INFLUENCE OF CORPORATE GOVERNANCE PRACTICES ON THE FINANCIAL PERFORMANCE OF MICROFINANCE BANKS IN KENYA

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DECLARATION

This research project is my original work and has not been presented for an award of a degree in any other university or institution of learning.

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

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DEDICATION

It is with warm regard and gratitude that I dedicate my master's project to my children for their compassion and endless support throughout my studies. It is my prayer that this literary work will inspire them to achieve greater heights.

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LIST OF ABBREVIATIONS

CBK	Central Bank of Kenya
EPS	Earnings Per Share
MFBs	Microfinance Banks
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences

ABSTRACT

Microfinance banks play a vital function in the economy by ensuring there are credit facilities to the less-privileged and banking services to people. The annual reports by the CBK reveals that MFBs in Kenya have been reporting financial losses with a few who have low profits. There are different contributing factors to losses in firms and weak corporate governance structures could be one of them. Good corporate governance is essential for MFBs to grow their profitability, increase their accountability, boost transparency, efficiency, and sustainability. Empirical evidence shows that corporate governance directly impacts the financial performance, hence this background imposed the need to scrutinize the corporate governance impact on Kenyan MFBs' performance.

The research's goal was to assess the impact of corporate governance practices on the Kenyan MFBs' financial performance. The researcher exploited secondary data and descriptive research design and the population were all deposit-taking microfinance banks as at 31st December, 2020. To analyze the amassed information, the scholar employed Pearson correlation together with a multiple regression model to establish the interconnection between the variables of study. The outcomes revealed a significant positive link between the Kenyan microfinance banks' financial performance and board independence. Additionally, the study uncovered that board size possesses a significant inverse interconnection with the microfinance banks' performance. Moreover, the scrutiny discovered that board diversity positively and significantly influences the MFB performance. Besides, the findings uncovered that board activity positively and significantly influences microfinance banks performance. Additionally, the research found board competencies positively impact MFB financial performance. Hence, the researcher made a conclusion that corporate governance influences the Kenyan MFBs' financial performance; thus, there is need to develop robust corporate governance structures that can ensure there is accountability, transparency, and financial sustainability of the MFBs.

CHAPTER ONE

INTRODUCTION

1.1 Background of the Study

Corporate governance refers to practices, rules, and processes through which a corporation gets controlled and directed. Essentially, Corporate governance entails the balance of interests of the stakeholders and the community in which the company operates, and it offers the framework through which the company can achieve its objectives and goals, thus it involves all the spheres of management right from internal controls, plans, measurement of performance to actions and corporate disclosure. According to Iqbal & Kakakhel (2016), good corporate governance helps to protect a company from susceptibility to future financial agony. Additionally, effective corporate governance creates confidence and goodwill for investors. OECD (2015) states that an enhanced framework of corporate governance is beneficial to companies since it opens ways for access to financing, leads to better financial performance and lower cost of capital.

Microfinance banks refer to financial institutions that accept deposits and offer people small loans based on joint liability without any collateral (Wan & Ong, 2015). There are issues revolving around managerial accountability, weak board of directors, transparency, failures of corporate governance, executive compensation, minority shareholders' protection, and investor activism which have necessitated the need for corporate governance studies in the past years (Zahra & Pearce, 2013). Moreover, there have been debates in the public concerning corporate failures and reforms since big firms have collapsed bringing the focus of corporate governance in companies. In Kenya, for instance, there are big supermarkets like Nakumatt, Uchumi, and the most current one being Tuskys which have gone down, courtesy of failures in governance. Also, there are banking institutions and other firms which have suffered failures of corporate governance, then most MFBs in Kenya are running losses, and while there may be other reasons for these, corporate governance issues could be a contributing factor too. Therefore, these experiences and issues bring up the question of what is good corporate governance; what constitutes it, and does it have a hand in the success of corporations? Literature shows that corporate governance can define whether lenders can get a good return on their investments and how to separate ownership and control to achieve greater wealth maximization of the shareholders.

MFBs have a role of offering financial services to the underprivileged and creating social benefits, hence they face challenges in delivering their goals and achieving the “double bottom line”. For that reason, this brings about the focus on how effective corporate governance is crucial to the accomplishment of MFBs. It is in this context that the researcher thought it wise to execute a study on the influence of corporate governance measures on MFBs’ performance. Again, being a government auditor, the researcher found so much interest in the corporate governance of MFBs and its effect on their financial performance because external auditors are part of corporate governance. There have been researches done by different scholars which found issues with corporate governance around the world (Yusoff & Alhaji, 2012). Most studies on MFIs have yielded varied results (positive, negative, and mixed effects on financial performance); thus, this offered a chance for further studies to determine if corporate governance influences the financial performance of MFBs in Kenya.

1.1.1 Corporate Governance

Corporate governance possesses several definitions involving the relationship between the firm shareholders, management, board, and other stakeholders. According to Monks & Minow (2011), corporate governance is defined as a set of actions taken to ascertain that separation of ownership and management exists during decision making; thus, it guarantees the protection of interests of shareholders. Corporate governance is significant to firms in various ways. For instance, it contributes to profitability, long-term productivity, growth, and accountability. Kariuki (2016) explain that poorly-governed companies report low profits, pay fewer dividends, experience risk of bankruptcy, and have low valuations. However, firms that have proper corporate governance show high profits, distribute high dividends, have high valuations, and are less risky for bankruptcy. Therefore, it is essential to put robust corporate governance in place to lower financing costs, access unlimited sources of funds, and get support from investors.

Moreover, corporate governance offers a structure under which the firm sets its objectives, attains its goals, as well as monitors its performance (Yusoff & Alhaji, 2012). Furthermore, corporate governance leads to the establishment of credibility, transparent operations, and accountability. This is because good corporate governance maintains an efficient channel through which there is full disclosure of credible financial information to stakeholders that builds and sustains their confidence in the corporation. Poor corporate governance, conversely, intensifies the probability of failures within institutions, which could result in significant public costs, affect deposits, and increase contagion risks (Ozdemir, 2020). Besides, corporate governance has a greater value in managing firms, hence, the Corporate Governance tool guides both shareholders and management when making decisions and conducting operations (Mirza & Javed, 2013). For instance, in operations, corporate governance offers guiding principles and codes of conduct that are more concerned with the practices, processes, procedures, and systems that govern the operation of companies.

Corporate governance includes managers, CEOs, executive directors, political regimes, the board, government, independent directors, regulatory authority, and the auditors. To measure the quality of corporate governance, stakeholders use indicators like compensation programs, board, audit, shareholder rights, and oversight (O'Connell & Ward, 2020). The board (includes board composition, diversity, the composition of board committees, board policy, board practices); compensation programs (disclosures, performance pay, communications, non-executive pay); shareholder rights (voting rights, takeover defenses, meetings, and voting procedures) and audit and risk oversight (availability of external auditors) (O'Connell & Ward, 2020). Therefore, the measurement of corporate governance is done using the proportion of external directors, the availability of a remuneration committee, CEO duality, audit committee, the board, risk committee, and many more (Matic & Papac, 2014). This study measured corporate governance using board diversity, board activity, board independence, board competencies as well as board size.

1.1.2 Financial Performance

Performance is the capability of a corporation to achieve its objectives, operations, and policies effectively, as specified in monetary terms (Yenesew, 2014). The financial performance thus indicates how well a corporation is in terms of profitability relative to its assets. Thus, it is a snapshot of the work its management does and its economic health that provides an insight into the future, whether the company is on track to grow its operations and profits, and the company's stock. Dufera (2010) states that financial performance is important because it defines the competitiveness, reliability, and potential of the management interests. Ozdemir (2020) stipulates that good financial performance is a reward to the shareholders for their investment in the corporation. Therefore, the shareholder depicts the financial performance by how wealthier he/she becomes at the end of a financial period (Mirza & Javed, 2013).

There are several ways in which firms can evaluate their performance. Hassan et al. (2011) state two types of measures of financial performance, namely, accounting returns, and investor returns. The accounting returns focus on the earnings of the organization concerning its managerial policies. Conversely, investor returns look at the shareholders' opinions. There are numerous methods to measure financial performance based on accounting returns which include ROA, sales growth, ROE, operating income, total assets, and asset growth (Yenesew, 2014). Also, measures of financial performance are available based on investments such as price-earnings ratio, dividend yields, and many more.

