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The Relationship between corporate governance practices and performance of micro finance institutions in Kenya.

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THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KENYA

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DECLARATION

Declaration

I declare that this work has not been previously submitted and approved for the award of a degree by this or any other University. To the best of my knowledge and belief, the thesis contains no material previously published or written by another person except where due reference is made in the thesis itself.

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ABSTRACT

Corporate governance practices aim to enhance a firm`s long-term shareholders value through a process of accountability by managers. It provides a structure through which the objectives of a company are set, and the means of attaining those objectives and monitoring performance are determined. Despite the utilization of such practices by organizations, many have failed to actualize the set objectives. The aim of this study therefore was to establish the relationship between corporate governance practices and performance of micro-finance institutions in Kenya. The study was anchored on three theories: Resource dependency theory, Agency theory and Stakeholder theory. The study examined board characteristics which included board size, board independence, the ownership structure and CEO duality and how they affect the performance of micro-finance institutions in Kenya. Firm performance was measured using non-financial measures of performance through a balance scorecard. The study was done through a positivist philosophical view and adopted a descriptive survey research design. The study population was 45 micro-finance institutions registered with the central bank of Kenya and those who are members of Association of Microfinance Institutions in Kenya. Primary data was collected through self-administered questionnaires to the management staff and directors of the micro-finance institutions. A test for reliability was carried out using Cronbach’s alpha model. Both descriptive and inferential statistics were used to analyse the data and the findings presented in tables and charts. The study established that board size and board independence were significant in explaining the performance of micro-finance institutions in Kenya. The study concluded that a small board size enhances operational efficiency and decision making in an organization. The presence of executive directors in a board improves the accountability and prosperity of a board of directors. The study further recommended a small board size consisting of a maximum of 10 members and presence of executive directors to a maximum of 4 members. The study contributes to the current literature on corporate governance and the use of non-financial measures of performance in a firm. The key limitations of the study were the time constraints and the limitation of score as the study focused on a limited number of variables of corporate governance.

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LIST OF ABBREVIATIONS

AMFI - Association of Microfinance Institutions in Kenya

CMA - Capital Markets Authority

DTMs - Deposit-taking MFIs

MDGs - Millennium Development Goals

MFI - Microfinance institution

OECD - Organization for Economic and Development

UN - United Nations

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CHAPTER ONE

INTRODUCTION

1.1 Background of the study

The success of any organization depends on how well the organization is governed (Monks & Minow, 2004). Well governed organizations become highly efficient and cost effective, they are also bound to experience better performance and sustainability (Arora & Sharma, 2016). According to Davies and Schlitzer (2008) there is usually no uniformity in the application of corporate governance practices since there is inherently no right kind of corporate governance, what works well in one firm may not necessarily work well in another firm even within one country. Consequently, in choosing the right corporate governance practises a firm must precisely focus on what is most relevant in terms of business ethics, creating customer value and firm sustainability. This may justify why some firms are successful while others are struggling for survival in the same industry. According to Monks and Minow (2004) the presence of corporate governance practices provides a firm with structures that ensures checks and balances put in place to reflect what is best for the creation of long-term sustainable value of the firm.

The issues surrounding corporate governance practices and its importance came to light in the year 2002 as a series of corporate meltdowns, frauds, and other catastrophes led to the destruction of billions of dollars of shareholder wealth, the loss of thousands of jobs, the criminal investigation of dozens of executives, and record-breaking bankruptcy filings (Arora & Sharma ,2016). During that period, seven of the twelve largest bankruptcy cases in American history were filed (Monks & Minow, 2004). Among the firms included Enron, Tyco, Adelphia, WorldCom, and Global Crossing. This has in turn fuelled many debates on the impact of corporate governance on firm performance and sustainability and the effectiveness of current corporate governance rules, principles, structures and mechanisms (Arora & Sharma, 2016).

Firm performance on the other hand as described by Dess, Stadtler and Whittington (2006) and Orayo and Ombaba (2017) is attributed to the effectiveness of a firm as a result of a more efficient internal processes and other outside actions. It is an important aspect in every organization as it is what ensures the going concern of a firm, attracts investors and ensures that an organization has that sustainable growth. According to Orayo and Ombaba (2017) a firm can track and measure performance in several extents such as monetary performance, client service, firm social duty and even worker stewardship. Monetary performance and growth are reflected on Return on investment or assets or value added among others.

