EFFECT OF CORPORATE GOVERNANCE PRACTICES ON FINANCIAL RETURN OF DEPOSIT TAKING MICRO FINANCE INSTITUTIONS IN KENYA

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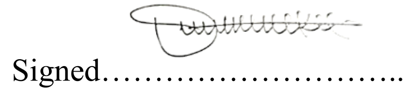
A RESEARCH PROJECT IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR THE AWARD OF MASTER OF BUSINESS ADMINISTRATION, FACULTY OF BUSINESS AND MANAGEMENT SCIENCES, UNIVERSITY OF NAIROBI

NOVEMBER, 2021

DECLARATION

This Research Project is my original work and has never been submitted for a degree in any other University.



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D61/70790/2014

This Research Project has been submitted for examination with my approval as University Supervisor.

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DEDICATION

This research work is dedicated to my family and friends. Special dedications go to my siblings for their love and support both morally and materially. Their encouragement and Last but not least to my wife and children for their unending love, understanding and support while l took their precious time away to undertake this study.

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ABSTRACT

Micro-finance institutions' financial returns were examined to see whether corporate governance standards had an impact. Corporate governance procedures have an influence on the return on equity and risk management of deposit accepting micro financial institutions in Kenya, according to the research goals of the study. DTM supplied the data for a cross-sectional survey that was utilized in this study. An investigation of corporate governance in a DTM, the information acquired was meant to explain, examine and quantify major concerns related to governance difficulties affecting MFIs and their influence on MFIs' performance. All the 9 fully licensed deposit taking micro financial institutions in Kenya as at December 2015 were involved in the study. CEOs and Deputy CEOs from each DTM of the 9 DTM were used which made a total of 18 respondents interviewed. The main and secondary data was both qualitative in character. Deposit-taking micro-finance institutions' financial returns may be predicted using a multivariate regression model that incorporates corporate governance. Mean, standard deviation and variance were used in this study's analysis for the aim of drawing conclusions. Finally SPSS version 22 was used in data. The study established that that the DTMs were well networked with numerous branches in Kenya; that accepting deposits, giving loans at an interest and Offering financial advice were the main services offered by these organizations. The selection and composition of board members was based on gender balance, each board member and executive director had a plan for their departure, and two-thirds or more of the board members were entirely independent non-executive directors. The study recommends that the DTMs that combines the functions of the chairman and CEO should separate them because this helps in controlling conflict of interest and at the same time overlapping of functions and that the organizations with large board of directors reduce the number so that to make the process of making decisions shorter because it removes so much complexities.

CHAPTER ONE

INTRODUCTION

1.1 Background of the study

To ease the flow of cash from investors and savings families to those in need of loan, there are commercial banks to be found. They're also a meeting place for individuals with extra cash and others who are short on it. Commercial banks may help to mitigate information asymmetry, moral hazard, adverse selection, and transaction costs in financial markets (Berger & Humprey, 1997; Williams & Nguyen, 2005). There are a variety of financial services supplied by commercial banks to borrowers and savers as well as other members of the financial market. These include loan and deposit options as well as teller machines and ATMs, as well as branch locations that are accessible to clients and suppliers (Claessens, 2003).

Various theories have been put forward to explain corporate governance. The theories of agency, stewardship, and stakeholder involvement form the basis of this study. The principle of agency implies that stewards should make financial choices that maximize shareholder value (Onguka,2014). Corporate information environment refers to the dynamic interaction between investors, companies or managers as a consequence of information asymmetries or difficulties with agency. After a significant change in corporate governance frameworks, according to Gomez, scholarly interest in the role of the board of directors in promoting corporate governance has increased (2005).

Expanding the scope of banking operations creates substantial difficulties for bank administration, market regulation, and risk management, among other things. Managing risk is more difficult when banks are operating in both banking and non-banking industries. This makes

it more difficult for bank management, the market, and regulators to monitor and effectively punish institutions (Berger et.al. 1995). Automated approaches are being used by several commercial banks in an effort to grow and serve a larger customer base. Having greater capital and a wider network of branches makes it simpler for large banks to restructure. Aside from the fact that major banks tend to have a broad variety of ATMs, they also tend to have a wide variety of customers (Williams and Nguyen, 2005).

According to a study from the Organization for Economic Co-operation and Development, recent scandals have impacted corporations, regulators, investors, and the general public (2004). Numerous Kenyan microfinance institutions have collapsed, costing their investors hundreds of millions of shillings because of poor management (2006, Ojiambo). The importance of company governance has consequently been recognized by investors when making investment choices.

Investors have been increasingly concerned about corporate governance and commercial performance as a consequence of recent public company collapses, such as Enron and WorldCom in 2002. A DTM will investigate, among other things, the relationship between shareholders, management, and the board of directors.

According to Muturi (2012), an effective corporate governance structure helps DTMS attract investments and strengthens the foundation for their long-term viability. Muturi (2012) Deposit-taking and non-deposit-taking microfinancial institutions are included in the DTM subsector. The Cooperative MFIs Act, CAP 490, grants licenses to DTMS that have been properly registered under the MFI ACT. Sub-Sector assets are estimated to amount 293 billion Kenyan dollars, with deposits totaling $213 million and loans totaling $ 221 million as of December 2013. It was

estimated that 215 DTMS were operating in the United States; 124 were licensed and the rest were operating at various degrees of compliance with the law (MFI ACT Report, 2013).

1.1.1 Corporate Governance

The level of corporate governance varies widely from company to company. variances in stage of business growth (values, investor base and expectations of board members and advisers), along with the reality that corporate governance that is suited to a specific firm might vary by company size, age, stage of development, region, industry and other considerations. The interests of shareholders must be protected; all stakeholders must be treated equitably; and board duties must be clearly stated. (Sanda et al., 2003). Directors of corporations must rule in a way that maximizes shareholder profit and is beneficial to society.

Board of directors function largely depends on corporate governance to preserve the interests of shareholders consistently. If the board of directors believes that the daily decisions made by the top management are detrimental to its members, it might conduct an evaluation of that belief. Lord Cadbury addressed board meetings, non-executive director independence, executive director contracts, and the independence of the audit committee in his 1992 report to the Committee on Financial Aspects of Corporate Governance.

Board committees are important, and the study recommends that companies form subcommitties of the board to concentrate on certain parts of governance that are difficult. The audit, financial, and nominating committees are the most common board committees. The goal of this study was to see whether deposit-taking microfinance firms' corporate governance procedures may impact

their financial returns. For example, they looked at characteristics such as CEO duality, board size, the number of board members every fiscal year, and the degree of board independence and corporate reporting by the boards.

1.1.2 Financial Return

Return is a consequence of an organization's operations and strategy, according to Claessen (2004). It's what individuals do in relation to their jobs in the company. According to Terrence, financial return refers to how a firm exploits its essential business model and makes profits by making the most efficient and effective use of the resources available to it (1989).

According to Brealy and Myers (2013), the financial return of an organization may be used to reveal the truth about the company's performance as well as its financial strength and weaknesses. It is the financial return of a company's owners that is measured. After-tax profit, return on assets/return on equity, EPS, and any market value ratio that is widely accepted may be used to measure it (Ahmad et al, 2011).

In terms of ROA, Pandey (2010) gave financial metrics. In Kenya, ROA is an essential metric for DTMS. This is a way of gauging a company's profitability in relation to its total assets. Take the company's net income and divide it by its total assets in order to calculate it. In order to boost investment returns, raising the percentage is a viable option. ROA is a stronger predictor of financial return than ROS, which is based on sales. Assets utilized to conduct the firm are taken into consideration. Just making a profit will not be enough to make the firm successful. Instead, ROE focuses on returns to shareholders. It may conceal a wide range of possible issues, since

corporations may use financial tactics to maintain an artificially high ROE while masking worsening economic fundamentals (Sangster and Wood, 2010).

