and Adzis, 2016). Diversity of the board's gender is the availability or inclusion of women directors in the board. This improves the solving of problems as selections of perceptions occur therefore more options are appraised in the course (Ilaboya & Obaretin, 2015). In addition, a board that is more gender diverse cannas well progress a company's competitive benefits offered, it advances the firm's image and if this has an affirmative influence on client's performance and consequently on the performance of the firm (Wachudi & Mboya, 2012). It has been argued that women are scrupulous, risk averse, skilled in accounting as well as finance, along with superior managers (Abu, Okpeh & Okpe, 2016).

Diversity in terms of nationality is one of the most significant elements of board characteristics in modern corporations (Saleh, 2016). Foreign directors means any person occupying a position on the board of a corporation in an external territory or where a person is not a protected individual of that country or a country outside his/her citizenship by birth. In other words, a foreign director is any person who hold appointment, whose address, as shown in the register of the certificate of incorporation, in which the details of his appointment is recorded in a place, state or country outside their country or external territories (Abu, Okpeh & Okpe, 2016).

1.1.2 Financial Performance

This is the degree to which a firm's financial soundness over a timeframe is gauged. It is an economic achievement used so as to produce superior sales, profitability along with company value for the shareholders in the management its fixed and non-fixed assets, equity, funding, profits along with expenses (Naz, Ijaz & Naqvi, 2016). Financial performance is also defined as the end result of primary utilization of firm assets to generate proceeds during ordinary business operations (Robin, Salim & Bloch, 2018). Financial performance refers to a prejudiced assess of how healthy a company can exploit assets from its main entity approach to make profits. It is as well exploited as a universal gauge of company's economic soundness within a specified point in time (Gharaibeh, 2015).

Superior economic performances of banks reward shareholders for their savings moreover stimulate extra savings that can accrue additional financial development. Conversely, inferior performance of financial institutions may head to bank's failure along with manifestation of economic crisis that can encompass unconstructive consequences on financial development (Nuhiu, Hoti & Bektashi, 2017). Assessing the fiscal performance of an entity gives room managers to review the outcomes of the company strategies along with dealings in aim fiscal terms. Economic performance shows how the banks management is exploited to submit to how sound an entity exploits its assets to provide profits to the savers (Chandrapala & Knápková, 2013). The superior the fiscal performance of a firm, the more effective and efficient the company is in using the resources and later contributes at the macro level in countries economy (Matar & Eneizan, 2018).

The commonly used evaluates of fiscal performance of financial institutions include the return on assets, the return on equity and the net interest margin. ROA is applied as a gauge of banks profitability, which further is an indicator of performance. ROA is a suitable alternate to gauge the firm's profitability (Zeitun & Tian, 2014). ROE is another alternate to examine the firm's economic performance. ROE signifies how much the firm has been doing well in generating revenues by saving the shareholders fund (Yesmine & Bhuiyah, 2015). The Net interest margin is employed to gauge the disparity among interest revenue made by crediting or some other venture along with interest operating expense that have been rewarded to the savors, all in relation to total assets (Al-Gazzar, 2014).

1.1.3 Board Characteristics and Financial Performance

The ultimate decision-making division in an entity is the board, as the board of directors has liability of safeguarding and maximizing shareholders fund, manage the company's performance, and appraise the efficiency of the management (Sarkar & Sarkar, 2018). Effective boards and company control practices are vital components in attaining as well as sustaining public confidence along with assurance in the financial structure. They are important to good performance as they determine the performance of the banking sector of the financial system in any country of the world (Abu, Okpeh & Okpe, 2016). Board of directors is required to create company's policy, approval of the strategic tactics furthermore approve the sale of extra securities. They are as well required to appoint, counsel, recompense, and, if required confiscate the organization, organize for progression, and propose new members subject to agreement by the shareholders (Pathan, 2009).

The influence of characteristics of the board on company financial achievement is theoretically supported by the stewardship perception, which suggests that stewards motivated and contented when the organization's achievement is attained. The speculation identifies the significance of governance schemes that sanction the steward and gives highest independence established on confidence (Lawal, 2012). The resource dependency perspective on the other argues that external directors separately from giving their proficiency can in the course of their links with other firms accrue advantages by assisting to provide the required resources, customers as well as and to the corporation (Sarkar & Sarkar, 2018). The agency presumption states the division of ownership with management leads to a discrepancy in the quest of management benefits against owner's benefits and therefore supervising management verdicts becomes vital for the directors' board so as to protect owner's benefits (Abu, Okpeh & Okpe, 2016)

Pathan (2009) examined the effect of bank board constitution on bank risk-taking with the bank performance and found that strong boards (those having more reflection of bank owner's benefit) mostly small and less limiting boards affirmatively influence bank risk-taking along with performance. Borlea, Achim and Mare (2017) examined the association involving board traits with company performances and established that there was no statistically considerable association between board traits with performance of the firm.

Ilaboya and Obaretin (2015) analyzed the connection between board qualities and friend's execution and set up a noteworthy connection between board autonomy and friends' execution in Nigeria. In Kenya, Tonui and Olweny (2018) evaluated the effect of board attributes on monetary working of business state organizations in the nation and uncovered that there was certain and significant association between board trademark (board straightforwardness, board correspondence, board disclosures and board independence) and financial performance of state corporations.

1.1.4 Microfinance Banks in Kenya

Kenyan keeping-money division comprise of national bank as primary controller, business banks, non-managing an account budgetary elements and forex departments. Right now there are thirteen authorized Microfinance Banks; eleven had across the country microfinance bank licenses while two had a network microfinance bank licenses. The market has two sorts of authorized smaller scale back establishments - Deposit Taking and Non Deposit Taking Institutions. Authorized Deposit Taking smaller scale fund establishments – include: Faulu Kenya Ltd, Kenya Women Finance Trust Ltd, Rafiki ltd, SMEP, Remu Ltd, UWEZO Ltd, and Century Ltd, SUMAC Ltd and U&I Ltd (Mutisya, 2016).

The organization of a MFI expects an important activity in ensuring that the foundation keeps to its fundamental objective. Extraordinary organization is depended upon to help fruitful and beneficial social execution inside firms. Extraordinary organization insinuates a course of action of people, values, criteria, procedures and techniques that guarantee that an association is overseen legitimately (Gakure and Wanjau, 2012). The obligation of meeting budgetary troubles for some of banks has been connected to the general executives who were blamed for taking part in misbehaviors and overlooking administration structures (Kasyoki, 2016).

1.2Research Problem

The top managerial staff is one type of inside control instruments in banks since the board individuals designate, administer and compensate top supervisors in the bank notwithstanding technique detailing (Wachudi and Mboya, 2012). The governing body plays the observing capacity as pushed for by the office hypothesis and giving assets as bolstered by the asset reliance hypothesis (Hidayat and Utama, 2017). In this way, governments and administrative offices around the globe have expanded worry over corporate administration because of the expanding revealed instances of cheats, insider exchanging, and organization clashes, which undermine corporate execution (Saleh, 2016). Notwithstanding, in spite of such endeavors, corporate disappointments have been ceaselessly seen in both created and creating nations with the revealed instances of the crumple of Enron in 2001 andWorld.Com in 2002, which are credited to the poor administration rehearses by the top managerial staff (Hassan & Lukong, 2012).