According to Kariuki (2016), ROE, ROA, firm size, and sales returns are the most frequently used measures of financial performance even though indicators like market share, portfolio quality, and turnover/disbursement that measure the performance of MFBs exist too. Return on Assets is believed to be a consistent and authentic measure of financial performance. This is because other performance measures like return on equity and return on sales, are affected by different leverage degrees in organizations, which is not the case with ROA. Besides, the Financial Reporting Standards by the USAID office recommends the use of ROE and ROA in measuring the profitability of MFB. Therefore, it is essential to use either of these two measures for the financial performance of MFBs, and it is vital to understand each one of them before settling on one. Return on Asset depicts a relationship between the net profit and total assets and indicates the firm's return from employing its assets (Rahman et al., 2020). Alternatively, Return on Equity shows the shareholder's gain from his/her equity investment. Thus, ROE shows the profitability of a company and its efficacy in financial management and operations

(Gweyi & Karanja, 2014). For this paper, the researcher used profitability to measure the financial performance of the MFBs, and return on assets was utilized to measure the profitability.

1.1.3 Corporate Governance Practice and Financial Performance

Sound corporate governance ensures there is reasonable economic development because it promotes performance in firms and expands external access to capital. Good corporate governance has been recognized to be significant in enhancing the financial performance of Microfinance banks (Gadi, 2015). It is evident that organizations which have independent boards report high profit margins, returns on assets as well as high dividend yields, thus depicting that board independence has a link with measures of firm performance. Moreover, small board size enhances the performance of a company because there is easy and fast communication as well as efficient decision making when dealing with small board sizes. Ozdemir (2020) notes that firms with effective corporate governance register positive and sustainable financial performance. Numerous researches are accessible on corporate governance and firm performance, most of which proves that efficient corporate governance practices grow shareholders' wealth by increasing the firm's profitability. According to OECD (2015), ineffective corporate governance leads to financial failure of organizations.

1.1.4 Microfinance Banks in Kenya

Microfinance Banks in Kenya (MFBs) comprise firms that offer micro-credits, take deposits and provide other banking services to the public. Olick (2015) explains that microfinance banks are not fully registered banks even though they have some similar traits to banks, and they receive demand deposits then employ the money to generate capital to extend credit to their customers (Olick, 2015). As of December 2020, there were 14 registered MFBs in Kenya namely: Faulu Microfinance Bank, Century, SMEP, Kenya Women, Caritas, Maisha, Uwezo, Daraja, Rafiki, Sumac, Remu(Key), Choice, Muungano, and U & I MicroFinance Bank. The newest MFB is Muungano which was licensed in 2019 but began its operations in 2020. The MFBs in Kenya are classified into large, medium, and small in terms of their market share whereby a large microfinance bank possesses a market share with 5% and over; medium hold a market share of 1-5%, and small has a market share below 1%. Currently, there are 3 large microfinance banks, 5 medium microfinance banks, and 6 small microfinance banks where the large ones have 81% market share, the medium has 17.6% and small has only 1.4%. Faulu MFB has the biggest market share of 40.2% followed by Kenya Women MFB with 33.5% then Rafiki MFB has 7.2%.

The CBK licenses the microfinance banks, supervises and regulates them under the Microfinance Act (2006). The Kenyan Micro Finance Act allows microfinance institutions to apply for licenses at the CBK indicating whether they are community or national institutions. So, out of the 14 MFBs, 11 MFBs hold nationwide bank licenses whereas 3 MFBs hold community microfinance bank licenses (CBK, 2020). Lending remains the single largest activity that the microfinance banks take, and the net loan portfolio accounted for 59% of the total assets of MFBs in 2020. Customer deposits of MFBs increased by 12.5% to 49.4 billion shillings in 2020 from Ksh.43.9 billion in 2019 (CBK, 2020). During the last financial year, MFBs had a 2% decline in total assets, whereby their total assets were Ksh.74.9 billion compared to Ksh.76.4 billion in 2019.

There was a decline in the Kenyan MFBs financial performance in 2020, whereby their collective loss before tax was Ksh.2.2 billion as opposed to a loss of Ksh.339 million that was reported in 2019, even though there were 4 MFBs which made profits, 10 made losses. Among those that had losses were Faulu and Kenya Women with losses before tax of Ksh.476 billion and Ksh.1.5 billion respectively (CBK, 2020). The Non-Performing Loans (NPLs) increased by 32% to Ksh.13 billion in 2020 from ksh.9.8 billion in 2019. They also registered a decrease in ROA and ROE to -3% and -28% compared to -0.4% ROA and -3% ROE in 2019. The MFBs in Kenya experience tremendously high competition owing to the shifting market share and profitability. Matimu (2017) pinpoints that the competition involves the mainstream commercial banks, the MFIs sector, and the telecommunication money transfer podiums like Mpesa. Additionally, the Kenyan MFBs have very highly competitive pressure based on the pricing because they have less flexibility to fine-tune their prices attributable to their financial structure (AMFI, 2013). Besides, the MFBs experience challenges due to increased credit risk owing to increased NPLs, increase in reliance on more expensive lent funds, and reduced reliance on (Olango, 2018).

1.2 Research Problem

World Bank (2015) explains that corporate governance within the developing economies has recently found attention for research studies. Nevertheless, there is still no certainty on the interconnection between corporate governance and a corporation's financial performance since it is not yet tested across several industries. When conducting a preview at how corporate governance has affected firms, the 2007-2008 global financial crisis come up, and this points at some of the corporate giants which collapsed courtesy of failure in corporate governance. The giant firms like WorldCom, Enron, Lehman Brothers, and others collapsed; thus, putting the international regulators to work harder to ensure appropriate regulatory controls in place. In the Kenyan setup, people have witnessed big firms and banks going down like Uchumi, Nakumatt, Tuskys, and others within about ten years. Hence, poor financial performance relates to the failure to use good corporate governance practices. There are both local and international studies on corporate governance and profitability, and some showed a correlation between the two variables while others found mixed results. Besides, most of these studies have focused on commercial banks and SMEs. Most studies designate a positive correlation between compliance, ethical business practices, and sustainable financial performance (Ozdemir, 2020). Furthermore, some studies show that when companies implement prudent corporate governance, they experience sustainable growth (Ozdemir, 2020).

On checking the annual reports by the CBK, MFBs have been reporting financial losses with a few low profitable and positive income (CBK, 2020). The question is could the losses reported by MFBs in Kenya be because of weak corporate governance structures? Could it be that MFBs never employ principles of corporate governance which then affect their financial statements negatively? Good corporate governance is necessary for MFBs to improve their profitability, accountability, increase outreach, enhance transparency, efficiency, and sustainability. Functional corporate governance instills investor confidence because they can be sure of good returns on their investments. Many scholars have argued that investors lost their credence in Kenya because of poor standards of corporate governance besides the lack of transparency within the country's financial system. Kenya has sadly witnessed the collapse of three banks in the last four years, i.e., Chase Bank, Imperial Bank, as well as Dubai Bank. Chase Bank has a controlling stake within Rafiki MFB which brought fright on the customers of Rafiki whereby the clients were withdrawing the funds at an alarming rate forcing the MFB to limit withdrawals (Olango, 2018). All these failures link up to poor corporate governance. For instance, investigations on Imperial bank discovered false and doctored financial reporting systems, and insider fraud arose through the collusion of senior executives leading to the loss of over Sh20 billions of depositor funds (Matimu, 2017). Various downfalls of several firms within the financial sector have occurred too that necessitates prudent corporate governance practices in the banking sector to grow the organizations and protect the stakeholder’s interests. There are measures put on corporate governance, and some regulatory requirements for MFBs are stern (FSD, 2013). However, most MFBs still experience challenges in the implementation process of these measures.