Financial return includes economic value added, which measures the value shareholders get after all costs of capital have been accounted for, in addition to simple financial return (Higgs2004). The difference between an organization's current total market worth and the capital invested by its owners is known as its value-added (including shareholders and bondholders).

The profitability of a corporation may be assessed using a financial ratio. Ratios allow financial statements to be evaluated and used to meet the specific requirements of the reader (Sangster and Wood, 2010). DTMS should review their financial return in order to ensure that financial statements are generated at the appropriate time and that financial statements analyzed provide information about the organization's activity. Return on Assets (ROA) is calculated over a five-year period in this research to quantify the financial return.

1.1.3 Corporate Governance on Financial return

Governance of a business reveals the ties between the people and organizations that provide the firm with its resources and contribute to its success. According to Donaldson, a firm's capacity to adapt to external circumstances that affect its financial return is influenced by the governance structure of the organization (2003). Companies with strong governance outperform those that lack it. Trust in an organization with sound corporate governance is more likely to be shown by investors.

A stronger corporate governance structure, according to Claessens et al. (2003), helps companies get more funding, cut their costs of capital, and improve their performance. Corruption and poor firm performance, as well as unsafe financing methods, may result from a lack of corporate governance. Due to reduced agency costs, a better corporate governance structure will result in higher stock returns, profitability, riskiness and dividend distributions. Board of directors composition directly influences a company's financial success.

More external directors are more likely to implement policies that have a lesser financial gain but a higher market value for shares, according to Sanda et al. (2003). Boards tend to meet more often after periods of poor performance, as noted by Fama and Jensen (1983). Corporate governance has an impact on how a company is perceived by its stakeholders and peers. As a result, this has an impact on the bottom line of the firm. Since the company's board is recruited from a large pool of expertise, board diversity has an influence on financial return, according to Erhardt et al (2003).

1.1.4 Deposit taking MFIs in Kenya

Committees that oversee executive directors must be established, financial statements audited by independent auditors, and directors appointed in accordance with agency theory and independent monitoring must be followed by DTM MFIs in order to relieve CG concerns. There has been a shift in Kenya from Microfinance Institutions to Deposit-Taking Microfinance Institutions (DTMs) after the adoption of the 2006 Microfinance Act on May 2nd, 2008. In Kenya, there are 43 commercial microfinance institutions (MFIs), one mortgage financing firm, nine deposit taking microfinance companies (DTMs), 3,500 active savings and credit cooperative banks

(SACCOs), one postal savings bank (KPOSB), and over 125 foreign exchange bureaus (Cracknell, 2012). According to the FSD Report (2012), the microfinance sector's contribution has grown significantly, more than tripling in the time between the two surveys to reach 3.4%. The most current data shows that this growth has continued. There are already ten percent of deposit accounts in the regulated system that are held by the three erstwhile non-deposit taking MFIs (KWFT, Faulu and Jamii Bora Bank).

According to Ayayi and Sene (2010), Kenya is a good candidate for microfinance small loans because of its high poverty. There have been roughly 20 years of microfinance in Kenya, although the business has just been recognized as such in the last 10 years, and it may be divided into two broad categories (Hospes et al., 2002). In terms of formal vs informal, this is the most prevalent. Kenyan law requires the registration of all formal service providers. Self-regulation or regulations based on groups apply to informal providers. Second, there are two types of microfinance in Kenya: client-based and member-based. Members are both the major source of funding and the primary recipients of loans in organizations based on their membership.

Cooperatives are involved. The consumers are separate from the owners in client-based firms. Customers have no say in how the company is run. Occasionally, the borrower offers additional security. The loans of the other members are, however, guaranteed by each member of the group. Depositing funds with the MFI (or lender) is a common practice among group members. If a member fails to pay back a loan, the MFI will confiscate all of the group's deposited cash, as well as any outstanding balances.

1.2 Research Problem

Fintech firms act as a go-between for savers and lenders because of their scale (in terms of assets and capitalization), profitability, and control. According to Barako et al. (2013), larger financial institutions have more branches in rural areas than smaller ones, thus they should be promoting financial inclusion. Capitalization is another major element that has an influence on banks' growth plans, either in terms of loan portfolio or geographic reach. A lack of corporate governance, inadequate risk management processes, lack of internal controls, insufficient regulatory systems and conflicting interests have all contributed to the failure of many firms, according to Bauer and Guenster (2003). Recent years have seen a rapid expansion of the DTM market. DTMS, on the other hand, has always been cloaked in mystery. Many DTMS investors have no clue how the firm is going and have nothing to show for their investment.

DTM members' grouping is shifting due to increased competition and the need to find new sources of growth, says the MFI ACT Report (2013) on deposit-taking DTM members. This is because the DTM business has developed to the point that DTS have to accept new members from the community. Demand for finances for corporate and household responsibilities has fueled this rise. Farmer-based deposit-taking micro-finance organizations are already commonplace, servicing the whole community in addition to domestic members. About seventy-five percent of the money in the DTM sector comes from deposit-taking micro financial institutions (MFI ACT, 2013).

Only 20 of the 35 DTMs in the research region have been completely registered, with the remainder pending registration. MFI ACT has recommended a range of new measures to strengthen DTM organizations with appropriate financial practices. Only 20 of the 135 DTMS registered in Kenya are operational. Most research have focused on DTM in Nairobi (Ngaira, 2011), Mombasa (Mbogo, 2014) and Muranga's (Kabaiya, 2012).

Few research have been done on deposit-taking microfinance institutions in Western Kenya. Capital sufficiency, equity investment, and property investment have been included to DTM's policy measures, according to the MFI ACT Report 2013. DTM, particularly the DTMS in the study region, will have a monumental challenge in implementing this new strategy. This necessitates the implementation of financial return-affecting corporate governance procedures inside firms. Government, teacher, farmer, private institution, and community-based DTM are found in Kenya. Concerns have been raised about the slow or non-existent expansion of deposit-taking microfinancial institutions in Kenya.

According to global empirical research, excellent corporate governance policies provide a number of advantages. A company's future financial woes may be mitigated by good corporate governance (Bhagat and Black, 2012). The idea that a company's capacity to adapt to external circumstances that impact its financial performance is affected by its governance structure has been put up several times (Donaldson, 2013). Once again, poorly-managed businesses are projected to make less money. Claessens, et. al. (2012) go on to say that a more solid corporate structure benefits businesses in three ways: by decreasing the cost of capital and raising financial performance. Due to the fact that well-designed organizational structures decrease risks and

boost performance, external investors see corporate governance as a critical consideration when making investment choices. This study examines the size, composition, and committees of the board of directors.

Most research on corporate governance conclude that companies that adhere to excellent corporate standards outperform those that don't. There was a lot of study done on corporate governance and organizational performance by Jebet (2001), Mwangi (2002), Muriithi (2005), and Manyuru (2005). Nonprofit corporate governance and financial returns have been studied extensively, but Gakuo (2005) and Wang'ombe (2013) stand out as two of the most significant. On DTM, corporate governance was addressed by Kabaiya (2012), Wasike (2012), Muriithi (2004), Ademba (2006), and Ojiambo (2006). Performance was the focus of Maluki (2011), whereas Ngaira (2011) examined the impact of rules on that performance.

Accordingly, no research has been done on how certain corporate governance requirements, such as CEO duality and board independence, impact the financial performance of deposit-taking microfinance firms in Kenya. Proposals for further investigation were made in light of Ojiambo's (2006) discovery that the presence of rules structures does not inevitably lead to greater performance.

Deposit difficulties are a concern for micro-finance institutions in Kenya, and this study seeks to find out why. For this study, the focus was on how deposit accepting micro financial institutions in Kenya fared financially due to the influence of corporate governance, including things like

board diversity and board meetings as well as executive contracts and the independence of audit and credit risk committees.