In the current economic environment of on-going global financial and economic instability, microfinance lies at the heart of Africa's efforts at delivering inclusive socioeconomic development. Microfinance offers significant opportunities for African countries to fully unleash the private sector's potential and contribute to addressing emerging and long-lasting development challenges such as poverty, income inequality, high levels of unemployment, particularly amongst its youth, and the achievement of the UN Millennium Development Goals (MDGs). By developing services and industries, the African private sector will provide necessary services and generate employment opportunities necessary for transformative economic growth (UN, August 2010)

Due to the homogeneous nature of the Micro-Finance institutions in terms of their services and products range, most of them rely only on unique strategies to overcome the cutthroat competition in the market. One of these strategies is the relationship governance as stated by Wathne in 2004. The corporate governance applied in this micro finance institutions distinguished the performance among them and especially relationship governance. Relationship governance is the successful development of the trust with the external shareholders to build loyal customer relations. This positively impacts on the firm`s performance.

1.1.1 Corporate Governance Practices

According to Claessens and Yurtoglu (2012) the definitions of corporate governance are divided into two as either "narrow" or "broad". The narrow set of definitions concentrate on the internal mechanisms of corporate governance in ascertaining firm performance and maximizing shareholders benefits. Different scholars define corporate governance in different ways. Shleifer and Vishny (1997) define corporate governance as "the ways in which suppliers of finance to corporations assure themselves of getting a return on their investment". This definition is still relevant in our current setting and it is also in line with that of the Cadbury Committee (1992, para. 2.5) who defined corporate governance as a "system by which companies are directed and controlled". Millstein (1998) define corporate governance as the methods, structure and processes of a company in which the business and affairs are managed and directed. It also enhances the long-term shareholder value by the process of accountability of managers and enhances the firm's performance. The Organization for Economic and Development (OECD) describes corporate governance as a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined (OECD, 2004, p.11).

On the contrary, the broad set of definitions focus on the external institutional environment affecting a firm (Claessens & Yurtoglu, 2012). As stated by Cadbury (1999) corporate governance broadly is concerned with holding a balance between economic and social goals and between individual and communal goals. The aim being to align as nearly as possible the interests of individuals, corporations, and society. This definition precisely implies that corporate governance goes beyond the immediate internal corporate structures to include external corporate governance mechanisms and stakeholders. The definition is used mostly for cross national comparative analysis on corporate governance in order to examine how the country-level differences in specific characteristics would influence the behavioural features of firms, shareholders and stakeholders. According to Ntim (2018) the external corporate governance mechanisms may consist of the legal system, the market for managerial labour and corporate control, regulators, local communities, cultural, political, social and economic policies, and institutions within which corporations operate.

Azeez (2015) argues that board characteristics are an important governance mechanism in any organization. The directors are often mandated with the overall corporate governance implementation role in the organization. They are responsible for the strategic guidance and effective monitoring of management with accountability to shareholders (Tsui, 2010). Board characteristics are thus seen as the best measures of corporate governance for instance the board size and structure, board diversity and control (Arora & Sharma 2016; Machuki & Rasowo 2018). A single measure framework can be used to measure the corporate governance or a combination of the different characteristics.

Board size is defined as the number of directors serving in a board of directors of a firm (Arora & Sharma, 2016; Nawaz, 2017 and Pillai & Al-Malkawi, 2018) while the board independence is defined by the existence of external directors in the board (Aduda, Chogii, & Magutu, 2013; Silva & Leal, 2005). A firm ownership structure is the stipulation of the actual identity of individual and institutional shareholders of a corporation as well as the proportion of shares held by each shareholder, Demsetz and Lehn (1985). CEO duality refers to structure in which the position of the board chair and that of the firm's CEO is held by the same person (Yang & Zhao, 2014; Larcker & Tayan, 2011)

For the purpose of this study, the narrow definition of corporate governance was used. The study concentrated on the internal mechanisms of corporate governance in a firm and how they relate to firm performance. Corporate governance was thus defined as a system by which the corporates are directed and controlled (Cadbury Committee, 1992) and how that relates to performance in the Microfinance institutions in Kenya. Corporate governance was then measured by board characteristics which included; Board size, board independence, ownership structure and CEO-duality. The four characteristics are an importance measure of corporate governance as they cover all the aspects of a board of directors in terms of the best size fit, the diversity in the board and the control that the board has in an institution. It is a broad approach to measure corporate governance as opposed to using a single measure framework.

1.1.2 Firm Performance

Firm performance is an important aspect in every organization. Performance may be evaluated both in financial and non- financial terms (Mashayekhi & Bazaz, 2008). According to Rutagi (1997) financial performance is defined as to how well an organization is performing using financial measures indicators namely Return on assets (ROA), Return on equity (ROE) and Earnings per share (EPS). Financial performance is the employment of financial indicators to measure the extent of objective achievement, contribution to making available financial resources and support of the bank with investment opportunities (Heremans, 2007). Other researchers defined performance of the organization as the extent to which an organization achieves its intended outcome, (Namisi, 2002).