Studies are available on the corporate governance influence on the profitability of different types of organizations, but then there is still a gap in the microfinance banking subsector. Also, the previous researches used various study variables, but some still need investigation. Otieno et al. (2013) established a significant link between financial performance and management style, but an insignificant association between financial performance and board size. Olick (2015) found corporate governance significantly influence the financial performance of microfinance banks. Matimu (2017) established that liquidity and firm size positively affected performance while gender diversity, the board size, and independence negatively affected performance. Olango (2018) found positive effects of the selected corporate governance variables on financial performance. Kumudini (2011) stated that a non-linear interrelation is present between financial performance and corporate governance practices. Consequently, the literary evidence showed a gap for further studies because there is no consistency in the current research findings. Hence, the researcher conducted this study to establish the solutions to the research question: what is the influence of corporate governance practices on the financial performance of microfinance banks in Kenya?

1.3 Research Objective

The objective of this study was to evaluate the influence of corporate governance practices on financial performance of MFBs in Kenya.

1.4 Value of the Study

This study may be significant to CBK because it can use its results to evaluate the present and future expectations of MFBs. The CBK can also utilize the findings to make policies that may promote the growth of the banking sector and protect investors. By doing that, microfinance banks can perform well financially and boost the development of the banking sector. It can also boost investor confidence, thus attracting more investors.

MFBs may use the findings to help them establish good corporate governance and ensure their boards perform their work effectively. So far, the researchers' evidence suggests that corporate governance of firms has more influence in nations with weak regulatory requirements. Therefore, by setting up robust corporate governance mechanisms, corporations including MFBs can compensate for weak regulations. Furthermore, this research might be helpful to the board of the MFBs since it can make it more efficient when carrying out their duty and achieve their objectives effectively. This is because the findings of this study may help the board know how its size, composition, independence, competencies, and other characteristics impact the return of the MFBs and shareholders' value.

This study may equally enlighten shareholders on ensuring that the boards always practice good corporate governance since it helps them maximize their wealth. Moreover, they may know how the board activities affect the returns on their investments. Besides, this study adds to the knowledge and will be valuable for students who might want to research more on MFBs in

Kenya. The findings will add to the already existing empirical literature on corporate governance and MFBs. Thus, it will add more knowledge to the present information on good corporate governance besides giving recommendations based on its discoveries that can guide further research on the area of study.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter describes the literature on the corporate governance practice and its influence on the Kenyan MFBs financial performance. Also, it discusses varied theories recognized for corporate governance, and scrutinizes the empirical findings of related research papers to develop a background for this study as well as assists in indicating the existing knowledge gaps. Finally, the proposed theoretical model is illustrated.

2.2 Theoretical Review

The researcher based this examination on the shareholder theory, resource dependency theory, stewardship theory together with agency theory.

2.2.1 Agency Theory

Agency theory founded by Jensen &Meckling (1976) believes that the principal (shareholders) hires an agent (management) then delegates the duty of decision making and running of the firm to the agent. However, in most cases the executives drift from this and only focus on fulfilment of their own selfish interests without regard for the shareholders' interests. Based on corporate governance, the agency theory believes that the agents (managers) are usually opportunistic, thus the principal must put in place a board which can control, supervise and offer oversight to ascertain that the firm maximizes the shareholders wealth. The board should ascertain that the MFBs have enough measures to ensure accountability of all decisions. For that to happen, the board must have the right size, comprise of independent directors who are competent and undertake the right activity. Also, the board must embrace diversity of its members who can bring different skills for the banks benefit.

The agency theory however, has flaws in explaining corporate governance mechanisms; thus, it needs support from other theories because the shareholders lack the obligatory information and institutional instruments to either bargain over management employment terms or to control and monitor administration's activities. Also, the external directors are unsatisfactorily independent from administration to work as agents for the shareholders in controlling or selecting management. According to Khitiri (2018), the ownership is crucial for firm strategy and performance, and agency theory is claimed to offer very little information about the actual behavior and board function (Yusof, 2016). Therefore, this necessitates for theoretical pluralism and detailed attention to the dynamics and processes of the board. Yusof (2016) suggest that the actual conduct of the directors is what determine the effectiveness of the board while the independence, size, competency, diversity and activity of the board only condition it.

2.2.2 Stakeholder's Theory

The stakeholders' theory believes that companies are social entities which impact the welfare of several stakeholders (Donaldson & Preston, 1995). The stakeholders include public, customers, government, trade associations, suppliers, communities, trade unions, creditors and employees. This theory states that the firm must take into consideration interests of all stakeholders to enhance its financial performance. The theory believes that the board should give attention to social issues like CSR, environmental and sustainability concerns. Although the stakeholder theory has various benefits, it is impractical to consider all the shareholders' interests in corporate governance. If the directors consider all then it is difficult to clarify corporate objectives thus can lead to trouble. Therefore, the needs of some stakeholders will be ranked higher than the others. For this study, the stakeholder theory promoted gender and racial diversity, because female board directors have been proven to offer different opinions from men which can ensure social issues are implemented in corporate strategy (PwC Annual Directors' Survey, 2019). This means that with board diversity, corporate governance model in corporations can evolve with women inclusivity that would ensure stakeholders become a more significant component in business.

2.2.3 Stewardship Theory

This theory believes that the executives of a corporation are good stewards who would always act within the shareholders' best interests. This is because the theory believes that strong relationship exists between the executives and corporate success, so the stewards will protect and maximize the value of the shareholders by ensuring the firm performs well. The stewardship theory emphasizes on the relationship between the directors and shareholders (Khitiri, 2018). However, stewardship theory fails to consider that just like the agency theory, there is likelihood that the directors' interests could differ from shareholders. Therefore, it is essential to ensure there is board independent to make decisions that will be beneficial to the shareholders. Steward theory takes the board structure to be very important, so the board should also contain internal members since they understand the corporate problems; hence, they can respond accordingly because if the board has external members only, then reaction may be slow since they do not know the daily problems of the firm. For this study, the stewardship theory was linked to board independence and how it influences the performance of the MFBs.

2.2.4 Resource Dependency Theory

This theory was established by Pfeffer (1972), and believe that directors convey resources like skills, information, key constituents as well as legitimacy which lower uncertainty and eventually lowering transaction cost. While other theories have pitfalls, it perfectly fit corporate governance because it ensures the board has the right people who can be valuable contributors in the success of the firm.

Resource dependency theory influences corporate governance because successful firms have internal systems which match the demand of their external environment. According to Pfeffer (1972), the composition and size of the board is a rational response of the firm to the outside environment conditions and external directors might serve to link the firm with outward resources to overcome uncertainty that is vital for sustainability in the long- term. As such external directors can bring in business skill which is valuable in institutions. The implication of this to corporate governance is that the board will reflect the firm's environment, therefore, the board composition needs to comprise individuals who can bring in diverse resources to the firm so that the organization can tap on their skills for improvement of its financial performance (Borlea & Achim, 2013). This theory emphasizes on the necessity of board diversity and competency in matters skills and expertise and their impact on financial performance.

2.3 Determinants of Financial Performance

Various factors determine the financial performance of MFBs. The determinants of financial performance in this study were corporate governance, firm size, financial leverage, and liquidity.

2.3.1 Corporate Governance

According to the OECD (2015), financial failure in firms usually occurs because of ineffective corporate governance. The corporate governance is a significant aspect that determines the financial performance of a corporation (Mirza & Javed, 2013). The elements of corporate governance are CEO duality, board competencies, board composition, board activity, the board size, and independence. The Company Act requires listed firms to have at least two directors, and the board should not be too small or too big. When it is small, there will be a shortage of expertise and skills, and if the board is too big, it will consume too much time in making decisions because it is easier to have conflicts.

Another corporate element that affects financial performance is board independence. It is recommended to have more external directors than internal ones to attain board independence because more executive directors within the board are more probable to be influenced in decision-making, thus negatively affecting performance. On the board composition, there should be gender diversity and a balance of different people with diverse expertise who can bring in varied skills to benefit the firm. According to Ozdemir (2020), organizations that follow corporate governance standards report higher overall revenue and profit per share.

2.3.2 Firm Size

Firm size is the ability as well as the variety and quantity of production capabilities or the multiplicity and quantity of services that a corporation can offer concomitantly to its clients (Sritharan, 2015). Size of the firm influences its financial performance since large organizations have the advantage to harness economies of scale as well as huge access to capital sources; hence, they make higher profits (Sritharan, 2015). Several studies have proven that firm size positively affects its profitability whereby size indicators used include total employees, total assets, deposits, sum of branches, and total sales (Kioko, 2013).