1.3 Research Objective

i) To determine the effect of corporate governance practices on return on equity of deposit Taking micro financial institutions in Kenya

1.4 Value of the Study

Good corporate governance and financial returns are revealed in the research, which contributes greatly to the body of information on these subjects. As a result, it helps future researchers and academics by providing a reference document for the study that may be accessed by other researchers in the future.

The policymakers learn about the dynamics of the cooperative movement and the most suitable legislative responses to it. Therefore, they may use this study's findings to help them establish suitable methods to control shareholders' involvement in influencing the financial return of deposit-taking micro financial institutions.

As a result of the research's findings on governance methods and their impact on financial returns, this sector has benefited. Deposit-taking microfinancial institutions were studied to see how different components of corporate governance influenced their everyday operations and the degree to which they affected other deposit-taking microfinancial institutions in the nation.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter discusses the theories of corporate governance that are pertinent to the subject, as well as the components of corporate governance and an empirical evaluation of relevant literature that addresses the primary topics in the research..

2.2 Theoretical Review

This study will focus on the theories of agency, stakeholder, and stewardship as the basis of corporate governance. The link between management and owners, or members in a cooperative, is at the heart of agency and stewardship theory.

2.2.1 Agency Theory

Berle and Means (1932)'s agency theory is a prominent theory of corporate governance (Kelly, 2002). There are times when a conflict between the interests of shareholders and those of the agent might arise. Corporate governance, as described by Berle and Means (1932), is the separation of ownership and management, creating a structure in which boards of directors function as vital monitoring devices, reducing the issues generated by the principal-agent relationship.

The two factors of agency theory are the self-interest of individuals and the transparent and consistent interests of managers and shareholders (Daily, Dalton & Cannella, 2003). Without adequate monitoring incentives, Jensen and Meckling (1976) argued, agents would be compelled to behave against the principal's interests, resulting in a conflict of interest. There is a need for corporate governance to ensure that the agent is not overburdened while carrying out their responsibilities. According to Gedajilovic and Shapiro (1998), excessive spending is described as padding and actions that boost the company's growth, rather than profits, rather than cutting expenses. By padding, we mean increasing operating costs in order to boost one's own revenue.

Fama and Jensen (1983) state that the board must approve and supervise management's choices. According to agency theory, the board's primary responsibility is to maximize shareholder value. In the event of an agency conflict, say Shleifer and Vishny (2014), the question of how to induce the agent to act in the principle's best interest emerges. Agency costs may be used to accomplish this goal.

Financial return and agency theory were investigated by Ricardo (2005), who proposed that corporate governance impacts performance when management and shareholders are at odds. Having the capacity to properly oversee and guide agents is crucial in instances when the principle's goal is profit growth but their agent lacks the appropriate drive or desire.

2.2.2 Stewardship Theory

Managers, in this view, are excellent stewards who put the interests of the company's owners first (Donaldson & Davis, 1991). Claims that stewardship theory is grounded on human relations

are made by Clarkson (1995). According to social psychology, CEOs' actions are at the heart of stewardship theory's foundations. Assumed under this idea, the stewards of a corporation are motivated to defend and maximize shareholder money.

According to stewardship theory, the organization's top executives are responsible for safeguarding the company's assets. When it comes to leadership, stewardship philosophy places a heavy focus on training and induction. But when it comes to cooperatives, which are built on the notion of democratic participation, leaders are chosen based on their ability to persuade other members. This undermines the cooperative movement's stewardship paradigm. According to Conforth (2004), electing the board of directors on the basis of competency rather than who can best add value to the company seems to be a contradiction.

2.2.3 Stakeholder Theory

Stakeholders' concerns are the emphasis of this theory. It is based on the premise that organizations' actions and choices affect more than simply their members (Hung, 1998). According to this concept of corporate identity, the interests of the many stakeholders of a company must be balanced in order for everyone to be pleased. As a result, only the shareholder is considered a stakeholder by law. There are several reasons why cooperatives exist, and they all revolve on meeting the needs of its members and the wider community, as stated by Kabaiya (2011). To ensure that the concerns of external stakeholders, including suppliers, contractors and financiers, are addressed on a regular basis, internal controls are implemented.

Significant, contractual and context-specific stakeholders are the three types of stakeholders identified by Rodriguez et al (2002). Substantial stakeholders include shareholders, investors, strategic partners and workers, all of whom are critical to the company's success.. A firm's contractual stakeholders include customers, subcontractors, suppliers, and financial institutions, as well as the business itself. Contextual stakeholders include the government, local communities, nations, and MFIs, as well as knowledge and opinion makers, as well as the knowledge and information suppliers, who all play a vital part in ensuring the business's dependability. With regard to the board of directors of cooperatives, there are limits on the amount of engagement of various stakeholders.

2.3 Determinants of Financial Performance

Corporate governance difficulties may impair the financial returns of deposit accepting micro financial institutions in Kenya, according to a new research. Corporate governance and performance have been increasingly popular topics for academic research during the last several years. Long-term shareholder value is strongly linked to a company's corporate governance. IMF examined over 200 institutional investors in 2000 and 2002 and concluded that 80 percent of participants would pay a premium for well-governed companies. They outlined the characteristics of a well-governed firm as having a majority of non-management board members, conducting formal director evaluations, and responding promptly to investor inquiries about corporate governance concerns.

Various empirical research have revealed that excellent company governance processes offer several advantages. Corporate governance is critical to safeguarding a business from possible financial troubles (Bhagat & Black, 2012).

The idea that a company's governance structure impacts its capacity to adapt to external circumstances that have an impact on its financial success has been frequently argued (Donaldson, 2013). Again, lower profits are predicted from companies with bad governance. According to Claessens, et al., a stronger corporate structure helps businesses acquire access to finance, lower capital costs, higher financial performance, and better treatment of all stakeholders (2012). Investing choices are influenced by external investors' perceptions of company governance, since effective governance arrangements decrease risks and increase performance. In this research, board size, board makeup, and board committees are all taken into account.

According to Sanda et al., there is a correlation between company success and the separation of CEO and board chair functions. However, according to Abor (2007), CEO dualism is not linked to decreased business productivity.

2.3.1 The Board of Directors' Size

Having more board members, according to Jensen (1993), improves a board's ability to regulate itself. Boards with smaller membership have been suggested by Changanti, Mahajan and Sharma (1985); Yermack (1997); and Eisenberg, Sundgren and Wells (1998) to have a greater impact on

control because larger boards find it difficult to coordinate their efforts and thus allow managers to pursue their own interests unhindered. This gain is counterbalanced by greater costs due to poor coordination and coordination of the administrators' efforts by Lipton & Lorsh (1992), even though a larger board's capacity grows with its size. The information sharing and decision-making process becomes increasingly time-consuming and challenging.

A large board, on the other hand, might offer several experiments that will have a favorable influence on the performance. In this vein, Pearce and Zahra (1992) and Dalton et al. (1999) show that the board of directors' diverse structure enhances the ability to manage and increases the board's informational resources. Baysinger and Zardkoohi (1986) state that a big board in a heavily regulated business may have several benefits, including the ability to connect external administrators with regulators. An empirical research found that between 2002 and 2006, the size of a bank's board of directors had an adverse effect on the performance of the 100 largest European banks. The cost efficiency and the profit efficiency were utilized as performance metrics by these writers, and their findings were consistent for both measurements. Tobin's Q (a measure of a bank's performance) was not correlated with board size throughout the period from 1959 to 1999, according to Adam and Mehran (2005, 2008) who investigated 35 large American banks. In addition, Belkhir (2006) investigated the same link in the context of a simultaneous equations model to account for the endogeneity of various internal processes of corporate governance. The size of a bank's board seems to have no impact on its financial success among the 260 American institutions studied in this research. This led them to the conclusion that restricting the size of the board had no benefit.