In Kenya, an examination by Mwaura (2017) analyzed hog attributes on gainfulness of business banks in Kenya and presumed that there is critical positive connection between manufacturing plants under investigation (board aptitude, board measure, board sexual orientation assorted variety and board in reliance) and benefit of business banks in Kenya this investigation concentrated on every single business bank not microfinance banks. Owande (2016) directed board structure on money related execution of business banks in

Kenya and found that the board arrangement positively affects monetary execution of business banks in Kenya. This investigation concentrated on board creation and business banks yet not board attributes and microfinance establishments. Tonui (2018) analyzed the impact of board attributes on the money related execution of state companies in Kenya and reasoned that uncovered that there is certain and critical connection between board trademark and monetary execution of state partnerships. This examination centered state organizations not microfinance banks. An examination by Waithaka and Wanjau (2012) led under the impact of board attributes on microfinance establishment' social execution in Kenya presumed that there is a huge negative connection exists between social execution and board estimate, chief compensation, freedom of executives of MFIs. From the looked into studies, loads of studies have been done on money related execution of banks and how board qualities impacts execution. In any case, such investigations are not done in MFI at Kenya. In this manner, looks to address the experimental writing hole that is inexistence and give answers to the inquiry, what is the impact of board qualities on monetary execution of microfinance banks in Kenya.

1.3 Research Objective

To examine the impact of board characteristics on financial performance of microfinance banks in Kenya.

1.4 Value of the Study

This study will avail comprehensive evidence on financial performance and board characteristics adopted by Microfinance banks in Kenya. Besides, the study will elaborate the relationship between financial performance and corporate governance in microfinance banks. The study findings will make specific contributions to the domain of knowledge, policy and literature.

Future scholars will benefit from study findings that fill an existing knowledge gap on effect of board characteristics on financial performance of Microfinance banks in Kenya.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

This section discusses the theoretical literature which comprises an evaluation of various theories, an analysis of the determinants of microfinance banks financial performance and empirical review of the previous related studies. The chapter also diagrammatically depicts the conceptual model of the study and provides a review of the examined literature.

2.2 Theoretical Review

The study hypothetical basis comprises of the agency hypothesis, resource dependency hypothesis and stewardship hypothesis.

2.2.1 Agency Theory

The agency hypothesis is associated with Jensen and Meckling (1976) and explains that the ownership separation with manage builds a natural conflict of interest amid the principal (owner) and the agent (manager). According to the theory, even though directors are said to be coherent, but cannot be believed to stay true by constantly acting in the principal best concerns as they are as well reputed to be self-centered (Lawal, 2012). The agency theory is the key hypothetical construction that links this supervisory role to company performance theory (Muchemwa, Padia & Callaghan, 2016).

The agency speculation is built on postulations of staff as being a coherent player who looks for the maximization of their personal gains. In the agency hypothesis both the principal and the agent look to gain as much as achievable with the least probable costs

(Dharmadasa, Gamage & Herath, 2014). The principals' and the agents' interest can correspond and in such a condition there is no interest variance and both parties try to exploit their effectiveness (Hassan & Lukong, 2012). The agency conjecture is condemned on the assertion that it presumes a coherent being is self-centered and acts merely to gratify their self-worth. This means that there is no belief and a structure of moral uncertainty, which is not obliging in establishing structures of practical ethics (Jermias & Gani, 2014).

Agency hypothesis is evenly essential to the control of a company, as it creates the spine of all triumphant company governance procedures and policy particularly in the 21^{st}century where there have been a number of the main commercials subsides (Jadah & Adzis, 2016). Agency presumption forecasts that the motivations presentable to the management along with the directors differ and are thus a vital predecessor to successful supervision and that company performance would consequently advance if these are associated with the owner's interests (Muchemwa, Padia & Callaghan, 2016). The agency theory in this study explains that the directors' board signifies the instrument of internal control that governs the agency problems in all company structures.

2.2.2 Resource Dependence Theory

The resource dependency hypothesis was advanced by Pfeffer and Salancik's (1978). The resource dependency theory explains that directors play an important role in accessing resources that are critical to the firm via their connections to the external environmental set. The speculation states that the board of directors is considered as a provider of resources to the company, in terms of information, expertise, proficiency, in addition to access to main suppliers and customers (Muchemwa, Padia & Callaghan, 2016). The resource dependency theory proposes that the directors' board can be employed as an instrument to create connections with the external environmental set so as to support the organization in the areas where there is knowledge gap in order to ensure the achievement of organizational goals (Dharmadasa, Gamage & Herath, 2014).

Resource dependency speculators assume that a sound diversified board having suitable account of outside autonomous members is possible to head to advanced company performance particularly in environmental instability face when the level of firm dependence rises (Lawal, 2012). The RDT presumes that a perfect board should comprise of people having selections of outside connections for instance business professionals, maintain experts as well as the public prominent that bring within the company's accomplish access to required assets (Muchemwa, Padia & Callaghan, 2016). This theory provides hub on the selection of delegates of autonomous firms as a way for getting right to use to vital assets for the company's triumph (Lawal, 2012).

Supporters of this conjecture dispute that the management require power and aspire for appreciation by peers also bosses. Therefore, their enthusiasm surpasses merely economic thoughts. The duty of the BOD in matters of policy is perceived as contributing to this management viewpoint (Hidayat & Utama, 2017). The RDT proposes that the directors' board can be utilized as means of forming connections with the outside environmental set so as to sustain the managers in attainment of the company objectives (Hassan & Lukong 2012). This presumption gives a hypothetical basis for manager's resource responsibility together with access to finances as well as counsel required by the company to develop managerial performance, company operation, in addition to continued existence

(Dharmadasa, Gamage & Herath, 2014). With relation to this study, the RDT explains that the key duty of the directors' board is to present the firm with resources and managers are pointed as a vital resource to the company

2.2.3 Stewardship Theory

The stewardship hypothesis was advanced by Donaldson and Davies (1989) and posts that directors are good company stewards need to carry out healthy and collaborate with all stakeholders for a mutual objective of achieving the general company intends (Lawal, 2012). The speculation states managers as steward safeguards and utilizes the shareholders fund via company operation, as by so doing, the steward's efficacy purposes are exploited. The stewardship hypothesis therefore proposes that reliable and supportive connections amid principals with stewards are affirmatively linked with company performance (Tonui & Olweny, 2018).

The supporters of stewardship conjecture argue that better company performance will be connected to a greater part of internal executives as they logically effort to exploit owner's profits. Information access along with the aptitude to take a long-term scrutiny is looked as input factors in the process of making decisions (Hassan & Lukong, 2012). Critics to the stewardship theory have argued that boards can become unnecessary when there is a principal dynamic owner, principally when the main owner is a family or state. One could wonder that some boards are formed from edifying custom, blind trust in their efficiency, or to construct state or family businesses seem 'more company like (Tonui & Olweny, 2018).