Further, firm size enhances the company's ability to compete effectively in the market because it leads to economies of scale; subsequently, leading to cost reduction and a rise in opportunities. Additionally, this concept makes firm size a factor in determining profitability, and a positive interconnection exists between profitability and the size of a firm (Sritharan, 2015). According to Doğan (2013), big corporations make more profits because they have larger market shares, superior borrowing capacity, and access to long-term debt unavailable to smaller firms.

2.3.3 Liquidity

Liquidity refers to the amount of capital that is available for the firm to spend or invest. Liquidity of an organization is a vital determinant of the corporate's financial performance, and it affects financial performance positively. This is because firms which are more liquid can easily use the cash to meet their commitments fast when necessary and in return make profits. Conversely, the less liquid firms may be forced to look for money elsewhere which may take time; thus, they cannot easily settle their obligations which can hinder their profitability.

The liquidity is measured using two key approaches namely liquidity gap and liquidity ratios. The liquidity ratios refer to several ratios of balance sheet that show main trends of liquidity (Mirza & Javed, 2013). In most cases, a higher liquidity ratio depicts a higher financial performance and vice versa. The liquidity gap refers to the difference between assets and liabilities of a firm as at present and future dates whereby a positive liquidity gap represents a deficit and a negative liquidity gap indicates a surplus (Mwangi, 2013).

2.3.4 Financial Leverage

Financing decision plays a vital function in ensuring there is sustainable profitability of corporations. An organization can always fund its operations either by equity or debt or both. When making capital structure decisions, firms require both equity and debt to use in their investment needs; thus, there must be an optimal mix of equity and debt at all times (Rahman et al., 2020). Financial leverage helps the firm to amplify the shareholder's return whereby leverage refers to the utilization of preference and debt capital together with the owner's equity within the capital structure of a corporation (Gweyi & Karanja, 2014). A levered firm therefore uses both equity and debt while an unlevered firm is an all-equity organization.

A firm can use either short- or long-term debt to finance its operations through debt financing. Current debt relates to liquidity decision whereas long-term debt relates to long-term investment. Rahman et al (2020) explain leverage is one way to enhance the performance of a firm, and even though leverage is riskier than equity only financing, it gives a firm a greater potential to higher returns than would be available if not used. However, the financial leverage can boost financial performance only if the fixed charges are at a lower cost than the organization's return on net assets (Gweyi & Karanja, 2014). The financial leverage affects profit after tax and earning per share, therefore, it is essential to consider costs involved before settling on leverage.

2.4 Empirical Review

Numerous empirical studies executed by various academicians both internationally and locally exist surrounding the impact of corporate governance on firms all of which have produced distinct results. Some of these studies are discussed in the following section. Sayilir and Coşkun (2012) researched on the association of corporate governance and Turkish corporations' financial performance. The scholars used 31 firms' corporate governance scores that were published by CGA of Turkey. They used a descriptive design methodology and found that corporate governance does not have a factual link with ROA or ROE when it comes to productivity and administration. The study left gaps for conducting similar studies in other countries and other industries including the microfinance subsector.

Additionally, Mwesigwa et al, (2014) conducted an examination to assess administrative skills, corporate governance and responsibility, and profitability of the Ugandan commercial banks. They used descriptive survey methodology and their verdicts suggest that a connection is present between corporate governance, responsibility and administrative skills with financial performance of banks in Uganda. Their study creates a gap for studies in other sectors and use of other variables of study.

Kaur and Gill (2012) researched the corporate governance's impact on the profitability of 134 establishments listed on Bombay Stock Exchange in India, and utilized descriptive survey methodology to analyze the financial records of the organizations for 6 years period between 2000 and 2005. Their findings demonstrate a positive intercorrelation present between the corporate governance and sustainable financial performance. They focused on the corporates listed in the stock exchange leaving a gap in other industries including financial sector.

Gadi (2015) researched on the corporate administration impact on Nigerian microfinance banks financial performance. He utilized 23 microfinance banks as the sample. The researcher used check list instrument to collect data whereby he gathered data from yearly reports of the microfinance banks chosen for the research. His findings depicted a remarkable association between the Earnings Per Share and corporate governance even though his regression analysis revealed no significant link between financial statement of the MFIs in Nigeria and their corporate governance. The gap is the connection of financial performance and corporate governance of other sectors of Nigeria. Also, the researcher used only two variables for the study i.e., board committee composition and board composition, hence creating a gap for studies utilizing different corporate governance proxies.

Jesus and Emma (2013) established the link amid earnings management of non-financial companies in Latin America and corporate governance. They employed descriptive analysis methodology which involved sampling of 435 companies. They found that implementation of corporate variables affects the earnings management of firms positively. Hence, their results depicted a direct intercorrelation amid profitability and governance. The study covered non-financial firms; thus, it leaves a gap for studies within the financial industry.

Otieno et al. (2013) researched the corporate governance effect on savings and credit cooperatives in Nakuru profitability. The scholars utilized a survey correlation methodology, surveyed three Saccos with majority of the members targeting all employees using census method. They found that a significant connection exists between financial performance and management style. Furthermore, their results portrayed an insignificant interrelationship is present amid board size and profitability. The gap was lacking studies on corporate governance effect on commercial banks, microfinance institutions, as well as the entire financial sector.

Olick (2015) performed research on the corporate governance practices influence on the Kenyan microfinance banks performance. The research employed a descriptive cross-sectional methodology. She found that corporate governance significantly affects the financial performance of Kenyan microfinance banks. Therefore, sound corporate governance structures improve financial performance. The gap was few variables used to represent corporate governance, hence there is a need for other studies to include other variables

Matimu (2017) inspected the corporate governance influence on the Kenyan DTMIs' performance. The scrutiny utilized a descriptive survey methodology and the study involved 8 Deposit-taking MFIs in Kenya. Her findings were that liquidity and firm size positively affected

ROA of firms. However, there was a negative influence of gender diversity, board independence as well as board size on ROA. The gap was on the variables of study used; the research only used three variables leaving room for inclusion of other variables.

Olango (2018), assessed the impacts of corporate governance on profitability of Kenyan deposit-taking MFIs. He used descriptive research methodology and employed secondary data of 13 Deposit Taking Microfinance Institutions. His results showed a positive correlation of board size with corporate governance while other variables portrayed an inverse intercorrelation with the deposit-taking MFIs' performance. The scrutiny utilized return on equity to measure profitability, thus leaving gap to use ROA. Also, the study used 5 years period leaving a gap for use of longer period of study.

Aduda, Chogii and Magutu (2013) performed an investigation on the significance of board composition concerning the CEO duality, chairman responsibility, non-executive and executive directors on the profitability of companies listed on NSE. They used descriptive statistical methodology and covered a period between 2004 and 2007. The results depicted that a significance positive link exist amidst Tobin Q ratio, corporate governance and return on assets. The gap was to conduct a similar study in other industries and cover a longer period.