Management's willingness to take risks may be influenced by the board's size. Having a large number of board members results in high levels of both performance and risk, according to Adams and Mehran (2003). For American banks, the number of administrators on the board has little effect on whether or not a bank would go bankrupt, according to a study by Simpson and Gleason (1999). Blanchard and Dionne contend that as the number of administrators increases, risk management techniques get more sophisticated, which justifies managers taking excessive risks (2004).

According to Wiseman and Gomez-Mejia (1998), when the number of administrators grows and ambiguity increases, the criterion for evaluating a manager's conduct grows and becomes more difficult. As a result, the manager gets unsure and unsure, and then becomes very cautious and adverse to risk. In light of these findings, it may be stated that there is no clear link between board size and firm management. However, there are strong reasons that a big board of directors would have a detrimental influence on bank bankruptcy. As a result of the "disaster myopia" idea put out by Guttentag and Herring (1986), a bank's management is said to lack the capacity to accurately assess the scope of the harm that might result from excessive risk-taking practices. There is a good chance, then, that the diverse structure and the greatest experience that define a broad board might aid in a better evaluation of investment proposals to lower the likelihood of bankruptcy. After then, the research suggests that:

2.3.2 Board Independence

To determine whether a bank's directors are truly independent, researchers look at whether or not there are independent "external" administrators, and how their presence affects a bank's

performance. This governance structure is really supposed to monitor and assist in the company's long-term strategic planning.

However, in order for the board to do its duty effectively, it must have independent members. To maintain their reputation in the administrator market, independent administrators are more likely to safeguard shareholders' interests, according to Fama and Jensen (1983). According to McAvoy and Millstein (1999) and Bhagat and Black (1999), independent administrators have a favorable impact on the success of a corporation. Their presence on the board improves their capacity to govern because of their influence on board decisions.

Furthermore, their decisions are more objective than those made by the company's internal administrators, and they function in the company's best interest (Fama, 1980; Fama and Jensen, 1983; Beasley and Petroni, 2001; Lennox, 2005 and Yeh and Woidtke, 2005). Weishbach (1988) observed that poor performance resulted in a higher rate of management turnover when the board of directors was mostly made up of independent administrators. It is recommended by Nam (2004) that bank managers' behaviour be monitored by independent administrators. Bank performance is unaffected by the percentage of external administrators, according to Pi and Time (1993) and Adams and Mehran (1995). (2003). Prowse (1997) believes that regulation is more essential than the board of directors when it comes to bank management discipline.

2.3.3 CEO-Chairman Duality

In recent times, the manager's dual nature has gained a lot of attention since it has been discovered in a huge number of major corporations (Kesner, Victor and Lamont, 1986). Both decision and control tasks cannot be separated in a dualistic system. The level of control and

monitoring would undoubtedly be reduced if the CEO and the chairman were both in charge of the company. As a result, the manager is likely to wield considerable influence on the board. As a result, governance systems may lose their value as a result. Since of this, Jensen (1993) states that the manager should not be the president of the board because he cannot distinguish his personal interests from those of the shareholders.

According to Paquerot, the bank's management will have a better degree of knowledge and direct control over the credits, enabling him to utilize them to increase the bank's human capital and enhance his job security (1997). Duality increases the company's performance, according to Godard and Schatt (2000), an empirical research. It was found that the economic performance of American commercial banks during the years 1988-1990 was unaffected as a consequence of this duality, by Fogelberg and Griffith (2000) and Griffith et al. As a result, Simpson and Gleason (1999) concluded that the duality of 287 banks in 1989 contributed to reducing the bank's chance of failing. The authors use the agency theory to explain this result, stating that the manager is more risk averse by nature than the shareholders, and that as chairman of the board, he would be less aligned with the interests of shareholders who prefer the bank to take more risks than the shareholders would like.

2.3.4 Diversity of Board of Directors

According to Cox, people who operate in groups have a diverse range of social and cultural identities (2001). Societal and cultural identities relate to a person's affiliation with groups that have a significant influence on their lives. These affiliations include the sex, the race, the

national origin, the religion, the age and the specialities. Slocum and Hellriegel, (2007) specify that the principal criteria of diversity include the age, the race, the sex…, and the secondary criteria of diversity are education, the income, and the matrimonial situation. The studies treating diversity consider both the cognitive and the demographic dimensions. The criteria for demographic diversity include sex, age, race, and ethnicity, whereas the criteria for cognitive variety include knowledge, education, perception, and the features of the personalities (Maznevski, 1994; Milliken and Martins, 1996; Pelled, 1996; Boeker, 1997; Watson and al., 1998; Peterson, 2000 and Timmerman, 2000).

Research shows that the relationship between diversity and corporate success may be both good and detrimental. A number of empirical studies have shown that a more diverse workforce leads to higher knowledge, more creativity, and more innovative products, which in turn leads to a more competitive business environment (Watson and Al, 1993). Furthermore, Bantel (1993), Siciliano (1996), and Pelled and Simons, (1999) indicate that the enhancement of strategic decision-making may be demonstrated in the presence of variety. As Michael and Hambrick (1992) note, cultural diversity is linked to a better settlement of disputes between managers and shareholders. So diversity is related positively to the performance.

Some studies have demonstrated that a lack of diversity is detrimental to a company's bottom line (Hambrick and al., 1996). Murray (1989) suggests that a homogeneous group would do better if they coordinated their efforts. Furthermore, according to Knight & al. (1999), the direction's effectiveness declines as the amount of diversity increases.

2.4 Empirical Review of the Literature

The issue of corporate governance has been widely researched both locally and globally. Corporate governance has been investigated using measures such as accountability metrics to determine its impact on a company's performance.

Gender diversity in the middle and higher management of boards of directors had a substantial influence on organizational financial return because organizations were able to draw from a bigger pool of talent from both sexes, independent of gender, according to Erhardt et al (2001). A company's financial reporting seems to benefit from the presence of an audit committee.

Bhargat and Bolton (2002) observed that companies with effective corporate governance saw an improvement in their return on equity. KTDA-affiliated tea manufacturers were shown to have higher returns on equity as a result of corporate governance research, according to Mugo (2011). Greater business value and increased stock returns are both influenced by good corporate governance.

All of an organization's activities and strategies contribute to its overall success, as claimed by Claessens (2004). It's what individuals do in relation to their jobs in the company. Ratios are used to assess financial performance (Sangster and Wood, 2010). A financial ratio is a mathematical representation of the connection between two accounting variables. A variety of organizational performance metrics have been used in previous research investigations.

On board composition and financial results of corporate governance and performance in DTMS, past conclusions were disputed. In Uganda, Mugenyi investigated DTMS' corporate governance

and strategy (2010). During his research, he discovered that the board committees were ineffective and subject to heavy political interference. Most board members were deemed to lack the competence necessary to oversee DTM. As Mureithi (2010) noticed in his study on corporate governance and cooperative movement success, MFI ACT has reduced corporate governance standards compared to prior years.

For this reason, there are strict licensing requirements for corporate governance. Cooperative regulation has been shown by Mutwiri (2010) to be an effective tool for improving corporate governance because of its sharpness and regulatory framework enforcement, which has resulted in higher financial returns and an entirely new look for the business.

Mburu (2010) looked at how the DTMS performed in Kenya and found a number of interesting things. Lack of planning and business acumen were among the factors cited in research that led to DTMS's business failure, according to the study. DTMS instructors in Kenya were investigated by Mwalonza (2014) to see how corporate governance affected their performance. A company's financial success may be affected by its board of directors, according to him.