The stewardship perception proposes that stewards are contented furthermore motivated when managerial triumph is achieved. According to the speculation, managers are termed as stewards of the firm’s resources and shall be liable to perform in shareholders’ best interest (Dharmadasa, Gamage & Herath, 2014). Different from agency speculation, stewardship hypothesis affirms not on the viewpoint of distinctiveness but relatively on the task of the top executive being as stewards, incorporating their achievements as piece of the organization (Hassan & Lukong, 2012). Stewards are business top managers and directors acting for the firm’s owner, who safe guard and create earnings for the owners. S/he safe guards and capitalizes on shareholder’s fund via excellent company operations, as by so acting, the steward’s usefulness utilities are exploited (Lawal, 2012). In this study, the stewardship hypothesis stresses on the task of managers being as stewards, incorporating their objectives as portion of the firm.

2.3 Empirical Review

Sarkar and Sarkar (2018) studied the influence of board control in publicly owned and privately owned financial institutions in India from2003 to 2012. The findings revealed strong ownership influences on board autonomy revealing a considerable affirmative association with the performance of privately owned financial institutions and a noteworthy but unconstructive association with the performance of publicly owned banks. The study also found that the impact of CEO tenure was negative in publicly owned financial institutions where rate of CEO tenure is soaring. The findings also revealed that a lengthy CEO term has considerable influences on bank profits with these influences intensification in the later on years of CEO term.

Mwambuli (2018) examined the board constitution traits and its influences on decisions of capital composition in the emergent countries, East African stock markets using a strongly reasonable panel dataset of 320 inspections (that is, a taster of 32 non-financial quoted companies in East African area from 2006-2015. Using the panel corrected standard errors regression replicate study found a statistically noteworthy unconstructive outcome of board constitution traits on decisions of capital composition (apart from on short term loan where it's of no consequence) all models at 5% con notation degree.

Ghosh and Ansari (2018) examined the connection amid economic operation with boards of city cooperative financial institutions in India. The study used cross-sectional data from 1263 financial institutions for the period of 2012. The results revealed that after calculating for different aspects, size of the board does not influence operations. The study however revealed that size of the board matter in high profit districts, even though larger boards as such are less advantageous to operate, revealing the problems of free riding crisis along with time consuming processes of making decision amid members of the board.

Mwangi, Kirori and Omurwa (2017) in Kenya studied the effect of the board of directors' traits on fiscal operations of the banking sector in Kenya. The study sampled the 11 listed banks from 2009-2016 while panel data was employed to scrutinize the collected data. The paper concluded that arise in amount member boards with financial expertise can lead to increase in return on assets. The study concluded that the more the number of member boards with economic expertise the more the improved fiscal performance of the listed banks**.**

Meme (2017) examined the influence of board features on fiscal operation of manufacturing entities quoted with the NSE in Kenya. The paper employed an explanatory study propose and collected secondary facts from the 13 manufacturing companies quoted with the NSE from 2009 to 2013. Using panel data regression methods, the results revealed that board characteristics in regard to board size, board diversity and board independence had a considerable impact on the fiscal functioning of quoted manufacturing firms in the country. The results as well revealed that company attributes have a considerable moderation influence on the connection amid board characteristics and financial performance.

Sheikhdon and Kavale (2016) examined the control of liquidity organization on fiscal operations of commercial banks in Mogadishu, Somalia. The paper employed a descriptive survey and collected data using questionnaires from a sample 87 respondents. The findings revealed that liquidity organization drivers independently had an affirmative effect on the fiscal operations of business financial institutions in Mogadishu-Somalia. The general findings revealed that there was a considerable linear connection amid account payable, cash and account receivable management on fiscal performance of business financial institutions in Mogadishu. The paper concluded that liquidity organization drivers were revealed to extensively and affirmatively affect fiscal performance of business financial institutions in Mogadishu, Somalia.

Mutisya (2016) studied the effect of board traits on fiscal performance among Deposit Taking Microfinance banks in Nairobi County. The study undertook a census 13 firm and used structured questionnaire to collect data, which was examined using correlation scrutiny and regression model. The findings of correlation analysis showed an affirmative correlation amid board committees and board remuneration. The regression results revealed that board size, board tenure/term, amount of board committees with board remuneration had a considerable influence on fiscal performance.

Jermias and Gani (2014) examined the impacts of board resources on the connection among CEO tenure, autonomy of the board, administrative share rights with performance of U.S. companies quoted with the Compustat S&P 500 and using agency and resource dependence hypothesis. The findings revealed that that CEO tenure and board autonomy unconstructively influences performance furthermore board resources lessens the unconstructive influences. The results also found that administrative share rights constructively affect operation and that board resources support the constructive affiliation.

A study by Liang, Xu and Jiraporn (2013) taster of 50 largest Chinese financial institutions during the time of 2003 to 2010 to examine the impact of board characteristics (structure, size and board performance) on bank functioning and quality of assets. The findings revealed that the number of board conferences and the amount of autonomous managers considerably and positively affect both bank functioning and quality of assets as size of boards considerably and negatively influences bank functioning.

Ujunwa (2012) studied the impact of company board traits on the fiscal performance of Nigerian listed companies. The study employed the panel methodology and sampled 122 listed firms in Nigeria from 1991 to 2008. The results revealed that board size, CEO tenure and gender diversity had an unconstructive connection with company operation, while board population, board customs and the amount of board members having a PhD criterion had an affirmative influence on firm functioning.

A research by Garcia-Ramos and García-Olalla (2011) examined whether the existence of an initiator affects the connection amid board of manager's traits and firm functions in a section of European, openly traded, family companies. The outcomes showed an affirmative connection amid size of boards and business functioning in no founder directed family companies along with an unconstructive control of board size on founder directed family companies. In addition, the existence of autonomous managers on the board had an affirmative influence on functioning when a company is run by its initiator. The study also found that CEO tenure advances company performance when youngsters operate the industry, even though CEO tenure has no influence on performance when the company is directed by the originator.

O'connell and Cramer (2010) examined the impact of board size, board construction on the functioning of firms listed at the Irish Stock Market. The paper as well investigated the influence of company size on the connection amid company functioning with the aforementioned board traits. The results established that size of the board has an important negative connection with company performance, while the connection amid board size with firm performance is considerably less unconstructive for smaller companies. The study also found an affirmative and considerable connection amid company performance with the proportion of non-top managers on the board was perceptible.

2.4 Determinants of Financial Performance of Micro Finance Banks

2.4.1 Bank Size

Company size refers to how big or small company as gauged by the company's market worth. Company size describes how great or undersized of a firm gauged by its total investments or by its entire capitalization (Abubakar, Sulaiman, & Haruna, 2018). Company size can thus be seen as how big a firm is reflected by its total assets, sales, or market capitalization. A firm must boast the size to be capable of taking benefits of the various offered instruments. Smaller firms cannot attain the economies of scale required to build various instruments cost effectiveness. In other instances, they can be so adequately large that they can proficiently use the needed capacity along with knowledge available in the firm and do not requires several advantages given by a number of the instruments (Robin, Salim & Bloch, 2018).