2.5 Conceptual Framework

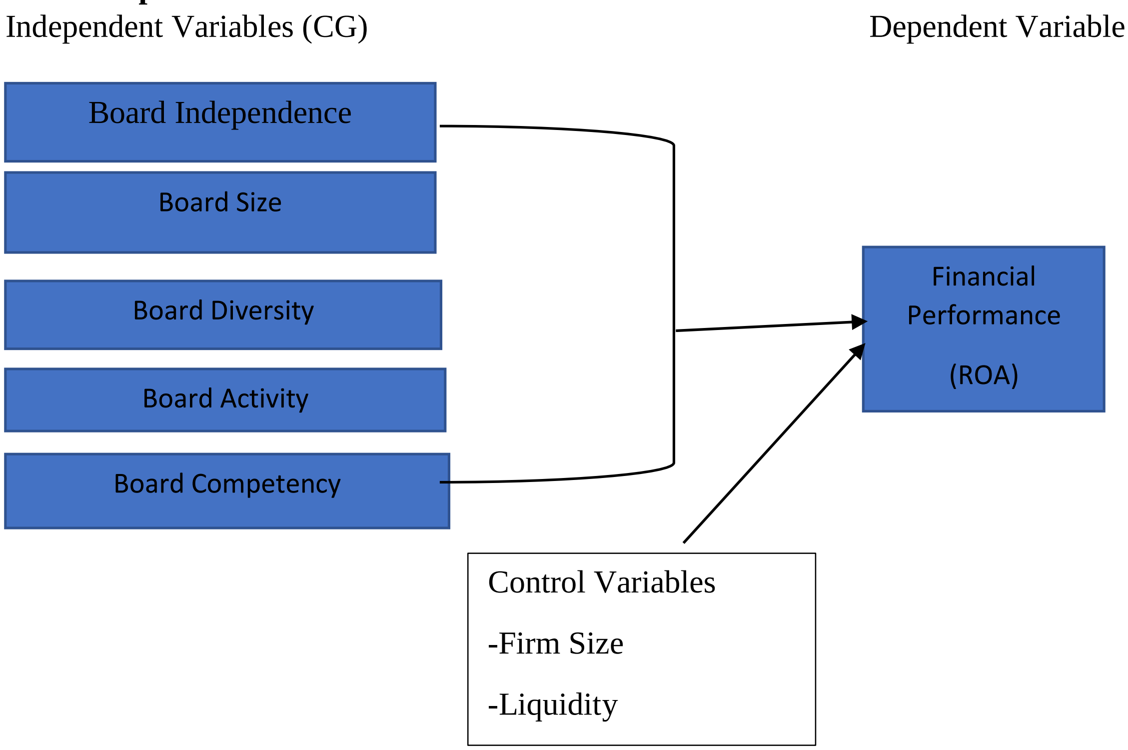

Figure 2 1: Conceptual Framework

Source: Researcher 2021

2.6 Summary of Literature Review

The researcher has employed different theoretical models to explicate corporate governance influence on firm performance comprising stewardship theory, stakeholders' theory, resource dependency theory in addition to agency theory. There are different researches done that have yielded distinct findings on the same topic. Empirical studies have shown corporate governance possesses a significant positive effect on the financial performance (Olick, 2015); Mwesigwa al., 2014; Kaur & Gill, 2012; Olango, 2018; Aduda, Chogii & Magutu, 2013; Jesus & Emma. 2013). Alternatively, Sayilir & Coşkun (2012) found that corporate governance does not have a factual link with ROA or ROE. Otieno et al. (2013) found an immaterial association amid financial performance and size of the board. Besides, Matimu (2017) got an inverse effect of board size, gender diversity as well as board independence on ROA. Also, Gadi (2015) established no significant link between financial statement of the MFBs and corporate governance. From these empirical studies, it is evident that there are inconsistent findings on corporate governance impact on financial performance of corporate bodies. Also, different researchers used different variables and some of the studies focused on different industries. Hence, there was a need for more research on the topic, and this examination attempted to fill the gap by establishing the corporate governance influence on Kenyan MFBs financial performance.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The third chapter discusses the research design, the population studied, the sample used, data collection besides data analysis methods.

3.2 Research design

This research espoused a descriptive survey research design. Therefore, the study surveyed all the licensed MFBs in Kenya. The descriptive survey was useful since goal of the investigation was to assess the impact of corporate governance on the Kenyan MFBs' performance. Moreover, the descriptive survey is normally convenient in getting secondary data for the research as well as giving the description of issues as they are.

3.3 Study Population

The population targeted by the researcher was all the MFBs which are licensed and registered in Kenya. The Annual Report of CBK 2020 states that there are 14 deposit-taking MFs (MFBs). So, the researcher undertook a census of the MFBs.

3.4 Data Collection

The researcher amassed secondary data. The sources of secondary data comprised the central bank of Kenya, the websites of MFBs, financial statements of the MFBs, annual reports issued by AMFI (Association of Microfinance Institutions) in Kenya books, journals and other sources which that were deemed to offer reliable information. The data collection instrument was a census of the MFBs in Kenya. The period for research was between 2018 to 2020

3.5 Data Analysis

The Quantitative information that was gathered was analyzed through descriptive statistics by employment of SPSS then presented using standard deviation, percentages as well as frequencies. Afterward, the researcher utilized correlation and regression models to test the corporate governance influence on Kenyan MFBs financial performance.

The researcher adopted the multiple regression model below for the research:

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \epsilon$$

Whereby Y signified the financial performance of MFBs as shown by the ROA

X designated the independent variables

$\beta 0$ was the constant term

$\beta 1,2,3,4,5$ denoted the beta coefficients of independent (X) variables

ϵ signified the error term

X1 represented Board Size

X2 represented Board Independence

X3 denoted Board Diversity

X4 represented Board Competencies

X5 implied Board Activity

3.5.1 Diagnostic Tests

Diagnostic assessments were executed on the data collected to certify that the data was accurate and reliable. Hence, the researcher conducted normality, multicollinearity and homoscedasticity tests. Normality test was performed by SPSS software to check for normal data distribution of data. Multicollinearity test was also conducted by SPSS through VIF

(Variation Inflation Factors) on the corporate governance variables to check for the correlation amid independent variables and their intercorrelation strength. Homoscedasticity test was performed through SPSS to establish the error term within the variables of research.

3.5.2 Tests of Significance

The researcher utilized F-test, T-Test and R^2 to test the level of significance, and ANOVA (Analysis of Variance) too to offer precision against the results of the regression model.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATIONS

4.1 Introduction

The fourth chapter encompasses the collected data presentation, analysis of the data, in addition to a discussion of the study verdicts on the influence of corporate governance on the Kenyan microfinance banks' performance. First, the chapter discusses the response rate then moves to the presentation of the data, its analysis and findings. The researcher employed Microsoft excel to compile the data collected then utilized SPSS to analyze the data. Moreover, the scholar employed regression analysis to scrutinize the corporate governance influence on the microfinance banks. The dependent variable for this study was the financial performance whereas the corporate governance (indicated by board size, independence, activity, diversity, and competencies) were the independent variables. The control variables were liquidity and firm size.

4.2 Response Rate

The target populace for this research 14 microfinance banks that were operational as at December 31st 2020. The researcher conducted a census of all the MFBs. However, the researcher did not use three MFBs which had incomplete data so they did not qualify to participate in the research. For that reason, the researcher got complete data from 11 microfinance banks which is an acceptable representation for the research because it is 78.57% of the total population.

4.3 Descriptive Statistics

This segment describes the traits of corporate governance factors influencing the Kenyan microfinance banks' performance. The researcher investigated some demographic variables like the board size, independence, activity, diversity besides board competency. Following table is a representation of the descriptive statistics summary for the research variables of the 11 MFBs in during the period of study.

Table 4.1: Board Independence (Non- Executive vs Executive Directors in the Board of Directors)

MFB	Directors Proportion			
	Non-executive	**Executive**	**Total**	**Percentage of Non-executive directors**
KWFT	9	3	12	0.75
FAULU	9	2	11	0.82
RAFIKI	4	1	5	0.80
SMEP	2	3	5	0.40
CARITAS	3	2	5	0.60
SUMAC	5	2	7	0.71
KEY	5	3	8	0.63
UWEZO	3	2	5	0.60
MAISHA	5	1	6	0.83
CENTURY	5	3	8	0.63
MUUNGANO	8	1	9	0.89

Source: (Researcher, 2022).

Table 4.1 above shows that most MFBs have more non-executive as compared to executive directors except one (SMEP) which have more executive directors. Good corporate governance mechanism necessitates the board of directors to have at least 30% non-executive directors to achieve independence. Therefore, a higher percentage is desirable and the results show that the MFBs have at least 40% directors who are non-executives within their boards. Therefore, the findings show that most of the MFBs have a higher degree of independence because they have more directors who are non-executive within their boards. The mean percentage of independent directors is 72%. Non-executive directors can make independent decisions without any influence from the company's management. Additionally, having board independence ensures that they can be an oversight and keep the management in check. Jensen (1993) states that boards with non-executive directors who have diverse skills and background perform better than those with more executive directors.

Table 4.2: Board Diversity

MFB	Diversity (Gender) of Directors				
	Male Directors	Female Directors	Total	Percentage of Male directors	Percentage of Female Directors
KWFT	4	8	12	0.33	0.67
FAULU	8	3	11	0.73	0.27
RAFIKI	4	1	5	0.80	0.20
SMEP	7	1	8	0.88	0.13
CARITAS	3	2	5	0.60	0.20
SUMAC	6	1	7	0.86	0.14
KEY	6	2	8	0.75	0.25
UWEZO	5	0	5	1.00	0.00
MAISHA	5	1	6	0.83	0.17
CENTURY	5	3	8	0.63	0.38
MUUNGANO	6	3	9	0.67	0.33

Source: (Researcher, 2022).