In 2012, Kabaiya undertook an inquiry into the link between SACCs' financial results and corporate governance. Supervisory committees were deemed to be independent and operating in a favorable context, the MFI ACT allowed for acceptable levels of transparency, and board independence ensured the interests of shareholders were protected, resulting in the DTM's expansion. Cooperative governance has been a primary focus of most studies of legislation's impact on corporate governance.

Njagi et al. (2013) investigated the impact of front office activities (FOSA) on DTM performance in Meru and Maara Districts. FOSA has a positive impact on financial results. According to Wanyoike, Kenya's MFI ACT provisions were evaluated (2013). It has been shown that the quality of a company's board of directors has a significant impact on its financial performance.

The financial return of DTM was also strongly influenced by personnel competency at DTM. According to the report, corporate governance is the most important part of ACT requirements for financial institutions.

Otieno et al. (2015) conducted a study on the effect of corporate governance on the financial returns of DTMs in Nakuru County, Kenya. Researchers found that DTMS' financial reporting in Nakuru County had a significant effect on the company's financial outcomes. The research also indicated that the management style of DTMs had a substantial impact on their success.

Kinuthia explored the relationship between debtor management and DTM performance (2007). Gisemba (2015) claims that the financial return of DTMS in Kenya is directly linked to the control of credit risk. Regulatory compliance, waste reduction, productivity and Cycle timeand are traditional measures of a company's efficiency and environmental stewardship.

Increased R.O.A. dividends, according to Mugo (2015), improved the firm's reputation and confidence among its shareholders and encouraged its competitors to do the same, resulting in a stronger market position. Performance metrics such as asset base expansion, financial

profitability, revenue rise, product quality improvement, personnel turnover and retention rates, and organizational procedures were assessed and compared by Ndaru (2009). Based on the performance of the selected firms, a link was found between corporate governance standards and ratings and organizational value.

2.5 Summary of Literature Review

Corporate governance has not been extensively studied in relation to DTMS financial performance. In order to obtain additional data for future researchers to utilize as a literature review, further study is required. Financial returns from deposit-taking micro-finance firms are the focus of this research. CEO duality, board independence, and corporate reporting are examined. How board independence impacts financial returns, as well as the degree to which corporate reporting influences performance, are all examined in this research. Research on corporate governance has focused on how it affects publicly traded companies, particularly those that are mandated by the stock market regulator. Many researches reveal a connection between good company governance and profits. Micro-finance institutions in Kenya were examined in this research to see how corporate governance affects their financial returns.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

Data collecting tools and techniques, as well as their reliability and validity, are discussed in this chapter. Data processing and presentation strategies are also discussed.

3.2 Research design

The study design was a cross-sectional survey in which information was requested directly from DTM. It included gathering information from a cross-section of DTM as of the 31st of December, 2015. According to Mugenda & Mugenda (2003), this sort of study design offers a "snap shot" method, in which cross-sectional data gives data on change processes across a period of time. It was a kind of sociological survey that explored corporate governance problems in a DTM, and the data obtained was meant to explain, discover, and estimate the primary concerns related with governance difficulties confronting the MFIs and their influence on the performance of the aforementioned MFIs.

3.3 Population

In the words of Mugenda & Mugenda, the study's results should be extrapolated to the target population (2003). All nine of Kenya's fully licensed deposit-taking micro financial institutions, as of December 2020, were included in this study's target demographic. Sampling, according to Copper and Schindler (2005), is the process of choosing a subset of a population to make conclusions about its features. The study's sample comprised each of the nine DTM. As a result,

only a few DTMs were available in the study area. The research included CEOs and Deputy CEOs from each of the nine DTMs, resulting in a final sample size of 18 participants.

3.4 Data Collection

The data were acquired from a range of primary and secondary sources. Self-administered structured questionnaires provided the bulk of the study's data. The CEOs or Deputy CEOs were given a questionnaire to complete. This is because the CEOs and Deputy CEOs have access to all DTM information and have attended board meetings, so they have a better understanding of the board members and their actions. For a 5-year period, audited reports were utilized as secondary data (2016-2020).

3.5 Data Analysis

Diversity on boards, board meetings, CEO duality and audit and credit risk committee independence were all taken into account in this research. Microfinance deposit-taking organizations' financial returns were influenced by corporate governance, according to a multivariate regression model. The researchers employed descriptive statistics including mean scores, standard deviations, and variance. The mean values of the DTM indicators were used to model the independent variables.

Since the study's objective was to construct the dependent variable (the DTM financial return) from a number of independent variables, multicollinearity was examined using SPSS software (corporate governance concerns). In order to modify Y (the dependent variable), one had to adjust X. (independent variables). The research relied on the SPSS version 22 statistical package.

3.5.1 Analytical Model

The researcher used the following multiple regression model: The financial return of deposit-taking micro-finance institutions was evaluated using the model below.

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

Where;

Y = Financial return

β_0 = constant

$\beta_1, \beta_2, \beta_3, \beta_4$ = Régression coefficients

X_1 – board size,

X_2 – Board Independencies,

X_3 – duality of CEO,

X_4 –independence of audit committees

X_5 –independence of credit risk committees

ε - Error term

The data for the aforementioned variables were gathered from secondary sources that included regulated deposit-taking microfinance organizations in Kenya.

3.5.2 Test of Significance

To investigate and test the strength of the model and the overall effect on the variables on financial return, (ANOVA) test-Analysis of Variance will be conducted.

CHAPTER FOUR

ANAYISIS AND PRESENTATION

4.0 Introduction

Deposit-taking micro-finance enterprises are examined in this chapter for their corporate governance practices and financial returns. Single-answer questions (absolute and relative) were employed in the study. For the computation of averages and standard deviations for questions with multiple answers, researchers used a Likert scale with a scale of 5 points. In addition to tables, graphs, and charts, textual explanations were supplied for each piece of data.

4.1 Response Rate

Table 4.1: Response Rate

Response	Frequency (N)	Percent (%)
Returned	15	83.3
Not returned	3	16.7
Total	**18**	**100.0**

According to the data in Table 4.1, the study used a sample size of 18 respondents, 15 of whom completed and returned the questionnaires in their whole, resulting in an 83.3 percent response rate. Respondent response rates of 50% or above should be utilized in statistical reporting, according to Mugenda & Mugenda (1999).

4.2 Company Profile

The respondents were asked to give some basic information about their companies; accordingly the findings are as analyzed as follows: For the sake of anonymity the respondents did not indicate their names and those of their companies. On how long their companies have been operating in Kenya, the respondents indicated to have operated in Kenya for between 8-20 years. On the issue of their branches, they indicated between 5-16 branches. About their major services they indicated them as accepting deposits, giving loans at an interest and Offering financial advice. Further the study required the respondents to indicate whether these DTMs have board of directors. All of the respondents indicated their companies had Board of Directors.

4.3 Board diversity

The research aimed to determine the number of Board of Directors members in each of the various organizations. Figure 4.1 depicts the results, which are summarized below.