Big and more beneficial financial institutions may encompass an advanced degree of industrial effectiveness. Though, big financial institutions may incident reduced performance as a result of dilapidated asset portfolio quality. High risky credits create higher accretion of defaulting credits, and ultimately, worsen the productivity (Robin, Salim & Bloch, 2018). Big sized banks might less expenditure and hence raise incomes because of economies of scale. Conversely, big financial institutions could not be competent in lessening operational costs and happen to be less advantageous (contrasted with small size financial institutions) because of composite bureaucratic structure, excess work force as well as weak management of their large amount of assets (Abubakar, Sulaiman, & Haruna, 2018). Bank's size is gauged as natural log of total assets the bank possesses.

2.5 Conceptual Framework

The conceptual model of the paper comprises of the dependent variable which is financial performance while the independent variables will be board characteristics whose indicators are board autonomy, size of board, gender diversity and board nationality. The paper shall also incorporate independent variables, which will include bank size as depicted under figure 2.1

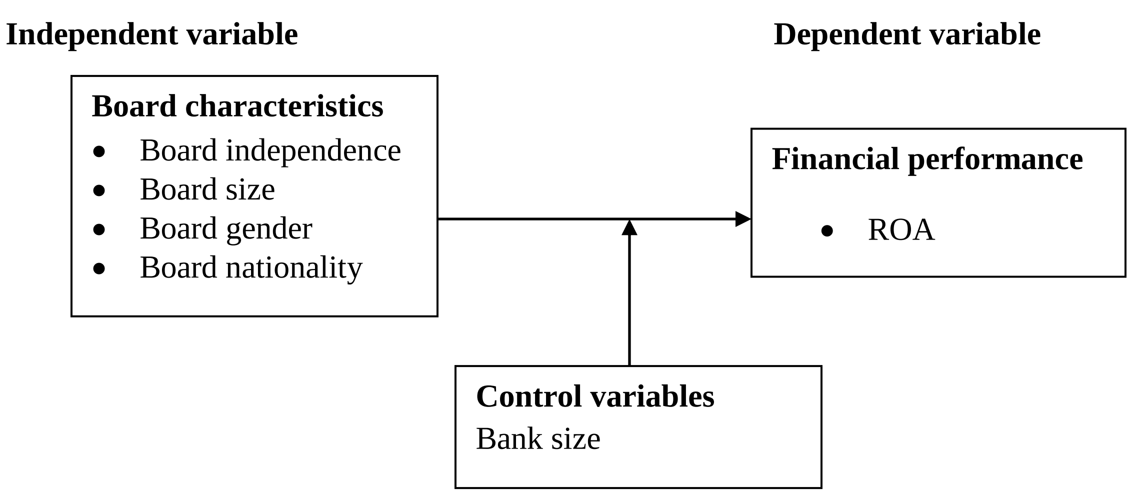

Figure 2.1: Conceptual Framework

Source: Researcher (2018)

2.6 Summary of Literature Review

The study reviewed a number of studies on board traits and banks financial performance. For example, a study by Sarkar and Sarkar (2018) focused on board control in publicly owned and private financial institutions and not commercial banks while Mwambuli

(2018) focused on board structure characteristics on capital constitution and not fiscal performance. In addition, Ghosh and Ansari (2018) examined financial performance and boards whilst Mwangi, Kirori and Omurwa (2017) examined board of directors' characteristics and financial fiscal of the banking sector in Kenya though the context is different. Meme (2017) focused on board traits on fiscal performance of manufacturing firms while Mutisya (2016) examined board characteristics and fiscal performance of DTMs. Additionally, O'connell and Cramer (2010) focused on board size, board composition on functioning of quoted companies.

CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This section discusses study design, study population, the procedure of gathering data, test of assumptions under the diagnostic tests, data analysis method comprising of the diagnostic model and test of significance.

3.2 Research Design

A research design provides the blueprint for gathering as well as analyzing data, which aids to answer the study queries. It identifies the basis from which the investing aims to gather data, measure and also analyze data (Saunders, Lewis & Thornhill, 2009). According to Creswell (2014), a study intends refer to the array of situations for the gathering as well as data scrutiny in a way that seeks to merge significance to the study rationale with saving in the method.

The study adopted a descriptive research plan. Unmistakable structure is a procedure of gathering information with the end goal to test theory or to answer the inquiries of the present status of the subject under examination. Engaging exploration configuration tends to explicit attributes of a chose populace of subjects at a point in time, to compare the connection between factors.

3.3 Population

The populace is characterized as all individuals from a genuine or speculative arrangement of individuals, occasions or protests from which the analyst wishes to sum up the aftereffects of their examination. The number of inhabitants in the investigation was made of the 13 of microfinance banks in Kenya. The examination thought about the formal banks, which are authorized by Central bank of Kenya. The examination accordingly considered an evaluation of 13 microfinance banks as at 31st December 2017.

3.4 Data Collection

The examination totally utilized optional information, which was gathered utilizing an information accumulation sheet of the microfinance banks in Kenya. The auxiliary information was acquired from the microfinance banks budget reports, which were gotten from the Central Bank of Kenya and secured a time of 5 years from 2013 to 2017.

3.5 Diagnostic Tests

Various symptomatic checks were embraced to found the reasonableness of the received logical shape. The paper embraced the multicolinearity test, typicality test, autocorrelation test and the heteroskedasticity test. Multicolinearity is where there is an abnormal state of association between the free factors and fluctuation swelling variables and relationship coefficients were utilized to check any multicolinearity. Typicality surveys whether the information is ordinarily scattered and the Kolmogorov-Smirnov and Shapiro-Wilk tests were utilized to test for ordinariness. Sequential or autocorrelation is where the mistake terms for not at all like time periods are connected and the Durbin Watson measurements was utilized to survey for autocorrelation. At last, heteroskedasticity is absence of steady mistake change and was evaluated through plotting a remaining chart.

3.6 Data Analysis

To break down the gathered information, the examination utilized distinct and inferential measurements. Expressive insights includes the proportions of focal propensity like mean, most extreme, least and standard deviation was utilized to sorting out and abridges the gathered information into an important frame. Inferential insights were utilized to draw suggestions from the gathered information and connection and relapse examination was utilized. Connection investigation was utilized to evaluate the nature and quality of the relationship among the factors. Relapse examination was utilized to check suspicion about the association among the free factor and ward variable

3.6.1 Analytical Model

The regression model was the analytical model of the study and was formulated as follows

$$Y = \beta_0 + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \beta_5 X_5 + e$$

Where

Y = Financial performance measure using return on assets

X_1 = Board independence calculated using the ratio of independent directors to total directors

X_2 = Board size determined using the total number of directors

X_3= Board gender determined using the ratio of women directors to total directors

X_4= Board nationality determined calculating the ratio of foreign directors to total directors

X_5 = Bank size measured using the total asset of the banks

β_0 = Constant

β_1 - β_5 = Regression coefficients

e = Error term

3.6.1 Test of Significance

To test the statistical suggestion of the exploration utilized the t and the F test measurements. The F test was utilized to check the factual ramifications of the shape by assessing varieties elucidated by relapse condition to lingering mistake variety. The t test was utilized to evaluate the ramifications of the relapse coefficients.

CHAPTER FOUR: DATA ANALYSIS, RESULTS AND INTERPRETATION

4.1 Introduction

This chapter entails the response rate results, the descriptive statistic results, the test of assumptions under the diagnostic tests and correlation analysis. The results further present the results of the regression model and a discussion of the research findings.