The table 4.2 above depicted that most directors are male whereby the average proportion of male directors is 75.16% whereas the female board directors of MFBs are 24.84%. Therefore, women who serve in the board are fewer than men at an average of 24.84% of the total board members. In one of the MFBs there were no women serving in the board in 2021. In one MFBs (that is, KWFT) there were more women (67%) in the board. The findings show that the MFBs have included female directors in the board and this result concurs with Ali (2020) that determined that including feminine directors within a board, positively affect the financial performance of the company. Hartarsaka (2004) notes that boards that have higher number of females reach more borrowers and they are more profitable than those with no women or fewer women.

Table 4.3: Board Size

MFB	Board Size
KWFT	12
FAULU	11
RAFIKI	5
SMEP	5
CARITAS	5
SUMAC	7
KEY	8
UWEZO	5
MAISHA	6
CENTURY	8
MUUNGANO	9

Source (Researcher, 2022.

The outcome from table 4.3 illustrates that the average size of MFBs directors is 8 (7.36) members which falls within the recommended council of microfinance equity funds that ranges from 7 to 9 members. The standard maximum board size is 12 and the minimum is 5 board members which shows a widely dispersion. As stated by Jensen (1993), a large board size is less effective for the firm as compared to a small board size because if there are many board members, they take long to agree on matters that concern the institutions and make decisions. Additionally, it is difficult to coordinate a large board especially when the members are required for meetings. Hence, this can increase the expenses especially if the MFB must facilitate the directors' travel and other expenses (Raheja, 2005).

Table 4.4: Board Competency

MFB	Board Competency				
	Directors with Masters & PhD Qualification	Directors with first degrees	Directors with no degrees	Total	Percentage of Directors with Masters & PhD Qualification
KWFT	10	2		12	83.33
FAULU	8	3		11	72.73
RAFIKI	3	2		5	60.00
SMEP	6	2		8	75.00
CARITAS	1	4		5	20.00
SUMAC	3	3	1	7	42.86
KEY	4	4		8	50.00
UWEZO	3	1	1	5	60.00
MAISHA	4	2		6	66.67
CENTURY	5	3		8	62.50
MUUNGANO	6	3		9	66.67
Total	53	29	2	84	63.10

Source: (Researcher, 2022).

The findings from table 4.4 indicate that the average number of directors who have Master's and PhD in their respective areas of expertise are 53 out of 84 which means that 63.10% of the MFBs directors are highly competent, 34.52% have first degrees whereas only 0.02% have certificates. This shows that majority of the board members are qualified to serve in the boards and they can add great value to the institutions.

Table 4.5: Descriptive Statistics Summary

Descriptive Statistics					
	N	Minimum	Maximum	Mean	Std. Deviation
Independence	11	40.00	88.89	71.6335	10.68024
Size	11	5.00	12.00	7.6364	2.37793
Diversity	11	.00	66.67	24.8386	17.26897
Activity	11	2.00	8.00	3.9091	1.92117
Competencies	11	20.00	83.33	59.9774	17.37941
ROA	11	-.20	.04	-.0555	.07442
Firm Size (Assets)	11	132.00	29279.00	6717.8182	10992.93664
Liquidity	11	.73	12.60	2.2789	3.44728
Valid N (listwise)	11				

Source: (Researcher, 2022).

The descriptive statistics summary table 4.5 above demonstrates the mean values of the study variables, their minimum and maximum values together with their respective standard deviations. The MFBs had a minimum ROA of -0.20 and a maximum of 0.04 during the research period. The mean ROA of the MFBs was -0.0555 and a standard deviation of 0.0744. From these findings, the ROA of the MFBs standard deviation of 0.0744 depicts that the variation in the ROA of the microfinance banks had a small variation during the research period. Hence, this result shows that the least financial performance of the MFBs as shown by minimum ROA was -20% whereas the highest performance which is shown by the maximum ROA was 4%.

The board independence of the MFBs had a minimum of 60% and a maximum price of 88.89% during the research period. Therefore, the mean recorded board independence was 71.63% with 10.68 standard deviation which shows a high variation in board independence of the microfinance banks. Additionally, the board size of the microfinance banks had a minimum of 5 and a maximum of 12 directors. The mean of the board size was 7.64 and a standard deviation of 2.38 indicating there was a slight variation in the board size of the microfinance banks. Moreover, the MFBs had a minimum board activity of 2 and a maximum of 8. The board activity was measured by the number of times the MFBs board of directors meet in a year. The average board activity was 3.9 with a standard deviation of 1.9212 demonstrating a trivial variation in the activity of the boards.

Furthermore, the minimum firm size of the MFBs was 132 million shillings while the maximum firm size was 29279 million shillings. The average firm size of the MFBs was 6717.82 million shillings with a standard deviation of 10992.94 which demonstrates a high variation in the sizes of the microfinance banks. The minimum liquidity for the MFBs was 0.73 and the maximum liquidity reported was 12.60. The average liquidity for the MFBs was 2.28 and the standard deviation was 3.44728 which shows that there is a high variation in the liquidity of the MFBs.

4.4 Diagnostic Statistics

The researcher conducted diagnostics tests as demonstrated in the next section.

4.4.1 Normality

The scholar employed both Shapiro-Wilk together with Kolmogorov-Smirnov to test the normality, and the outcomes are exhibited within the following table:

Table 4.6: Tests of Normality

	Kolmogorov-Smirnov[a]			**Shapiro-Wilk**		
	Statistic	**Df**	**Sig.**	**Statistic**	**df**	**Sig.**
Independence	.260	11	.166	.81411		.223
Activity	.164	11	.724	.74611		
						.174
Diversity	.226	11	.822	.88411		.832
	.175	11	.506	.75211		.993
Size	.264	11	.784	.80011		.115
Competencies	.457	11	.562	.57611		.993
Firm Size	.194	11	.087	.86611		.606
Liquidity	.221	11	.603	.76211		.624

Source: (Researcher, 2021).

The findings in the table above indicates a normal distribution of the population utilized to collect the data since both tests of normality (Kolmogorov-Smirnova and Shapiro-Wilk) had p-values > 0.05. This signifies that the data gathered was normally distributed; hence, it was suitable for research and analysis.

4.4.2 Multicollinearity Test

Table 4.7: Multicollinearity

Variables	Collinearity Stats	
	Tolerance	**VIF**
Board Independence	.256	2.975
Board Diversity	.338	3.722
Board Size	.324	3.825
Board Activity	.456	2.184
Board Competencies	.290	3.344
Firm Size	.478	2.124
Liquidity	.232	4.123

Source: (Researcher, 2021).

The table 4.7 above demonstrates that the multicollinearity tests findings had the independent variables with a Tolerance Value greater than 0.2. Tolerance higher than 0.2 shows there no multicollinearity problem existed. Additionally, the independent variables had VIF below 10 but more than 1. Hence, there was no multicollinearity because all of them had their VIF falling between 1 and 10.

4.4.3 Test for Heteroscedasticity

Table 4.8: Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients		
		B	**Std. Error**	**Beta**	**t**	**Sig.**
1	(Constant)	-.045	.220		-.206	.850
	Board Independence	.002	.002	.314	.883	.442
	Board Size	-.023	.020	-.740	-1.167	.328
	Diversity	-.001	.003	-.266	-.413	.007
	Board Activity	.019	.028	.487	.675	.048
	Board Competencies	.001	.002	-.111	-.265	.809
	Firm Size (Assets)	2.675E-6	.000	.395	.494	.035
	Liquidity	-.011	.008	-.494	-1.277	.022

(Researcher, 2021).

The results from the table 4.8 establishes that the standard error values of coefficient of board independence is 0.002 which is less than 0.05; the standard error value for board size is 0.020 which is also less than 0.05; and the standard error for board diversity is 0.03<0.05. Also, the standard error for board activity is 0.028; that for board competency is 0.002, firm size is 0.000 and the standard error for liquidity is 0.008 which are all less than 0.05. Therefore, the error terms present between the variables are falling within a close range and no large variation is observed in the dependent and independent study variables. Hence, no heteroscedasticity problem is evident.