Figure 4.1: Board diversity

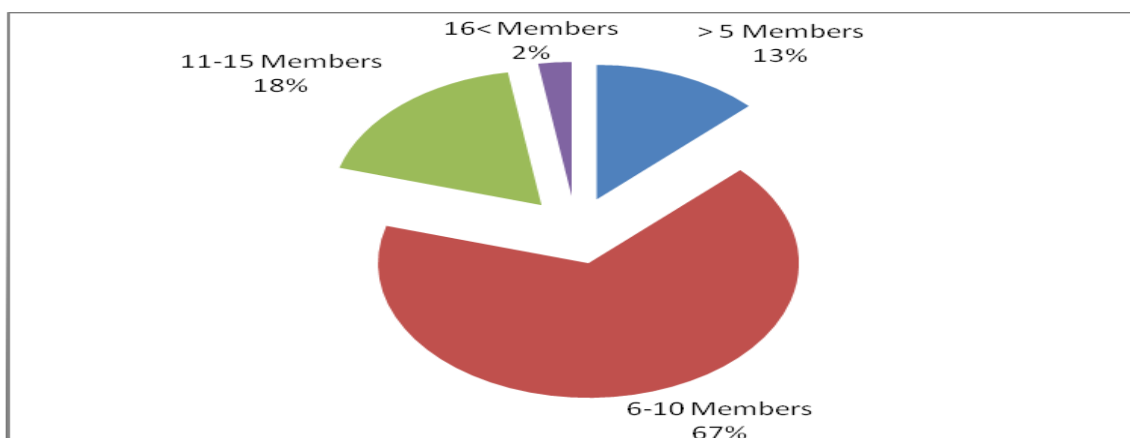


Figure 4.1 shows that 67 percent of respondents reported that their organizations' board of directors had 6-10 members, 18 percent indicated that there were 11-15 members, 13 percent indicated > 5 members, and 2 percent indicated that there were 16 and above members on the board of directors.

Participants were also asked to rate how much agreement they had with statements on deposit-taking microfinancial firms' board diversity and financial return. On a five-point Likert scale, opinions ranged from 1 (strongly disagree) to 5 (strongly agree). On the test variables, a score of 3 or more indicates satisfaction. According to the standard deviation, "dispersion" was defined as any divergence from the "average" (mean). The closer the data points are to the mean, the smaller the standard deviation, whereas the greater the spread of values, the higher the standard deviation. As seen in Table 4.2, this is what we discovered.

Table 4.2: Board Diversity

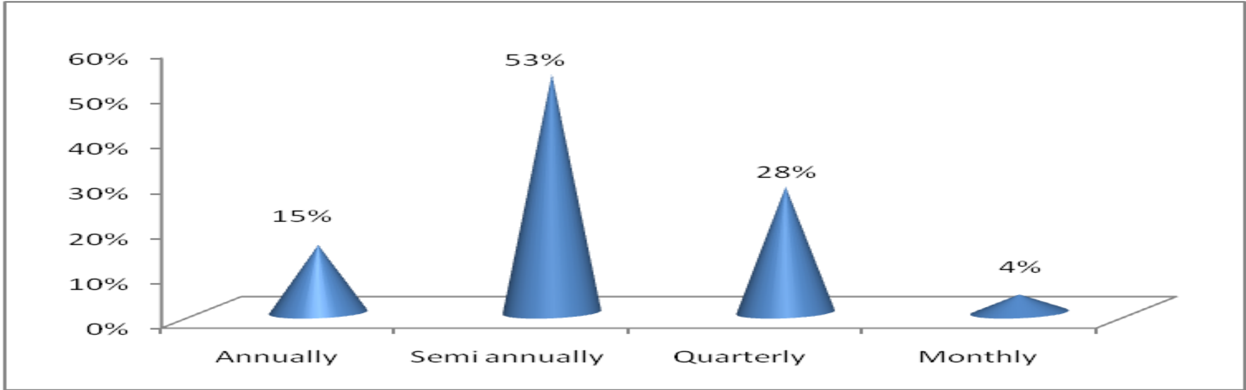
Statement	Mean	Std. Dev
Gender balance is taken into account while selecting and composing board members.	4.2370	.97937
Some members of the board of directors are corporate workers or associates.	4.0667	.49411
Each board member and executive director of the firm has a set strategy for their departure.	3.6370	.98955
The company's board of directors actually contains two-thirds of non-executive directors who are entirely independent.	3.5481	.73015
Current board members possess the requisite qualifications and abilities to enhance the company's success.	3.5407	.73060
The age and tenure of each board member has an effect on the firm's financial performance.	3.5333	.93681
The independent board nominating committee nominates new board members.	3.3704	.01291
When choosing board members, their professional credentials are taken into account, as are any inadequacies in the competencies of present board members.	3.3037	.83999

Table 4.2 shows that respondents agreed that gender balance is taken into account in the selection and composition of the board of directors (Mean=4.2370), Some members of the board of directors are corporate employees or associates (Mean=4.0667), Each board member and executive director of the firm has a predefined plan to resign (Mean=3.6370); The company's board of directors has at least two-thirds of entirely independent non-executive directors (Mean=3.5481), Current board members possess the requisite qualifications and abilities to help the organization enhance its performance (Mean=3.5407), The age and tenure of each board member has an effect on the firm's financial return (Mean=3.5333), The respondents agreed that independent board nominating committees nominate new board members (Mean=3.3704) and When choosing board members, it is critical to assess their professional credentials and any inadequacies in the competencies of present board members (Mean=3.3037).

4.3 Board meeting

The research aimed to determine how often boards of directors meet throughout the year. Figure 4.2 depicts the findings of the study;

Figure 4.2: Board Meeting



Results in figure 4.2 revealed that majority (53%) of the respondents indicated that the Boards' of directors' meet twice in a year, 28% indicated that meeting is done after every three months, 15% indicated that they meet once in a year while 4% of the respondents indicated that board of directors meet every month. Further the study using an open ended question sought to investigate how many members in the board were required to fill the quorum in the board meetings. Most respondents indicated that above 50% of the members is an adequate number to fill the quorum.

4.4 Independence of Credit Risk Committees

In order to answer the survey's questions on credit risk committee independence, participants had to rate their agreement with the statements stated. The answers were rated on a scale of 1 (Strongly Disagree) to 5 (Strongly Agree).

On the test variables, a score of 3 or more indicates satisfaction. According to the standard deviation, "dispersion" was defined as any divergence from the "average" (mean). Data points closer to the mean have a lower standard deviation, whereas data points spaced out further have a larger standard deviation. Table 4.3 summarizes the findings of the investigation;

Table 4.3: Independence of Credit Risk Committees

Statement	Mean	Std. Dev
Before attending board meetings, new board members get orientation and training.	3.6370	.98955
Members of the board have access to the calendar and can keep track of events that might impact board meetings.	3.5333	.93681
During board meetings, enough time is set up for debate before reaching a board decision.	3.5111	.79049
Board meeting minutes and records are kept accurately and timely	3.4963	.97639

Table 4.3 shows that respondents agreed that new board members receive orientation and training before attending board meetings (Mean=3.6370), that board members have access to the

board's calendar and are kept up-to-date on relevant events (Mean=3.5333), and that sufficient time is provided during board meetings for discussion before board decisions are made (Mean=3.5111); Board meeting minutes and records are kept accurately and timely (Mean=3.4963).

In addition the study sought to investigate whether the DTMs are governed by a separate chairman and Chief executive officer. The results are tabulated in table 4.4 below;

Table 4.4 Governorship

Response	Frequency (N)	Percent (%)
Yes	12	80
No	3	20
Total	**15**	**100**

Table 4.4 reveals that 80 percent of respondents responded that DTMs are governed by a distinct chairman and CEO, while 20 percent said that the chairman and CEO were the same person. They were then asked to rate their agreement or disagreement with comments about the organization's governors. Table 4.5 shows the findings of the investigation.

Table 4.5: Chairman/CEO

Statement	Mean	Std. Dev
The chairman's and CEO's duties are entirely separate from one another.	3.0815	.4687
The separation of the chairman and CEO provides a control and accountability framework that enhances the performance of the company.	3.0889	.3279

Results from table 4.11 show that the chairman and CEO's roles are totally separate from one another (Mean=3.0815), and that the separation of these two positions produces a control and accountability environment that promotes firms' performance (Mean=3.0889).