Firm performance is therefore a multidimensional concept and as such different scholars concede that there is no consensus concerning the choice of financial performance variables a firm can use. They argue that such measures fall into two broad categories: Investor returns and Accounting returns. Accordingly, three proxies are used to represent both categories: Return on assets (ROA), Return on equity (ROE), and Earnings per share (EPS) (Bhagat&

Black, 2002; Mashayekhi & Bazaz, 2008). Return on assets is computed as operating profit after tax, divided by total assets. Return on equity is defined as operating profit after tax, divided by total equity. Earnings per Share Net income divided by total number of shares.

However, to get a more holistic view of the real performance achieved by a firm, it is important for a firm`s performance measurement system to incorporate both financial and non-financial measures of performance (Whittington & Delaney, 2011). The Balanced Scorecard, developed by Kaplan and Norton (1992), is one of the most well-known models for balancing financial and non-financial performance measurements. It is a performance measurement framework that enables companies to set, track and achieve their key business strategies and objectives. The performance is tracked through the four perspectives of the balanced scorecard namely, Financial perspective, Customer perspective, Internal business process perspective and Learning and growth perspective.

Several studies on corporate governance practices and firm performance have used the financial measures indicators to measure performance (Dess et al., 2006; Azeez ,2015; Coleman, 2007; Owusu and Weir 2016; and Arora and Sharma 2016) while largely ignoring the non-financial aspect of performance. The current study bridged this gap by employing non-financial measures of performance on the balance scorecard, to examine the influence of corporate governance practices on firm performance. This is because the non-financial measures of firm performance example, Customer perspective, Internal business process perspective and learning and growth perspective are equally important as the financial measures. A high performance on non-financial performance measures is said to be positively related to future financial performance. In this way, non-financial performance measures can prompt the Board to take actions that benefit the firm in the long term (Banker, Potter, & Srinivasan, 2000).

1.1.3. The Micro-Finance Sector in Kenya

Microfinance, which is the provision of a variety of financial services to poor, low-income earners, micro, and small enterprises that lack access to banking and related services, is proving vital to empowering many communities Aleke (2003). Development experts have agreed that microfinances, when properly harnessed and supported, can economically empower individuals and small enterprises and enable them to contribute to and benefit from economic development. Microfinance enables clients to protect, diversify and increase their income, and build assets, thereby reducing their vulnerability to income and consumption shocks (Arun & Hulme, 2003; Armendariz de Aghion & Morduch, 2007)

Having access to financial services helps people improve their lives and work their way out of poverty. Microfinance institutions (MFIs) offer a range of services including loans, savings facilities, insurance, transfer payments, and even micro-pensions.

In Kenya the microfinance industry is split into two sets of institutions, those that are under Central Bank`s regulations and those which are not regulated by the Central Bank but still offer financial services and leading. The deposit-taking MFIs (DTMs) are regulated by the Central Bank and operate within the stipulations of the Micro Finance Act 2006. According to the Central Bank of Kenya bank supervision annual report (2018), there are 13 registered DTMs in Kenya and this sector registered a 4.7 percent growth in total assets in the year 2018. The other set comprises of the credit-only MFIs, which are non-deposit taking, they operate under the company`s Act and are not regulated by CBK as they lend their own funds. The credit-only MFIs is an emerging industry with an extremely high growth rate which has been fuelled by the interest rate capping in the traditional banks by the CBK and the huge demand for credit in the economy. It is a space that need to be watched in the near future. There is an on-going debate on how the CBK can also regulate the credit-only MFIs as they operate under the same environment with those under the regulation.

The Credit only MFIs covers the largest microfinance providers in Kenya and their portfolio yield as a group is much higher as portfolio is concentrated in core microfinance methodologies, AMFI Sector report (2017). The Microfinance Act 2006 mandates the cabinet secretary for finance to issue regulations for this category this is yet to be done. To harmonize the operations of the Microfinance institutions, an association has been established, the Association of Microfinance Institutions in Kenya (AMFI), a member-based organization. The association was established and registered in 1999 under the societies Act, with the aim to build the capacity of the Kenyan microfinance Industry. AMFI-K plays a major role in the development of the industry with a broad mandate of promoting a conducive environment for the development of MFIs, clients and the business environment.