4.2 Response Rate

The population of the study was made of the 13 of microfinance banks in Kenya and the study carried out a census of 13 microfinance banks as at 31st December 2017. Complete data was however collected from 9 microfinance banks, which had been operation for the five-year period. The nine MFBs made a response rate of 69.23%, which was considered adequate for the study as it was more than 50%.

4.3 Descriptive Statistics

Descriptive statistics were used to summarize the data into meaningful form using the mean, minimum and maximum values, standard deviations, kurtosis and skewness. Table 4.1 shows the descriptive results

Table 4.1: Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Dev.	Skewness	Kurtosis
ROA	45	-.269	.039	-.02578	.069012	-2.131	2.109
Board independence	45	.857	.917	.87473	.018929	.927	-.022

Board size	45	7.000	12.000	8.20000	1.486301	1.466	1.320
Board gender	45	.000	.636	.19460	.181516	.835	.465
Board nationality	45	.000	.333	.03771	.073691	.097	1.705
Bank size	45	4.382	10.383	7.22280	1.946934	.419	-1.344

Source: Research Findings

The descriptive results on table 4.1 demonstrate that ROA had a mean estimation of -0.02578 with most extreme and least qualities being 0.269 and 0.039 individually. The mean an incentive for board autonomy was 0.87473 with a base estimation of 0.857 and 0.917 while the mean an incentive for board measure was 8.200 with least and most extreme estimations of 7.00 and 12.00 individually. The outcomes further demonstrate that board sexual orientation had a mean estimation of 0.19460 and least and most extreme estimations of 0.00 and 0.636 though board nationality had a mean of 0.3771 with a base estimation of 0.000 and greatest estimation of 0.333 individually. The outcomes at long last show that bank measure had a mean estimation of 7.223 and least and most extreme estimations of 4.382 and 10.383 separately. The outcomes additionally show that all kurtosis and skewness esteems lie between - 2 and positive in this way a sign that the information is typically disseminated.

4.4 Diagnostic Tests

The study undertook a normality test, test for multicolinearity and the test for heteroskedasticity. The results were as follows

4.4.1 Normality Test

Test for normality was carried out using the Kolmogorov-Smirnov and Shapiro-Wilk tests. Table 4.2 shows the results

Table 4.2: Normality Test

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	Df	Sig.	Statistic	df	Sig.
Board independence	.228	45	.167	.816	45	.173
Board size	.287	45	.743	.754	45	.839
Board gender	.196	45	.839	.839	45	.698
Board nationality	.451	45	.601	.574	45	.634
Bank size	.223	45	.077	.884	45	.608

a. Lilliefors Significance Correction

Source: Research Findings

The normality test results indicate that all the p values are greater than 0.05 hence an indication that the research data was normally distributed.

4.4.2 Test for Multicolinearity

Multicolinearity was assessed using the variance inflation factors and tolerance levels. Table 4.3 shows the Multicolinearity results

Table 4.3: Test for Multicolinearity

	Collinearity Statistics	
	Tolerance	**VIF**
Board independence	.261	3.831
Board size	.327	3.058
Board gender	.446	2.244

Board nationality	.473	2.113
Bank size	.237	4.222

Source: Research Findings

The multicolinearity results on table 4.3 indicate that all the Variance Inflation factors (VIF) lie between the recommended values of 1 and 10. This indicates that there is no multicolinearity between the dependent and independent variables hence the assumption of multicolinearity has not been violated.

4.4.3 Test for Heteroskedasticity

To assess for heteroskedasticity the study plotted a standardized residual plot. Figure 4.1 illustrates the results

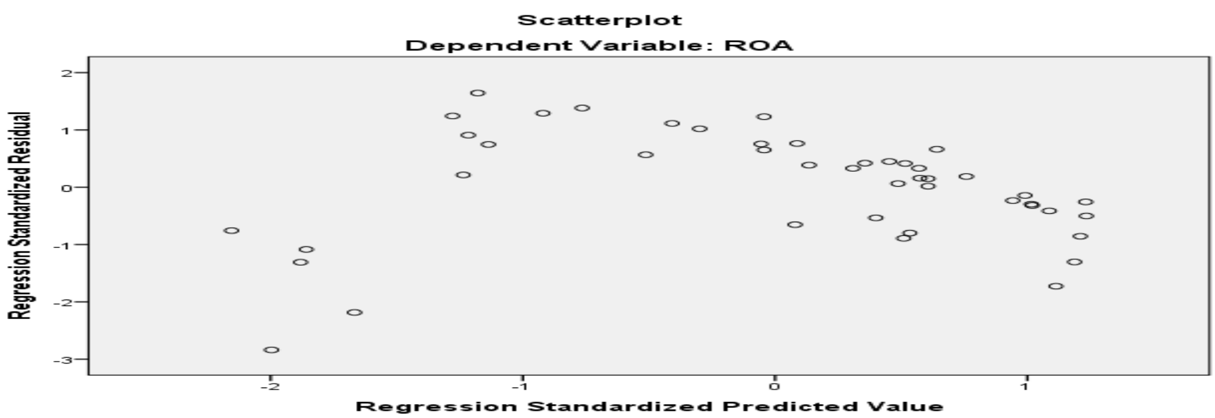

Figure 4.1: Test for Heteroskedasticity

Source: Research Findings

The results on figure 4.1 indicate that most of the plotted data point converge with a certain point hence an indication that the data is homoskedastic. Thus, according to the figure, the assumption of homoscedasticity has not been violated.

4.5 Correlation Analysis

Correlation analysis was undertaken to determine the nature and strength of the relationship among the variables under consideration. Table 4.4 shows the results

Table 4.4 Correlation Matrix

	ROA	Board independence	Board size	Board gender	Board nationality	Bank size
ROA	1					
Board independence	.305*	1				
Board size	.282	.583**	1			
Board gender	-.168	.435**	.437**	1		
Board nationality	.185	.418**	.435**	.060	1	
Bank size	.337*	.686**	.680**	.630**	.588**	1

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

**. Correlation is significant at the 0.01 level (2-tailed).

Source: Research Findings

The correlation investigation results on table 4.4 demonstrates that there is a feeble and connection between board autonomy and ROA as shown by a r estimation of 0.305 while the relationship between's board size and ROA was additionally week and positive as shown by a r estimation of 0.282 separately. The outcomes further demonstrate that the connection between's board sexual orientation and ROA was frail and negative as shown by r-estimation of 0.168. As per the outcomes, the connection between's board nationality and ROA was powerless and positive though the relationship between's bank size and ROA was frail and positive as appeared by r-estimations of 0.185 and 0.337 separately.

The table additionally demonstrates that the R esteems are under 0.7 consequently a sign that there is no cozy relationship among the examination factors and the presumption of multicolinearity among the investigation factors has not been damaged.