4.5 Independence of Audit Committees

Respondents were asked to indicate their degree of agreement with the processes of the Audit Committees. The findings are summarized in Table 4.6;

Table 4.6: Independence of Audit Committees

Practice	Mean	Std dev
Shareholders vote in the election of the board of directors.	3.9881	.3015
Management decisions are evaluated by the board	3.3304	.1291
The board of directors appoints the CEO and senior management.	3.2207	.3060
Shareholders elect and dismiss board members.	3.0337	.4411

According to the findings in Table 4.6 above, respondents agreed that shareholders vote during board elections (Mean=3.9881), management decisions are vetted by the board (Mean=3.3304),

the board appoints the CEO and senior staff (Mean=3.2207), and shareholders elect and remove board members (Mean=3.0337).

4.6 Executive Direction Contract

Respondents were asked to indicate their degree of agreement with the processes of the Executive Direction Contract. The findings are summarized in Table 4.7;

Table 4.7: Executive Direction Contract

Practice	Mean	Std dev
The books are readily available to the organization's targeted consumers.	3.9225	.0399
The organization carries out due diligence	3.1902	.0129
Directors are obligated to disclose their financial interests in businesses with whom the organization does business.	3.1672	.3793
The organization restricts insider trading	3.1265	.7306
External auditors are employed to audit the organization's books.	3.0682	.7301
Disclosure levels meet regulatory requirements.	3.0277	.9333
The books of accounts are prepared in the organization.	3.0236	.4941

According to the results in Table 4.7, respondents agreed that the books are readily available to intended users inside the company (Mean=3.9225), The organization conducts due diligence (Mean=3.1902), and directors are obligated to disclose their financial interests in firms with whom the organization does business (Mean=3.1672); Insider trading is prohibited by the

organization (Mean=3.1265), The organization employs external auditors to audit its books (Mean=3.0682), The degree of disclosure complies with regulatory standards (Mean=3.0277) and the organization's books of accounts are created in-house (Mean=3.0236).

4.7 Inferential Statistics

Additionally, a general linear model was used to examine the predictive potential of corporate governance standards in the financial returns of deposit accepting micro financial institutions. In addition, regression analysis, the model, and the coefficient of determination were provided. Deposit-taking micro-finance institutions were also submitted to multiple regression analysis in order to evaluate the link between variables (independent). Coded, entered and computed multiple regression measures were entered into SPSS V 22.0, the statistical tool for social sciences. Using a coefficient of determination (R2), one may determine how much variation in a dependent variable (financial returns of deposit taking micro financial institutions) is explained by changes in independent variables (board diversity, board meeting, independence of credit risk committees, independence of audit committees, executive direction contract).

Table 4.8 Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	. 883[a]	.781	.758	. 27418

a. Predictors: (Constant), board diversity, board meeting, independence of credit risk committees, independence of audit committees, executive direction contract.

Micro-finance institutions' R2 returns are influenced by the four independent factors studied in this research. In other words, this suggests that the deposit-taking micro financial institutions' 24.2 percent financial returns are influenced by additional variables not examined in this study. As a result, more study into the other variables affecting the 24.2% of deposit accepting micro financial institutions' financial returns is warranted.

Table 4.9: ANOVA of Regression

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	2.313	5	5.600	13.571	.000[b]
	Residual	4.956	12	.413		
	Total	7.267	17			

a. Dependent Variable: Financial return of deposit taking micro financial institutions

b. Predictors: (Constant), board diversity, board meeting, independence of credit risk committees, independence of audit committees, executive direction contract

Thus, the model is statistically significant in forecasting the financial return of deposit taking micro-financial institutions by analyzing the influence of the board diversity, board meeting, independence of credit-risk and audit committees, and executive direction contract on financial returns. At a 5% level of significance, the critical F was 13.571. The whole model was important since the F computed was bigger than the F crucial.

Table 4.10 Coefficient of determination

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.
		B	Std. Error	Beta		
	(Constant)	1.183	.114		.443	.591
	Board size	.439	.130	.400	2.066	.071
	Board Independence	.182	.106	.117	1.707	.092
1	Independence of credit risk committees	.193	.073	.296	2.635	.010
	Independence of audit committees	.161	.093	.166	1.739	.086
	Executive director on contract	.229	.113	.246	1.809	.017

a. Dependent Variable: Financial return of deposit taking micro financial institutions

The impact of each independent variable on the financial return on deposits taken by micro financial institutions was examined using multiple regression analysis. A table obtained by SPSS shows that the regression equation is as follows:

($Y = \beta_0 + \beta_1X_1 + \beta_2X_2 + \beta_3X_3 + \beta_4X_4 + \beta_5X_5 + \varepsilon$) becomes:

($Y = 1.183 + 0.439X_1 + 0.182 X_2 + 0.193X_3 + 0.161X_4 + 0.229X_4 + \varepsilon$)

A unit increase in board size results in 0.439 units of financial return, according to Table 4.10, which reveals that the relationship between board size and financial return is not statistically significant (1=0.439, P>0.05). No statistically significant link exists between board independence and financial return (2=0.182, P>0.05), implying that a unit increase in board independence results in 0.182 units of increased financial returns for every additional unit of board independence. The positive link between independence of audit committees and financial

return is not statistically significant (4= 0.161, P>0.05), inferring that a unit increase in independence of audit committees leads to 0.161units of rise in financial returns.

A unit increase in credit risk committee independence results in a 0.193 unit rise in financial returns, according to Table 4.10 above, which demonstrates that the link between credit risk committee independence and financial returns is statistically significant (3= 0.193, P0.05). Additionally, the positive relationship between executive director on contract and financial return is statistically significant ($\beta_{5=}$ 0.229, $P<0.05$) inferring that a unit increase in executive director's on contract leads to 0.439 units of increase in financial returns.

4.8 Interpretation and Discussion of Findings

For between 8 and 20 years, the DTMs had been operating in Kenya, signifying a high level of experience and a wide range of locations in Kenya to which they were connected. In addition the study found that accepting deposits, giving loans at an interest and offering financial advice were the main services offered by these organizations which are also interpreted as evidence of product diversification amongst the DTMFIs.

The research found that gender balance is taken into account when selecting and composing board members, in certain cases the board members were employees or associates of the firm, and the DTMFIs had predefined succession plans for each board member and executive director. At least two-thirds of the board of directors of DTMFIs are non-executive directors. Gender diversity in the middle and senior management of organizations has a significant impact on financial return, according to Erhardt, et al. (2001). This is because the businesses draw from a bigger talent pool that includes both genders regardless of whether it is male or female.

The research discovered that the age and tenure of board members had an effect on the financial performance of the company; new board members were nominated by an independent board nomination committee, and when selecting board members, their level of professional qualifications was critical, as were deficiencies in the skills of current board members.

There was sufficient time provided for discussion during board meetings before decisions were made, and accurate and timely minutes and records were kept during meetings, according to the findings of the study. Orientation and training were also offered to board members prior to attending meetings, as well as access to the calendar and events impacting board meetings. Separation between chairman and CEO, according to the research, enhanced organizations' performance since it allowed for more oversight and increased responsibility for both parties. Shareholders voted in board elections, and the board vets decisions before they are implemented. The board also names CEOs and other top personnel after a thorough search. Members of the board were elected or sacked by the shareholders.

It was also found that directors were required to disclose any financial interests they had in companies that did business with their organizations; external auditors were employed to audit their books; disclosure levels were found to be in compliance with regulatory requirements; and the books of accounts were prepared in the organization.

The study finding that the specific Corporate Governance attributes positively influence the performance of the DTMFIs confirms the findings by Bhargat and Bolton (2002), Gisemba (2015), Kabaiya (2012), Kinuthia (2007), Mburu (2010), Mugo (2011), Mugo (2015), Mureithi (2010), Mutwiri (2010), Mwalonza (2014), Ndaru (2009), Njagi et,al. (2013) and Otieno et al, (2015) who used diverse corporate governance and performance metrics. According to Mugenyi

(2010), board committees are ineffective and subject to political interference since the vast majority of board members lack the knowledge and experience necessary to oversee the DTM.