Corporate Governance framework in Kenya started in 1999 when the Center for Corporate Governance Kenya developed a framework which was voluntary for companies to adopt (Nyamongo, 2013). The framework was further taken up by the Capital Markets Authority

(CMA) in 2000 as draft Corporate Governance practices for listed companies in Kenya. Thereafter, CMA has made it mandatory for the listed companies to adopt those Corporate Governance practices. These Corporate Governance practices mainly deal with the issues of the board such as board composition, role of audit committee, separation of the role of CEO and the Chair and the rights of the shareholders. Private owned companies are not mandated to follow this regulation they only do so voluntarily. In this light, this study assessed the relationship between this corporate governance practices and firm performance and whether their application in the Micro-Finance sector does relate to firm performance or can we afford to ignore them all together?

Notwithstanding the numerous challenges facing the sector, both the financial and governance, the main ones include the lack of clear and actionable strategic plans, the need for strategic leadership development, and a range of operational issues such as operational risk and loan repayments defaults (Robles, 2010). This has been evidenced in the last two years, Kenya has seen a collapse of Imperial Bank, Dubai Bank and Chase Bank (which has a controlling stake in Rafiki Micro-Finance bank). Panic over the collapse saw Rafiki Micro-Finance bank hit by a tide of withdrawals, forcing it to limit withdrawals. The failures were highly attributed to corporate governance challenges and conflicts of interests among the board members (Olingo, 2018, p.16)

This study focused on the deposit taking micro-finance banks registered in Kenya by the Central bank and Credit-only MFIs who are members of AMFI as per the 2018 report. With the rich economic potential of these institutions, corporate governance would be a key pillar to ensure that they engage in ethical business practices and to enhance firm performance and sustainability.

1.2. Statement of the research problem

The relationship between corporate governance practices such as the optimal board size, non-executive director representation, ownership structure and CEO duality and company performance has been the subject of many studies. This has been a well-researched topic in the developed countries context, especially on the listed firm. Studies done in the developed economise have found that better governance resulted in better performance. (Weir & Laing, 2000 in UK; Cui & Na., 2018 in Australia and Bhagat & Bolton, 2008 the USA) Additionally, studies on Corporate Governance show that good corporate governance is particularly important for developing economies (McGee, 2010; Agyemang, Otuo & Castellini, 2013; Robertson, Diyab & Al-Kahtani, 2013). Azeez (2015) investigated the relationship between corporate governance and firm performance in Sri Lanka. The study used Board Size, CEO duality, and proportion of non- executive directors as the corporate governance variables and EPS, ROA, and ROE were used as measures of firm performance. The findings of the study showed that board size is negatively associated with firm performance indicating that small boards are associated with higher firm performance, as they can closely monitor the management. The study also revealed that separation of the CEO`s role and the board chairman had a significant positive relationship with the firm performance. These findings contradict those of Arora and Sharma (2016) which revealed that larger boards are associated with a greater depth of intellectual knowledge, which in turn helps in improving decision-making and enhancing the performance. They also concluded that CEO duality is not related to any firm performance. Presence of non-executive directors on the board however had no relationship with firm performance. Azeez`s study only focused on 100 listed companies in the Colombo Stock Exchange and excluded Banking and Finance sector. Demirgüç and Levine (2004) suggested that the CG in financial sectors is different form non-financial sectors due to its nature and regulation. There seem to be mixed finding among different scholars in this context.

Locally, several studies on Corporate Governance especially in the public sector and firms listed in NSE exist. Machuki and Rasowo (2018) established the link between corporate governance and firm performance in sugar producing companies in Kenya and found that there is an overall positive and statistically significant influence of corporate governance practices on firm performance. The results are consistent with those of Ongore and Obonyo (2011) who also found a significant positive relationship between corporate governance and firm performance among 54 firms listed in the Nairobi Stock Exchange (NSE). None of these studies however addressed the private sector in our economy and neither did they use non-financial measures of performance.

It is quite clear that in terms of corporate governance practices, developing economies face issues that are different from those encountered in developed economies. Gurgler, Mueller and Yurtoglu (2003) argue that developing economies are more likely to have weaker corporate governance institutions than developed economies and will therefore experience less effective monitoring of management. Therefore, there is need to carry out studies which investigate the most important corporate governance indicators that have an influence on firm performance.

The studies reviewed are in public sector and the listed firms and to measure the firm performance, the studies have relied on the financial measures of performance. The current study extended this debate to the private sector among Micro-finance bank institutions in Kenya, an attempt to provide more empirical data in the local arena and use of non-financial measures of performance.

1.3. Objectives of the study

1.3.1 General objective

The general objective of the research study was to establish the relationship between corporate governance practices and firm performance among Micro-Finance Institutions operating in Kenya.