4.6 Regression Analysis

The relapse show was embraced to decide the connection between the examination factors. The outcomes were as per the following

4.6.1 Model Summary

The model rundown results which includes relationship coefficient (R) coefficient of assurance (R square), balanced R square, standard mistake of gauge and the Durbin Watson insights are appeared by table 4.5

Table 4.5: Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.675[a]	.456	.386	.054073	1.971

a. Predictors: (Constant), Bank size, Board nationality, Board size, Board gender, Board independence

b. Dependent Variable: ROA

Source: Research Findings

The model summary results indicate that the r square value (coefficient of determination) is 0.456. This indicate that the independent variables which comprises of bank size, board nationality, board size, board gender, board independence accost for 45.6% of the variation in the dependent variable (ROA). The other 54.4% of the variation is accounted for by other factors, which the research did not consider, and the error terms. The Durbin

Watson statistic of 1.971 lies between the recommended values of 1.5 and 2.5 hence an indication that there is no serial correlation in the study data.

4.6.2 Analysis of Variance

Table 4.6: ANOVA

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.096	5	.019	6.535	.000[b]
	Residual	.114	39	.003		
	Total	.210	44			

a. Dependent Variable: ROA

b. Predictors: (Constant), Bank size, Board nationality, Board size, Board gender, Board independence

Source: Research Findings

The analysis of variance (ANOVA) results indicate that the F statistics value of 6.535 is significant at 95% confidence level as indicated by the P value of 0.000<0.05. This indicates that the model is fit and appropriate to assess the relationship between the independent and the dependent variables.

4.6.3 Regression Coefficients

Table 4.7: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	-1.324	2.037		-.650	.519
	Board independence	1.375	2.646	.377	.520	.606
	Board size	-.010	.034	-.225	-.312	.757
	Board gender	-.321	.067	-.844	-4.768	.000
	Board nationality	-.390	.161	-.417	-2.428	.020

	Bank size	.036	.009	1.008	4.152	.000

a. Dependent Variable: ROA

Source: Research Findings

The coefficients results on table 4.7 demonstrate that there is a positive (B=1.375) yet factually unimportant (P esteem = 0.606>0.05) connection between board autonomy and monetary execution (ROA) of microfinance banks in Kenya. The outcomes additionally demonstrate that the connection between board estimate and budgetary execution was negative (B = - 0.010) and measurably immaterial (p esteem = 0.757>0.05). As indicated by the outcomes the connection between board sex and monetary execution was negative (B=-0.321) and factually huge (P esteem = 0.000<0.05) though the connection between board nationality and budgetary execution was negative (B=-0.390) and measurably critical (P esteem = 0.020<0.05). At long last, the outcomes demonstrate that bank measure had a positive (B=0.036) and measurably huge relationship (P esteem = 0.000<0.05) with money related execution of microfinance banks in Kenya.

4.7 Interpretation of the Findings

The consequences of the investigation set up that the connection between board freedom and ROA of microfinance banks in Kenya was certain however factually unimportant. The outcome shows that board autonomy has no critical impact on monetary execution of microfinance banks in Kenya. An investigation by Mwangi, Kirori and Omurwa (2017) reasoned that the more the quantity of part sheets with monetary skill the more the enhanced money related execution of the recorded banks.

The exploration discoveries likewise uncovered that there was a negative and measurably immaterial connection between board estimate and money related execution of microfinance banks in Kenya. This finding shows that monetary execution of microfinance banks in Kenya isn't fundamentally affected by the span of the board. An examination by O'connell and Cramer (2010) found that that size of the board had a negative relationship with organization execution. Image (2017) uncovered that board attributes with respect to board estimate, board assorted variety and board autonomy considerably affected the execution of cited producing firms in the Kenya.

The discoveries of the examination likewise discovered that board sexual orientation had a negative and a factually huge association with ROA. This means board sexual orientation altogether impacts the money related execution of microfinance banks in Kenya. Mutisya (2016) uncovered that sex assorted variety, board residency/term, number of board councils with board compensation affected money related execution. An investigation by Ujunwa (2012) likewise uncovered that sexual orientation decent variety significantly affected the execution of firms.

Further, the investigation results uncovered that there was a negative and measurably noteworthy connection between board nationality and profit for resources of microfinance banks. The finding demonstrates that board nationality essentially impacts monetary execution of microfinance banks in Kenya. Liang, Xu and Jiraporn (2013) found that board nationality had a negative impact bank execution however the span of sheets had a negative impacts bank execution.

At long last, the investigation found a positive and factually noteworthy connection between size of the microfinance banks and ROA. The outcome shows that bank measure impacts money related execution of microfinance banks in Kenya. An investigation by Abubakar, Sulaiman, and Haruna (2018) presumed that huge estimated banks may reduce uses and consequently raise earnings on account of economies of scale. Then again, huge money related organizations couldn't be capable in diminishing operational expenses and happen to be less profitable (appeared differently in relation to little size budgetary establishments) in light of composite bureaucratic structure, overabundance work constrain and also powerless administration of their vast measure of advantages.

CHAPTER FIVE: SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

This chapter gives an outline of the exploration, the investigation ends and proposals, the examination impediments lastly recommended regions, which may require extra research.

5.2 Summary

The key point of this examination was to survey the effect of board attributes on monetary execution of microfinance banks in Kenya. The investigation received an elucidating research structure and the number of inhabitants in the examination was made of the 13 of microfinance banks in Kenya. The investigation totally utilized optional information, which was gathered utilizing an information accumulation sheet of the microfinance banks in Kenya for a time of 5 years from 2013 to 2017 and relationship and relapse examination was utilized to break down the gathered information. From the 13 microfinance banks, finish information was anyway gathered from 9 microfinance banks, which had been task for the five-year time frame. The nine MFBs made a reaction rate of 69.23%, which was viewed as sufficient for the investigation.

The elucidating outline result uncovered that ROA had a mean estimation of - 0.02578 while the mean an incentive for board freedom was 0.87473 though the mean an incentive for board measure was 8.200 separately. The outcomes additionally uncovered that board sex had a mean estimation of 0.19460 though board nationality had a mean of 0.3771 and bank measure had a mean estimation of 7.223 separately.

The connection results uncovered a frail and positive connection between board freedom and ROA and a week and positive relationship between's board size and ROA correspondingly. The outcomes uncovered that connection between's board sexual orientation and ROA was feeble and negative and that the relationship between's board nationality and ROA was frail and negative while the relationship between's bank size and ROA was powerless and positive separately.

The relapse results uncovered that the autonomous factors, which contained bank measure, board nationality, board estimate, board sex, board freedom represented 45.6% of the variety in the reliant variable (ROA). The examination additionally discovered that the F measurements estimation of 6.535 was huge therefore a sign that the model was fit and proper to survey the connection between the autonomous and the needy factors. The coefficient results uncovered a positive and irrelevant connection between board autonomy and budgetary execution and a negative and inconsequential connection between board estimate and monetary execution. The examination additionally settled a negative and noteworthy connection between board sexual orientation, board nationality and money related execution. The outcomes at long last settled that bank estimate had a positive and factually huge association with monetary execution of microfinance banks in Kenya.

5.3 Conclusions

The outcomes uncovered a positive and immaterial connection between board autonomy and money related execution of microfinance banks in Kenya. The examination dependent on this finding presumed that board autonomy has no critical impact on money related execution of microfinance banks in Kenya.