CHAPTER FIVE

SUMMARY OF FINDINGS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

Micro-finance organizations' financial returns are affected by corporate governance standards, and this chapter provides an overview, conclusion, and suggestions on the subject.

5.2 Summary of Findings

For between 8 and 20 years, the investigation indicated that the DTMs had established a strong network of Kenyan branches. In addition the study found that accepting deposits, giving loans at an interest and Offering financial advice were the main services offered by these organizations.

Some of the board members were workers or associates of the company, and the businesses had predetermined plans for the exit of each board member and executive director. Two-thirds of the board members in the firms investigated were non-executive directors who were completely independent of management. Each board member's age and length of service also had an impact on the company's financial results; new board members were nominated by an independent board nomination committee, and the level of professional qualifications of current board members were taken into account when selecting board members.

Before attending board meetings, new board members received training and orientation. They also received a copy of the board's agenda and all relevant events. Board meetings were given ample time for discussion before decisions were made, and minutes and records of those meetings were kept in a timely and accurate manner. Additional findings from a research

indicated that both the chairman and CEO's roles were entirely separate, creating a control and accountability environment in which organizations performed better. Shareholders also engaged in the voting process during the selection of board members, and the management was vetted by the board before making decisions. Appointment of senior staff was made by the board, and Shareholders chose or removed the board members.

Finally, the study found that the books were easily accessible to intended users within the organization, that directors had to disclose interests in companies doing business with them, that the organizations prohibited insider trading, that they hired external auditors to audit their books, and that disclosure levels met regulatory requirements.

5.3 Conclusions

Research found that the DTMs had a wide network of branches across Kenya and were well connected. In addition the study concludes that accepting deposits, giving loans at an interest and Offering financial advice were the main services offered by these organizations.

According to the findings of this research, each board member and executive director had a specified separation plan, and two-thirds or more of the board members were entirely independent non-executive directors. The study also concluded that gender balance is taken into account when selecting board members and composing boards. In addition, the study finds that new board members received training and orientation before attending board meetings, that board members were given access to the board's calendar and were kept up to date on board-related events, that board members were given ample time to discuss issues before board decisions were made, and that board meeting minutes and records were maintained in a timely

and accurate fashion. Another finding was that chairman and CEO roles were fully separate in the research. In addition, the research concluded that Shareholders engaged in the voting process during board elections, decisions were made by the management verified by the board, Appointment of CEO and senior staff was made by the board, and Shareholders chose or removed the board members.

5.4 Limitations of the Study

With some of the respondents hesitant to engage, researchers encountered difficulties while conducting the study. They employed competent assistants who handled all types of issues related to responders properly in order to avoid this situation. Descriptive surveys' inability to maintain subject confidentiality meant that participants were more likely to give the researcher what they believed she wanted to hear than the truth. Some participants declined to answer questions that they considered as too personal for them to respond.

5.5 Recommendations

The investigation proposes that the DTMs that include the activities of the chairman and CEO should be separated since this helps to manage conflict of interest and at the same time avoids overlap of tasks. Further the study recommends that the organizations with large board of directors reduce the number so that to make the process of making decisions shorter because it removes so much complexities. In addition the study recommends that organizations that had meetings less than three times in a year make them at least three because the issues to be discussed in meetings would accumulate so much.

5.6 Areas for further Research

In Kenyan multinational enterprises, the researcher believes that further research is required to explore the impact of good corporate governance on job satisfaction among employees. Research also recommends that a study be done on the influence of international human resources management norms on the performance of DTMs operating in Kenya.

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APPENDIX I: QUESTIONNAIRE

Questionnaire for the study on the effect of corporate governance best practices on financial return of deposit taking micro financial institutions.

Dear respondent,

My research necessitates that I do a field study at your company on the issue at hand. Thank you in advance for your cooperation in completing this questionnaire, which will help us meet our research goal. The study's goal can only be achieved if you answer honestly and completely. For research reasons, the findings will only be utilized, and the replies will be handled with the highest of confidence.

Thank you for your cooperation.

Section A: company profile

Q1: Name of the Company..

Q2: How long has this company been operating in Kenya.................... (Years)

Q3: How many branches does this company has in Kenya..................... branches

Q4: what are the company's major services? ....

Q5: Do you have board of directors? Yes [ ] No [ ]

Section B: Corporate governance

A. Board diversity

Q6: How many members are serving in the Board of Directors?

Less than 5 [ ] 6_10 [ ] 11_15 [ ] 16 and above [ ]

Please indicate your level of agreement with the following statements using the following rating:

5 – Strongly Agree 4 – Agree 3 – Neither Agree nor Disagree 2 – Disagree

1 – Strongly Disagree

		1	2	3	4	5
Q7	Gender balance is considered in the board members selection and composition					
Q8	Some Members of the board include those who work for or are affiliated with the firm.					
Q9	The firm has at least two-thirds of its board of directors who are non-executive directors who are entirely independent.					
Q10	Current board members have the required qualification and skills necessary to improve the company's performance					
Q11	New board members are nominated by independent board nomination committee					
Q12	When choosing board members, their degree of professional credentials is critical, and present board members' weaknesses are taken into account.					
Q13	The corporation has a set process for the succession of each member of the board and executive director.					
Q14	The age and duration that each board member serves in the board affects the financial return of the firm					

B. Board meeting

Q15: How many times in a year does the Board meet?

Annually [ ] Semi Annually [ ] Quarterly [ ]

Monthly [ ] Other [ ] Specify __________

Q16: How many members in the board is required to fill the quorum in the board meetings_____________

C: Independence of Credit Risk Committees

Please indicate your level of agreement with the following statements using the following rating:

5 – Strongly Agree 4 – Agree 3 – Neither Agree nor Disagree 2 – Disagree

1 – Strongly Disagree

Q17	New board members is given an orientation and training before attending the board meetings	1	2	3	4	5
Q18	Board members have the calendar and update events affecting the board meetings					
Q19	Meetings are scheduled to allow for sufficient debate before board decisions are made.					
Q20	Board meeting minutes and records are kept accurately and timely					

Q21: Is the organization governed by a separate chairman & Chief executive officer? *Choose*

***Yes** or **no** as Appropriate*

Yes [ ] No [ ]

Q22	The chairman's and CEO's duties are fully separate and distinct from one another.	1	2	3	4	5
Q23	An improved company's performance is a result of the separating of the CEO from the chairperson in a board of directors					

6. Is there a separation of the post of Chair to the Board and the Chief Executive Officer in your society?

Yes [ ]

No [ ]

D: Independence of Audit Committees

8. Kindly confirm the following:-

SA- Strongly agree A-agree U-undecided

DA-Disagree SDA-strongly disagree

Practice	SA	A	U	DA	SDA
Members of the board are elected and removed by the shareholders					
Shareholders have a say in who is elected to the board of directors by casting a vote.					
The board appoints the CEO and other top executives.					
Decisions taken by management are reviewed and approved by the board.					

E: Executive Direction Contract,

9. Kindly confirm the following:-

SA- Strongly agree A-agree U-undecided

DA-Disagree SDA-strongly disagree

Practice	SA	A	U	DA	SDA
A company's directors are expected to disclose any conflicts of interest they have with companies that do business with the company.					
It is the responsibility of the organization to keep its financial records in order.					
External auditors are hired by the organization to review and audit its financial records.					
Insider trading is strictly prohibited by the organization.					
Due diligence is carried out by the organization.					
Organizational users have easy access to the books they are looking for.					
The degrees of disclosure are in compliance with regulatory standards.					

A company document checklist on effects of leverage level of financial return

Year	2016	2017	2018	2019	2020
Total debt					
Total Equity					

A Company document checklist on Return on Assets as the measure of financial return.

	2016	2017	2018	2019	2020
EBIT					
Total Assets					