4.5 Correlation Analysis

The scholar executed a correlation analysis to reveal the link present amidst the independent and dependent investigation variables. Table 4.9 below is a presentation of the correlation analysis outcomes.

Table 4.9: Correlation Results

		Board Independence	**Board Size**	**Diversity**	**Board Activity**	**Board Competency**	**Roa**
Board Independence	Pearson Correlation	1	.326	.281	.196	.432	.340
	Sig.		.328	.402	.563	.185	.004
Board size	Pearson Correlation	.326	1	.764	.605	.634	-.143
	Sig.	.328		.006	.049	.036	.046
Diversity	Pearson Correlation	.281	.764	1	.250	.409	.198
	Sig.	.402	.006		.458	.211	.036
Board Activity	Pearson Correlation	.196	.605	.250	1	.438	.408
	Sig.	.563	.049	.458		.177	.012
Board Competency	Pearson Correlation	.432	.634	.409	.438	1	.136
	Sig. (2-tailed)	.185	.036	.211	.177		.690
ROA	Pearson Correlation	.340	-.143	.198	.408	.136	1
	Sig.	.004	.016	.036	.012	.690	

Source: (Researcher, 2022).

The findings from the correlation table above show that the correlation of performance (as indicated by ROA) of the microfinance banks in Kenya to board independence is 0.340. This illustrates that a positive interconnection is present amid the board independence and the performance. Moreover, this correlation outcome demonstrates that a significant positive connection is present between ROA and independence of board since it includes a sig. of 0.004 which suggests that p-value <0.05. Consequently, an increment in board independence leads to an increment in microfinance banks performance.

Additionally, the correlation of ROA to board size is -0.143. The p-value is 0.016<0.05 demonstrating that a significant inverse correlation exists between the microfinance banks performance and board size. Hence, an increment in the size of board of the MFBs would cause a deterioration in monetary performance of the MFBs.

Besides, the findings show that the correlation of ROA to diversity is 0.198 with sig. of 0.036. Therefore, board diversity correlates positively with MFB performance. The p-value is lower than 0.05, indicative of the link between ROA and board diversity being significant at a 95% significance level. Therefore, raising board diversity would result in a significant positive difference to the Kenyan microfinance banks performance.

The outcomes also show that board activity positively correlates with the microfinance banks' performance, as depicted by a correlation of 0.408 and a sig. of 0.012, which is less than 0.05. Therefore, a significant correlation exists between ROA and board activity. With a significance level of 5%, an increase in board activity increases MFB profit by 0.408. Similarly, board competency indicated a 0.136 correlation (sig 0.690 >0.05) with the financial performance of the MFBs. Thus, the correlation was positive but insignificant and an augmentation in board competency would initiate an increment in profit of the MFBs by 0.136. However, the change in the financial performance would be insignificant.

4.6 Regression Analysis

The intellectual executed a multiple regression analysis of data gathered for Kenyan microfinance banks to scrutinize the link between the research variables. Then the researcher calculated the coefficient of determination from the model, which is resourceful in elucidating the scope under which the independent research variables give explanation of the dependent variable. The outcome of the analysis is as follows:

Table 4.10: Regression Analysis Outcomes

Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.877[a]	.769	.230	.06531

a. Predictors: (Constant), Liquidity, Board Competency, Board Activity, Board Independence, Diversity, Board Size, Firm Size (Assets)
Source: (Researcher, 2022).

The table 4.6, depicted that determination coefficient (R-Square) was 0.769. Thus, this R^2 infers that the study's independent variables explain 76.9% of the variations that exist in the financial performance of the MFBs within Kenya. Thus, board independence, board activity, board competency, board diversity, board size, firm size and liquidity explain the 76.9% variations in ROA (financial performance) of the MFBs whereas other factors that are excluded from this the study explain 23.1% of the financial performance variations of the MFBs.

Table 4.11: Analysis of Variance (ANOVA)

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.043	7	.006	1.426	.019[b]
	Residual	.013	3	.004		
	Total	.055	10			

a. Dependent Variable: ROA

b. Predictors: (Constant), Liquidity, Board Competency, Board Activity, Board Independence, Diversity, Board Size, Firm Size (Assets)
Source: (Researcher, 2022).

The table of ANOVA above specifies that the model significantly forecasts the dependent variable. Hence, liquidity, board competency, board activity, board independence, diversity, board size, and firm size(assets) jointly predict the return on assets of the MFBs. This is because the F-statistic is 1.426 and it has a p-value 0.019 which is below the 0.05. For that reason, the findings infers that the regression model is a good fit and all the independent variables are rationally significant in forecasting the financial performance of the MFBs.

Table 4.12: Regression Coefficients

		Unstandardized Coefficients		Standardized Coefficients		
Model		**B**	**Std. Error**	**Beta**	**T**	**Sig.**
1	(Constant)	-.045	.220		-.206	.850
	Board Independence	.002	.002	.314	.883	.442
	Board Size	-.023	.020	-.740	-1.167	.328
	Diversity	.001	.003	-.266	-.413	.007
	Board Activity	.019	.028	.487	.675	.048
	Board Competency	.001	.002	-.111	-.265	.809
	Firm Size (Assets)	2.675E-6	.000	.395	.494	.035
	Liquidity	.011	.008	-.494	-1.277	.022

(Researcher, 2022).

The model for regression was

$$Y = \beta 0 + \beta 1X1 + \beta 2X2 + \beta 3X3 + \beta 4X4 + \beta 5X5 + \epsilon$$

Therefore, from the findings of this research, the regression model is

Y = *-0.045 - 0.023 Board size + 0.002 Board Independence + 0.001 Board Diversity + 0.001 Board Competencies + 0.019 Board Activity + ϵ*

Financial Performance (Return on Assets) = *-0.045 - 0.023 Board size + 0.002 Board Independence + 0.001 Board Diversity + 0.001 Board Competencies + 0.019 Board Activity + ϵ*

The coefficients results depict that there is a positive (B =0.002) but insignificant (sig. 0.442 >0.05) link between MFBs profitability and board independence. Moreover, there is an inverse interrelationship (B=-0.023) between MFBs performance in Kenya and board size, but it is not significant (sig 0.328 > 0.05). There is also a positive (B=0.001) significant link between MFBs performance and board diversity. Also, board competencies have a positive(B=0.001) but not significant connection with the financial performance of MFBs since it has a sig. 0.809> 0.05. Furthermore, the findings demonstrate that the board activity positively relate with financial performance of MFBs (B=0.019), and the connection is significant since its p-value is 0.048 < 0.05. Moreover, the research discoveries depict that if all other factors (independent variables) remain constant, then the financial performance will be -0.045. The firm size also portrays a positive relationship with ROA (B=2.675E-6) and the connection between the two variables is significant as portrayed by p-value 0.035<0.05. Similarly, the liquidity of the MFBs also has a positive significant association with their profitability (B=0.011 and p-value 0.022<0.05).

4.7 Interpretation of the Findings

The goal of this research was to examine the influence of corporate governance practices on profitability of MFBs in Kenya. The research outcome revealed a moderate positive correlation of board independence and the microfinance banks in Kenya performance (0.340, p-value 0.004<0.05). This correlation outcome shows there is a noteworthy direct connection between profitability and board independence because it possesses a sig. of 0.004 which suggests that p-value <0.05. Thus, an increment in board independence would cause a significant increment in the microfinance banks performance. Subsequently, expanding the board independence will positively impact the performance of the MFBs. This result concurs with other scholars who determined that board independence positively impacts the MFBs performance. For instance, Hussain, Azhar & Rahman (2021) determined that board size and independence enable MFIs to attain financial sustainability. Ma and Tian (2009) found that have more independent directors boosts the firm performance more than other factors they studied. Also, (Ehugbo, 2021) determined that board independence significantly influence the performance of microfinance banks.

Additionally, a negative link is present between ROA and board size. The correlation is -0.143 with a p-value of 0.016<0.05. For that reason, a significant negative link exists between the microfinance banks performance and board size. Consequently, an increment in the size of board of the MFBs would bring about a decline in the MFBs financial performance. This outcome confirms the findings of other researchers like Kosgei, Abdi, and Kosgei (2014) who found that board size significantly affects the financial sustainability. Kosgei, Abdi, and Kosgei (2014) found the average board size is 8 just like the current research findings. Having a bigger number of board members would thus be detrimental to the financial performance of the MFBs.