The discoveries of the investigation found a negative and inconsequential connection between board estimate and budgetary execution of microfinance banks in Kenya. In view of this finding the investigation reasoned that money related execution of microfinance banks in Kenya isn't essentially impacted by the measure of the board.

The examination likewise settled a negative and noteworthy connection between board sexual orientation and monetary execution of microfinance banks in Kenya. The examination in this way presumed board sexual orientation fundamentally impacts the money related execution of microfinance banks in Kenya.

The investigation additionally settled a negative and critical connection between board nationality and monetary execution of microfinance banks in Kenya. Consequently, the examination reasons that board nationality altogether impacts money related execution of microfinance banks in Kenya.

The outcomes at last settled that bank estimate had a positive and factually huge association with money related execution of microfinance banks in Kenya. In view of this outcome, the investigation presumes that bank measure impacts money related execution of microfinance banks in Kenya.

5.4 Recommendations

The discoveries of the examination prompted the end that board freedom has no critical impact on monetary execution of microfinance banks in Kenya. The investigation anyway prescribes that microfinance banks ought to guarantee that their board is autonomy to check the tasks of the official administration of the microfinance banks.

The consequences of the investigation prompted the end that budgetary execution of microfinance banks in Kenya isn't essentially impacted by the extent of the board. The investigation all things considered suggests that microfinance banks ought to guarantee that their sheets are of the correct size since extensive sheets may represent an extra cost to microfinance banks.

The investigation reasoned that board sexual orientation fundamentally impacts the monetary execution of microfinance banks in Kenya. The examination dependent on this end prescribes that the microfinance banks ought to guarantee that more ladies are incorporated into the board since board sexual orientation improves their money related execution.

Likewise, the examination presumed that board nationality fundamentally impacts monetary execution of microfinance banks in Kenya. The examination in this way prescribes microfinance banks ought to guarantee that their sheets are differing as far as nationality as board nationality gets new thoughts, which prompt enhanced budgetary execution.

The investigation additionally inferred that bank estimate affects money related execution of microfinance banks in Kenya. The investigation in this manner suggests that the administration of microfinance banks ought to put resources into advantages for guarantee that they appreciate the advantages of economies of scale related with size.

5.5 Limitations of the Study

The investigation did a statistics of the 13 microfinance banks in Kenya yet figured out how to acquire finish information from 9 microfinance banks. This means 100% reaction rate was not accomplished consequently the discoveries are summed up to the considered microfinance banks.

Besides, the investigation utilized optional information, which secured a time of 5 years from 2013 to 2017 from which a few proportions were determined. Proportion determined utilizing optional information are anyway notable in nature and don't speak to the present circumstance. What's more, auxiliary is quantitative in nature and disregards the subjective perspectives, which may impact budgetary execution of microfinance banks.

At long last, the investigation concentrated on board nationality, board estimate, board sexual orientation, board autonomy as the console qualities. Be that as it may, there are a few other board attributes, which were not considered by the examination.

5.6 Suggestions for Further Research

The focal point of the examination was the effect of board attributes on money related execution of microfinance banks in Kenya and the investigation considered board nationality, board measure, board sexual orientation, and board freedom as the main qualities of corporate sheets. The investigation along these lines suggests an expansion inquire about on other board attributes, which impact the execution of microfinance banks.

The setting of the investigation was microfinance banks controlled and authorized by the national bank of Kenya. The examination in this way did not consider credit just microfinance and the non-administrative microfinance foundations. The examination hence, prescribes an extra investigation on the connection between board attributes and different sorts of microfinance organizations.

REFERENCES

Abu, S. O., Okpeh, A. J., &Okpe, U. J. (2016). Board characteristics and financial performance of deposit money banks in Nigeria. *International Journal of Business and Social Science*, 7(9), 1-15.

Abubakar, A., Sulaiman, I., & Haruna, U. (2018). Effect of firm’s characteristics on financial performance of listed insurance companies in Nigeria.*African Journal of History and Archaeology*, 3(1), 01-09.

Al-Gazzar, M. M. (2014). The financial performance of Islamic vs. conventional banks: An Empirical study on the GCC & MENA Region. *Unpublished Dissertation,* British University in Egypt.

Borlea, S. N., Achim, M. V., & Mare, C. (2017). Board characteristics and firm performances in emerging economies. Lessons from Romania. *Economic research-Ekonomskaistraživanja*, 30(1), 55-75.

Chandrapala, P., &Knápková, A. (2013). Firm-specific factors and financial performance of firms in the Czech Republic.*ActaUniversitatisAgriculturae et SilviculturaeMendelianaeBrunensis.* 243 (7), 2183-2190.

Dawit, F. A. (2016). Determinants of commercial banks financial performance in Ethiopia. *Unpublished Thesis*, Addis Ababa University

Dharmadasa, P., Gamage, P., &Herath, S. K. (2014). Corporate governance, board characteristics and firm performance: evidence from Sri Lanka. *South Asian Journal of Management*, 21(1), 7-31.

Gafoor, C. A., Mariappan, V., &Thyagarajan, S. (2018). Board characteristics and bank performance in India. *IIMB Management Review*, 30(2), 160-167.

García-Ramos, R., & García-Olalla, M. (2011). Board characteristics and firm performance in public founder-and nonfounder-led family businesses. *Journal of Family Business Strategy,* 2(4), 220-231.

Gharaibeh, A. M. (2015). The effect of capital structure on the financial performance of listed companies in Bahrain bourse. *Journal of Finance and Accounting*, 3(3), 50-60.

Ghosh, S., & Ansari, J. (2018). Board characteristics and financial performance: Evidence from Indian cooperative banks. *Journal of Co-operative Organization and Management*, 1, 06-15.

Hassan, A., &Lukong, P. B. (2012). Corporate governance in banking industry: Gender diversity in boardrooms: A quantitative study of Swedish-banks during the period 2001-2010.*Master'sThesis,* Umea School of Business.

Hidayat, A. A., & Utama, S. (2017). Board characteristics and firm performance: Evidence from Indonesia. *International Research Journal of Business Studies*, 8(3), 137-154.

Ilaboya, O. J., &Obaretin, O. (2015). Board characteristics and firm performance: Evidence from Nigerian quoted companies. *Academic Journal of Interdisciplinary Studies,* 4(1), 283-293.

Jadah, H. M., &Adzis, A. B. A. (2016). The effect of board characteristics on Iraqi banks performance. *International Journal of Academic Research in Accounting, Finance and Management Sciences*, 6(4), 205-214.

Jajale, A. A. & Ali, A. I. (2017). Effect of cash management on the financial performance of commercial banks in Mogadishu, Somalia.*IJRDO-Journal of Business Management*, 3(8), 52-76.

Jermias, J., &Gani, L. (2014). The impact of board capital and board characteristics on firm performance. *The British Accounting Review*, 46(2), 135-153.

Jermias, J., &Gani, L. (2014). The impact of board capital and board characteristics on firm performance. *The British Accounting Review*, 46(2), 135-153.

Johl, S. K., Kaur, S., & Cooper, B. J. (2015). Board characteristics and firm performance: Evidence from Malaysian public listed firms. *Journal of Economics, Business and Management*, 3(2), 239-243.