1.3.2 Specific objectives

The following were the specific objectives of the study:

i. To establish the relationship between the board size and firm performance among micro- finance institutions operating in Kenya.
ii. To determine the extent to which board independence influence firm performance among micro- finance institutions operating in Kenya.
iii. To determine the relationship between the ownership structure and firm performance among micro- finance institutions operating in Kenya.
iv. To determine the relationship between CEO-duality and firm performance among micro- finance institutions operating in Kenya.

1.4. Research questions

The research study seek to answer the following questions;

i. What is the relationship between the board size and firm performance among micro-finance institutions operating in Kenya?
ii. To what extent does the board independence influence firm performance among micro-finance institutions operating in Kenya?
iii. What is the relationship between the ownership structure and firm performance among micro- finance institutions operating in Kenya?

iv. What is the relationship between CEO-duality and firm performance among micro-finance institutions operating in Kenya?

1.5. Significance of the study

The findings of this study will help to lay emphasis on the most important corporate governance variables that may affect firm performance.

They will enable policy makers in the micro finance industry to identify gaps of the best corporate governance practices that may enhance firm performance. The policy makers will also be in a better position to develop the most effective corporate governance practices that directly impact firm performance.

To the practitioner, the finding of the study will provide useful insight on how to make informed decisions regarding corporate governance practices that may have a direct impact on firm performance. It will also shed light to the board and management on the good corporate governance practices that ensure a firm`s sustainability and that the shareholders objectives are meet.

To scholars, the study findings will be important in extending further the debate on the relationship between corporate governance practices and firm performance especially in the financial sector and privately- owned firms in Kenya's economy. It will contribute to the scholarly work in the following way: first, establishing relationship between the board of directors and the performance of the firm. For example: the number of independent directors and the role the independent director can play in the governance and contribute to the performance of the firm. Also, how the ownership structure and CEO-duality relate to firm performance.

1.6. Scope of the study

The study intended to establish the relationship between corporate governance practices and firm performance among micro-finance institutions in Kenya. The industry players that formed the population of the study were the microfinance banks in Kenya as listed by the CBK Bank Supervision Report (2018) and the Credit-only financial institutions who are members of AMFI. The study was undertaken in the year 2020 and it adopted a descriptive research design while questionnaires were used to collect primary data.

CHAPTER TWO

LITERATURE REVIEW

2.1. Introduction

The chapter reviewed existing literature in relation to corporate governance and firm performance. The key theories underpinning corporate governance were discussed, followed by prior research on governance and firm performance. Key areas covered in this chapter include; theoretical review, empirical review, conceptual framework and to conclude the section, a summary of the literature review with a brief discussion on the identified research gaps.

2.2. Theoretical Framework

This section discusses the theories supporting the study of corporate governance and firm performance. As evidenced by the theoretical review, corporate governance and firm performance is a multi-theoretical framework. Studies done on corporate governance and firm performance both in developed and underdeveloped economies have used different theoretical frameworks to support their studies some using two or more theories to bring out different viewpoints. This study was anchored on three theories namely: Resource dependency theory, Agency theory and Stakeholder theory.

2.2.1. Resource Dependency Theory

Resource dependency theory was advanced by Pfeffer and Salancik (1978) and suggests that organizations are dependent on external resources to better their performance. An example is board members of a firm may also be serving in other boards and therefore bringing in more diverse experience and skills. The theory views the board of directors as a resource to the firm and regards outside directors as particularly important as they can contribute relevant information and insights in the board. (Hillman Amy, Cannella Albert & Paetzold Ramona ,2000)

The resource dependency theory views agents as resources who provide social and business networks to a firm, it indicates that directors' presence on the board of other organizations is relevant to establish relationships to have access to resources in the form of information which can be utilized for the firm's benefit. Hence, this theory shows that the strength of a corporate organization lies in the amount of relevant information it has at its disposal. Resource dependence theory is used to explain board behavior (Aduda et al., 2013).

The theory was applied in this study to analyse board behaviour characteristics like existence of executive directors, ownership structures, board independence and CEO duality and how that translates to firm performance.