Also, they determined that there is need for higher board independence as it significantly impacts the financial performance of microfinance institutions (Kosgei, Abdi, &Kosgei, 2014).

Furthermore, the findings show a direct significant interrelationship is present between the profitability and board diversity as revealed through 0.198 correlation that has a p-value of 0.036 which falls below 0.05. Hence, increasing board diversity will cause a significant positive increment in the profitability of the microfinance banks within Kenya. This insinuates that boards should consider increasing the number of women as it could lead to a positive contribution to their financial performance. Mutisya (2016) revealed that gender diversity of the board affected financial performance. Abdi (2018) also established that gender diversity affects the performance of Kenyan microfinance banks.

Similarly, the research outcomes portrayed a direct correlation existing between board activity and the microfinance banks' performance. The correlation is 0.408 with a p-value of 0.012, which is below 0.05, suggesting that the interrelationship between MFBs in Kenya's financial performance and board activity is significant at a 95% significance level. For that reason, an upsurge in the board activity will result in a rise in the MFBs performance. This outcome concurs with some earlier studies that concluded that board activity affects performance of the microfinance banks (Tchuigoua, 2014; Ma &Tian, 2014).

Also, board competencies indicated an insignificant positive association with the MFBs financial performance at 95% significance level. Hence, an upsurge in board competencies would lead to an increment in profit of the MFBs by 0.136. However, the change in the financial performance would be insignificant.

In addition, the result demonstrates that firm size positively correlates with the MFBs financial performance. This outcome agrees with other earlier scholars like Abdi (2018) that a positive significant interrelationship is present between MFBs firm size and their financial performance (ROA). Abubakar, Sulaiman, and Haruna (2018) also established that firm size greatly influences the financial performance of the banks since it gives them high economies of scale.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

The fifth chapter contains a presentation and the study outcomes summary. Besides, the chapter discusses the conclusion, recommendation and proposes certain areas that the researcher has identified which require further research. Furthermore, the chapter includes some of the limitations of this study.

5.2 Summary of Key Findings

The purpose of this research was to investigate the impact of corporate governance on the Kenyan microfinance banks' performance. The research relied on secondary data gleaned from the yearly financial reports of Kenya's 14 MFBs and annual CBK reports. The researcher conducted Pearson correlation to inspect if there was a relationship between the research variables. Moreover, the scholar performed a regression analysis to scrutinize the link between the variables of research. Thereafter, the scholar executed a multiple regression analysis to scrutinize the association of those variables under study. The scholar also employed a 95% significance level in a 2-tailed test.

The findings were a positive significant intercorrelation existing between the independence of the board and the Kenyan microfinance banks' financial performance. Thus, an upsurge in independence of the board would initiate a significant increment in the Kenyan microfinance banks profitability. Additionally, an inverse correlation is present between the board size and MFBs profitability. Therefore, increase in size of board would negatively influence the MFBs performance. Hence, maintaining a moderate board size is critical.

Furthermore, the findings demonstrate that a positive significant interrelationship is present between board diversity and profitability. Thus, a rise in board diversity will cause a surge in the Kenyan microfinance banks performance. The research also established that female representation is still very low in most boards; hence, it is important to consider increasing the number of women who serve in MFBs boards. Moreover, the research determined that a direct correlation is present between board activity and the microfinance banks' performance. Accordingly, an upsurge in the board activity will cause an escalation in the MFBs performance. Additionally, board competencies possess a positive insignificant link with the MFBs performance. Therefore, an upsurge in board competencies would contribute to an increment in profit of the MFBs even though the change in performance will be insignificant. Besides, the regression analysis evidenced that independent variables of this examination explain 76.9% of the variations in the microfinance banks performance.

5.3 Conclusions

The researcher concludes that a significant positive interrelationship is present between board independence and the financial performance of the microfinance banks in Kenya. Consequently, a rise in board independence increases the financial performance of MFBs and vice versa. For that reason, the microfinance banks should aim at increasing the independent directors in their boards to enhance their board independence and boost their performance. Furthermore, the study resolved that a significant negative influence of board size exists on the microfinance banks profitability. Hence, MFBs should purpose to keep their board sizes moderate that is the number of board members should not be too small or too big to ensure the MFBs can enhance their performance. A recommendable board size is 7 to 9 because it ensures ease and fast decision process which facilitates better financial health.

Moreover, the study resolved that board diversity possesses a positive significant impact on MFBs' financial performance. Thus, the microfinance banks need to ensure they have an adequate proportion of different genders in their boards to help them attain financial sustainability.

Also from the findings, the researcher concluded that board activity positively and significantly impacts the microfinance banks performance. Thus, those boards with low activities can consider increasing them to boost their performance. Additional conclusion of the research was that board competencies insignificantly but positively influence the financial performance of the MFBs. For that reason, the firms can consider ensuring that the board members appointed have sufficient competencies in their areas of expertise.

Lastly, the researcher made a conclusion that corporate governance practices influence the Kenyan MFBs performance. Consequently, it is vital to have a proper balance between the board quality as well as the quantity of board sizes. The board should have a good number of directors, comprise of diverse gender, have more independent directors than executive directors, and the members need to be competent in their respective areas of expertise so that they can add value to the MFBs.

5.4 Recommendations

The researcher recommends the microfinance banks should ensure that more independent directors are included on the board, as this holds a positive impact on the financial performance of firms. For that reason, it is imperative to have a larger number of independent directors than executive directors because it will enhance transparency, accountability and sufficiently represents the shareholders' best interests.

Additionally, the microfinance banking firms ought to ensure diversity of their boards. Therefore, they should consider increasing the number of women directors serving in the boards because it boosts the performance of the institutions. Now, there are fewer women in the boards of MFBs in Kenya, and one has no females. Therefore, the researcher recommends that policy makers need to be gender sensitive when appointing the directors so that the firms can achieve from the value-adding potential of gender diversity. Board diversity in terms of gender can uncover a more extensive information base, more innovation as well as creativity in decision-making developments for microcredit banks; thus, boosting performance. Another recommendation is to ensure the board members possess diverse skills and experience.

Moreover, the researcher recommends that the policymakers can ensure that the microfinance banks work with a moderate board size in that the number of people serving there are not too few or too many but follows the recommended number.

5.5 Limitations of Study

The foremost limitation for this project was data which made the researcher leave out some MFBs out of the study since they had incomplete data. It was difficult getting data on governance as well as financial statistics of some of the MFBs. Additionally, time and resources were limiting factors which made it quite difficult to conduct research over an extensive period. The scholar realized that it was difficult to get historical data of most of the MFBs for a longer period. Therefore, this limited the period under which the research could be carried.

Besides, the time constraint permitted the researcher to utilize secondary data only and a focus on MFBs. Therefore, the scholar could not gather primary data given the timeline to complete the project since this required a longer duration to organize with the respective respondents.

Moreover, this time constraint also made it impossible to examine other microfinance institutions in Kenya but only concentrate on the deposit taking microfinance firms. Hence, these limitations provide a prospect for future researches to consider other players in the industry and exploit both secondary and primary information sources in examining the influence of corporate governance on the performance.

5.6 Areas for Further Studies

It is imperative to note that this research project contributes to the existing literature body even though its findings are not conclusive. Therefore, the scholar suggests that extensive research needs to be conducted in the future including employing more sample size since this study included those MFBs that had complete data only while excluding those with incomplete information.

Besides, other scholars can complement this study through use of other methodologies, comparative data, and more corporate governance variables to evaluate their influence on the MFBs performance. Besides, the researcher recommends that future studies involving this topic ought to involve other non-deposit taking microfinance institutions to establish if there will be different findings.

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APPENDICES

Appendix I: List of MFBs in Kenya

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

APPENDIX II: DATA COLLECTION FORM

MFB	Board Size	Board Activity	Board Independence	Board Competencies	ROA
Maisha					
Caritas					
Century					
Choice					
Daraja					
Faulu					
Kenya Women					
Remu					
Rafiki					
SMEP					
Sumac					
U & I					
Uwezo					
Muungano					