Lawal, B. (2012). Board dynamics and corporate performance: review of literature, and empirical challenges. *International Journal of Economics and Finance*, 4(1), 22-35.

Liang, Q., Xu, P., &Jiraporn, P. (2013). Board characteristics and Chinese bank performance. *Journal of Banking & Finance*, 37(8), 2953-2968.

Matar, A., &Eneizan, B. M. (2018). Determinants of financial performance in the industrial firms: Evidence from Jordan.*Asian Journal of Agricultural Extension, Economics & Sociology*, 22(1), 1-10.

Meme, F. K. (2017). Board characteristics and financial performance of manufacturing firms listed at the Nairobi securities exchange in Kenya. *Unpublished MBA Project,* Kenyatta University.

Muchemwa, M. R., Padia, N., & Callaghan, C. W. (2016). Board composition, board size and financial performance of Johannesburg stock exchange companies. *South African Journal of Economic and Management Sciences,* 19(4), 497-513.

Mudei, O. D.&Kising'u, T. (2018). Influence of corporate governance on corporate financial performance in Harmoud in Somalia. *International Journal of Novel Research in Marketing Management and Economics*, 5 (1), 48-71.

Mutisya, F. M. (2016). The effects of board characteristics on financial performance among deposit taking microfinance institutions in Nairobi County. *Unpublished MBA Project.* South Eastern Kenya University.

Mwambuli, E. L. (2018). How does board structure characteristics affect capital structure decisions? Evidence from East African Stock Markets. *Journal of Corporate Governance Research*, 2(1), 1-25.

Mwangi, I., N., Kirori, G., N.,&Omurwa, J. (2017). Effect of board characteristics on financial performance of the banking sector in Kenya: case of listed commercial banks in Nairobi Securities Exchange. *International Journal of Economics and Finance,* 6(12), 39 –57.

Naz, F., Ijaz, F., & Naqvi, F. (2016). Financial performance of firms: Evidence from Pakistan cement industry. *Journal of Teaching and Education*, 5(1), 81–94.

Nuhiu, A., Hoti, A., & Bektashi, M. (2017). Determinants of commercial banks profitability through analysis of financial performance indicators: evidence from Kosovo. *Business*: *Theory and Practice*, 18, 160-170.

O'connell, V., & Cramer, N. (2010). The relationship between firm performance and board characteristics in Ireland. *European Management Journal*, 28(5), 387-399.

Pathan, S. (2009). Strong boards, CEO power and bank risk-taking. *Journal of Banking & Finance*, 33(7), 1340-1350.

Robin, I., Salim, R., & Bloch, H. (2018). Financial performance of commercial banks in the post-reform era: Further evidence from Bangladesh. *Economic Analysis and Policy*, 58, 43-54.

Saleh, M. (2016). Effect of board of directors 'attributes on the financial performance of listed deposit money banks in Nigeria. *Developing Country Studies*, 2(10), 1-9.

Sarkar, J., & Sarkar, S. (2018). Bank ownership, board characteristics and performance: Evidence from commercial banks in India. *International Journal of Financial Studies*, 6(1), 17-47.

Sheikhdon, A. A. (2016). Effect of liquidity management on financial performance of commercial banks in Mogadishu, Somalia. *International Journal for Research in Business, Management and Accounting*, 2(5), 101-123.

Tonui, S. C., & Olweny, T. (2018). Effect of board characteristics on the financial performance of state corporations in Kenya. *Strategic Journal of Business & Change Management*, 5(2), 980-995.

Wachudi, E. J., & Mboya, J. (2012). Effect of board gender diversity on the performance of commercial banks in Kenya. *European Scientific Journal*, 8(7), 128-148

Warsame, M. (2016). Can Islamic banks flourish in Somalia after 25 Years of the collapse of the country’s entire financial system? *European Journal of Business and Management*, 8(15), 01-08.

Yesmine, S., & Bhuiyah, M. S. U. (2015). Determinants of banks’ financial performance: A comparative study between nationalized and local private commercial banks of Bangladesh. *International Journal of Business and Management Invention,* 4(9), 33-39.

Zeitun, R., & Tian, G. (2014). Capital structure and corporate performance: evidence from Jordan. *Australasian Accounting, Business and Finance Journal*, 1(4), 40-61.

APPENDICES

Appendix I: List of 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. Rafiki Microfinance Bank Limited
8. Remu Microfinance Bank Limited
9. SMEP Microfinance Bank Limited
10. Sumac Microfinance Bank Limited
11. U & I Microfinance Bank Limited
12. Uwezo Microfinance Bank Limited
13. Maisha Microfinance Bank Ltd

Source: Central Bank of Kenya (2017)

Appendix II: Data Collection Sheet

MFB	Year	Net income	Total assets	Board members	Independent directors	Women directors	Foreign directors
Faulu	2017	104.22	25,330.88	12	11	3	2
	2016	49.14	27,403.03	12	11	3	2
	2015	120.66	25,229.55	12	11	3	2
	2014	298.95	20,319.96	9	8	2	3
	2013	165.68	12,419.22	7	6	2	1
KWFT	2017	41.17	29,079.19	11	10	7	1
	2016	240.10	32,319.51	11	10	7	0
	2015	396.23	31,867.48	11	10	7	0
	2014	500.70	26,997.74	8	7	4	0
	2013	395.47	21,752.09	8	7	4	0
Rafiki	2017	-452.00	6,727.00	8	7	1	1
	2016	-297.55	7,326.82	8	7	1	1
	2015	29.46	7,728.52	8	7	1	1
	2014	21.00	3,679.00	7	6	1	1
	2013	9.00	1,838.00	7	6	1	0
SMEP	2017	-120.00	2,734.00	8	7	2	0
	2016	-134.00	2,659.00	8	7	2	0
	2015	-1.00	2,592.00	8	7	2	0
	2014	-97.00	5,975.00	8	7	2	0
	2013	48.00	2,490.00	8	7	2	0
REMU	2017	-25.00	354.00	8	7	2	0
	2016	-12.00	362.00	8	7	2	0
	2015	-15.00	397.00	8	7	2	0
	2014	3.00	378.00	8	7	2	0
	2013	-6.00	337.00	8	7	2	0
Uwezo	2017	-12.00	212.00	7	6	0	0

	2016	4.00	214.00	7	6	0	0
	2015	0.20	226.00	7	6	0	0
	2014	1.00	390.00	7	6	0	0
	2013	-2.00	107.00	7	6	0	0
Century	2017	-63.00	288.00	7	6	2	0
	2016	-41.00	225.00	7	6	2	0
	2015	-53.00	197.00	7	6	2	0
	2014	-39.00	231.00	7	6	2	0
	2013	-27.00	164.00	7	6	2	0
Sumac	2017	10.00	1,137.00	9	8	0	1
	2016	14.00	803.00	9	8	0	0
	2015	7.00	608.00	9	8	0	0
	2014	4.00	390.00	9	8	0	0
	2013	-11.00	307.00	9	8	0	0
U&I	2017	16.00	406.00	7	6	0	0
	2016	7.00	351.00	7	6	0	0
	2015	7.00	184.00	7	6	0	0
	2014	2.00	137.00	7	6	0	0
	2013	1.00	80.00	7	6	0	0