2.2.2. Agency Theory

Agency theory was first postulated by Alchian and Demsetz (1972) and later developed by Jensen and Meckling (1976). This theory has been applied in examining the nature of relationship that exists in a firm between the owners of the firm and the management employed to run the day to day activities of the firm (Machuki & Oketch, 2012; Ongore & Obonyo, 2011; Kand et al., 2015). Agency theory defines the relationship between the principal and the agent where the shareholders are the principals, the management is the agent who is hired to run the business on behalf of the principal (Jensen & Meckling, 1976). By delegating control to an agent, the principal expects the agent to act in a manner consistent with his or her interests (Jensen & Meckling, 1976). However, the theory implied that the agents left on their own, are driven by self-interest rather than willingness to maximize the shareholders' profits. This in turn led to some costs of monitoring and bonding which Jensen and Meckling (1976) termed as the agency costs. The agency costs are those costs that the principal has to incur to limit the activities of the agent and to ensure that the agents only acts in the interest of the principal. As suggested by Harris et al., (2017) the monitoring can be carried out by the full board, committees of the board and external auditors.

The strength of the agency theory is that it plays an essential role to explain the functions of a board directors in an organization (Vo & Nguyen, 2014). It was introduced to separate the owners from the management and to help reduce the individual interests through the introduction of an independent Oversight board. In the view of agency theory, the managers could not be trusted to act in the interest of shareholders, so they must be monitored by the board (Muth & Donaldson, 1998). Limitations of the agency theory is that is reduces a corporation to two participants; that is the management and shareholders (Clarke, 2004; Markkanen, 2015).

The agency theory was useful in this research as it helped emphasise the importance of the board of directors and an optimal board size, analyse CEO-Duality and the ownership structure.

2.2.3. Stakeholder Theory

Stakeholder theory developed by Freeman (1984), proposes that besides the shareholders of the company, many other parties directly or indirectly involved with the company needs value created for them Freeman (1994). Therefore, a corporate seeks to strike a balance between the interests of its diverse stakeholders (Arora & Sharma 2016). As opposed to the agency theory which reduces the corporation to two participants; that is the management and shareholders, stakeholder theory emphasizes that the sole responsibility of firms is value creation for all its stakeholders, i.e. suppliers, customers, employees and not just its stockholders Markkanen, (2015). According to Machuki and Oketch, (2012) the theory has a broad approach as it call for a pronounced management policy that attend to diverse stakeholders. The Stakeholder theories advocate for some form of corporate social responsibility, which is a duty to operate in ethical ways, even if that means a reduction of long-term profit for an organization (Jones, Freeman, & Wicks, 2002).

The strength of this theory is that the needs of all stakeholders are put into consideration, in its operations the company seeks to strike a balance between the needs of different stakeholders. It suggests that the performance of corporate cannot be measured only in term of gain to its shareholders but also through other key issues such as information flow, interpersonal relations and corporate social responsibilities.

The weakness of stakeholder theory is that most researchers find it to be fundamentally inconsistent and in violation of every organizations plan which is to focus on a single valued objective which is wealth creation or profit maximization for the shareholders. With emphasis on several stakeholders, managers are tasked with focusing on so many objectives of the several stakeholders which may lead to confusion and lack of purpose which will eventually affect the company's competitiveness and survival (Jensen 2001). This theory was important to the research study in analysing the ownership structure, the board independence and the relationship between the Board and other various important stakeholders to the firm that are affected by the firm`s .

2.3. Empirical Literature Review

This section of the chapter discusses the empirical studies on the corporate governance variable and their relationship with firm performance. The four major areas of focus included; board size, board independence, Ownership structure, and CEO-duality.

2.3.1. Board size and Firm Performance

According to Arora and Sharma (2016) board size is defined in terms of the number of directors serving on the board at a point in time. Past studies have operationalized board size as the number of directors on the board (Nawaz, 2017). The agency theory and the resource dependency theory offer fundamental support for an appropriate board of directors to control agency costs and provide valuable resources to the firm in the form of financial and capital, links to suppliers, customers and vital stakeholders. Agency theory tenets argue for smaller boards reasoning that as size increases, control and monitoring functions are impaired (Nawaz, 2017). Alternatively, the stakeholder theory perspective holds that a larger board facilitates greater balance thus promoting more effective decision making while increasing harmony between shareholders. Further, resource dependency theory supports larger boards in organizations. The theory posits that bigger boards have a more diverse skillset thus increasing the breadth of knowledge to harness the organization's performance (Van den, Berghe & Levrau, 2004).

Globally, the relationship between board size and firm performance has been studied extensively. While there have been suggestions for finding an association between the board size and corporate performance, no consensus exists as to the direction of this association. In Indonesia for instance, Handriani and Robiyanto (2019) found a positive relationship between board size and firm performance and explained these findings by stating that a firm with a large board size can make better decisions to improve firm performance and achieve firm value. Empirical evidence from the Gulf Cooperation countries (Bahrain, Kuwait, Oman, Qatar, Saudi Arabia and United Arab Emirates) shows a positive association between board size and firm performance (Pillai & Al-Malkawi, 2018). The researchers use the stakeholder theory to argue that a larger board has advantages such as sharing management, expertise as well as increasing the capacity to oppose illogical decisions by the CEO. A large board can offer benefits like better monitoring, a broader pool of knowledge and expertise, better network, more flexibility in scheduling committee meetings (Mohapatra & Pranati, 2017) This is an ongoing debate so long as the empirical evidence continue to reveal a conflicting set of results.

On the other hand, studies from China and Latin America show a negative association between board size and firm performance (Coles, Daniel & Naveen, 2008; Isik & Ince ,2016; Adams & Mehran ,2005; Boone, Casares, Karpoff & Raheja,2017). Such studies use the agency theory to argue that larger boards create agency costs, delays decision making and gives rise to the free rider problem all of which are adversarial to the firm's performance. These studies recommend firms to go for a small board size as a large board is likely to create communication and coordination problems, increase social roofing and all these issues adversely affect the board in its execution of its mandate as per the shareholders expectation. Therefore, on a global scale, the debate regarding the influence of board size on firm performance is still very lively.

In the African context, numerous studies have been conducted to assess the relationship between board size and firm performance. Like the global findings, there lacks a consensus on the influence of board size on firm performance in Africa. To illustrate, Waweru (2014) found a positive relationship between board size and firm performance and firm performance in South Africa while Munisi, Hermes and Randøy, (2014) found a negative association in the Sub Saharan Africa.

In Kenya, a plethora of studies have been conducted in different sectors to determine the relationship of board size and firm performance. In the mobile service industry, Mohamed and Atheru (2017) found a negative but significant effect on financial performance of firms in the telecommunications sector. Similarly, Chemweno (2016) found board size to be statistically insignificant to firm performance among NSE listed firms.

The CMA guidelines on Corporate Governance practices (2002) however provide that: "The size of the board should not be too large to undermine an interactive discussion during boarding meetings or too small such that the inclusion of a wider expertise and skills to improve the effectiveness of the board is compromised."

2.3.2. Board Independence and Firm Performance

Board independence is related to the availability of outside directors in the board of directors (Silva & Leal, 2005). According to the agency theory, the existence of independent directors enhances and improves firm's performance by offering the monitoring services without bias and offering their expertise to the firm's and shareholder's interest (Fama & Jensen, 1983b). The boards with independent directors can find the best resolutions to the agency problems between managers and owners as they are able to monitor the executive decisions (Lutfi, Iramani, & MellyzaSilvy, 2014).

However a different argument is postulated through the stewardship theory by different scholars who reported that a high firm performance is linked to insider directors as they are able to understand the business activity they govern better than outside directors and introduce superior decisions and competitive advantages into the business (Aduda et al., 2013; Albrecht, Albrecht, & Albrecht, 2004). Meanwhile, the resource dependence theory has another look to the board of directors' independence, it's the extent of usefulness of the board members that is based on the quality of the advice and counsel given to management and the quantity of resources made available to the firm and the CEO via the board members (Aduda et al., 2013).

Interestingly further studies have identified that the effect of board independence on firm performance may be dependent on the board size Bhatt and Bhattacharya (2015). According to Ramdani and Witteloostuijn, (2010) positive effect of board independence as the prediction of agency theory can be bigger if the board size is larger as opposed to a small board size. This argument is in consistence with that of Lipton & Lorsch (1992) and Jensen (1993). According to the agency theory perspective, greater proportion of outside directors on boards help in monitoring the conflict of interests between shareholders and managers (Agrawal and Knoeber, 2012; Daily et al 1999; Duchin et al, 2010; Fama and Jensen,1983; Shleifer and Vishny, 1997).

At a global scale, the evidence of the impact of independent board members on a firm performance remains inconclusive. Bhatt and Bhattacharya (2015) through their study of board characteristics impact on firm performance of listed firms of Indian information technology (IT) sector found no significant relationship between board independence and firm performance. Similar results were reported by Azeez (2015) on the study on performance of the listed companies in Sri Lanka who found no significant relationship between presences of non-executive directors on the board with firm performance. The study further suggested that mere presence of non-executive directors in the corporate boards is no guarantee of better performance or reducing agency conflict between shareholders and the management. In Switzerland, Beiner, Drobetz, Schmid, and Zimmermann (2004) found that board independence has a positive influence on firm performance. Board independence is one of the corporate governance strategies that improve corporate accountability and prosperity. For Chinese firms, (Kumar & Singh, 2013) found a negative relationship between outside directors and firm performance while studies in the USA, OECD countries and Spain found no relationship between outside directors and firm performance (Bhagat & Bolton, 2008; Rodriguez-Fernandez, Fernandez-Alonso & Rodriguez-Rodriguez, 2014; Anderson & Gupta, 2009).

Regionally, evidence is also non-conclusive regarding influence of board independence on firm performance. In an empirical study, Badu & Appiah (2017) examined the impact of board independence on firm performance using evidence from Ghana and Nigeria using a sample of 137 listed firms. The findings suggested a statistically significant and positive relationship between board independence and firm performance implying that in Ghana and Nigeria, increasing board independence improves firm performance. Locally, some studies (Shunu, 2017; Mohamed & Atheru, 2017) have found a positive relationship between board independence and financial performance especially among listed firms in Kenya. Further, Nga'ngá (2017) found a positive relationship between board independence and banks' financial performance.

2.3.3. Ownership Structure and Firm Performance

Firm ownership structure as defined by Demsetz and Lehn (1985) is the fraction of shares owned by a firm's most significant shareholders, with most attention being given by them to the fraction owned by the five largest shareholders. The ownership structure comprises the actual identity of individual and institutional shareholders of a corporation as well as the proportion of shares held by each shareholder. It is what defines the actual owners of a firm and who influences the decisions of the firm (Ongore & Obonyo, 2011). According to Demsetz (1983), the ownership structure of a firm should be thought of as an endogenous outcome of the decisions that reflect the influence of shareholders. A diffused ownership structure or a concentrated one, if brought about by shareholders, should be one that maximizes shareholder profit, so that, as a result, there should be no systematic relation between variations in ownership structure and variations in firm performance.

Global empirical evidence shows that large investors control listed companies using mechanisms aimed at creating a divergence between ownership and voting rights. Empirical evidence from non-Anglo-American countries shows that controlling shareholders address opportunistic behaviours of the top management and also expropriate minority shareholders increasing the risk of a principal-principal problem (Bhagat & Bolton, 2008). The use of such mechanisms negatively affects firm performance. In Saudi Arabia, Amin & Hamdan (2018) found a positive and statistically significant effect of ownership concentration on firm performance. Institutional ownership was found to have a positive effect on company performance, managerial ownership did not have a significant effect while foreign ownership was found to have a negative effect on company performance (Amin & Hamdan, 2018). Among Vietnamese firms, Phung and Mishra (2016) found a non-linear relationship between ownership structure and firm performance.

Findings from the studies in the sub-Saharan African mirror the inconclusive empirical evidence at the global scale. Most of the studies reveal that ownership concentration, foreign ownership and board structure of companies listed in Sub-Saharan countries are negatively associated with board size (Munisi, Hermes, & Randøy, 2014; Badu & Appiah, 2017). Government ownership in the Sub-Saharan countries is also associated with poor firm performance. In the Kenyan context, empirical evidence suggests that foreign ownership improves firm performance while family ownership is related to poor performance (Chemweno, 2016).

2.3.4. CEO-Duality and Firm Performance

CEO duality refers to a board leadership structure in which the Chief Executive Officer (CEO) is also the Chairman of the Board (COB), Yang and Zhao (2014). It is the practice of one person serving both as a firm's CEO and the board chair. The main question here is; does CEO duality contribute to or inhibit firm performance? The main argument against CEO duality is based on agency theory as it argues that CEO duality is bad for performance because it compromises the monitoring and control of the CEO. A CEO, as agent of shareholders, does not always act in the best interests of shareholders, the board of directors being the apex of the decision control system of corporations, entrusting the CEO with the position of the board chairman exemplifies the ultimate conflict of interest, (Yang & Zhao, 2014).

In contrast, the argument in favour of CE0 duality is anchored on the stewardship theory stating that CEO duality may be good for performance due to the unity of command it presents and also the unparalleled firm-specific information of CEOs and firms' ability to quickly respond to changing environments due to unified leadership (Brickley et al., 1997; Larcker & Tayan, 2011)

Empirical research evidence in this area has yielded mixed result. Yang & Zhao (2014) study using exogenous shock of Canada-United States Free Trade Agreement in 1989, concluded that duality firms performed better than non-duality firms when facing a changing competitive environment. The study attributed the result to saving of information costs and speedy decision-making process by a single leader. Zubaidah, Nurmala & Kamaruzaman (2009) on their study on board structure and corporate performance in Malaysia documented evidence that CEO duality can increase the effectiveness of the board. The study however used value added intellectual capital as proxies for firm performance which may have account for the difference in the outcomes.

Arora and Sharma (2015) found no relationship between CEO duality and firm performance, "CEO duality is not found to be related to any performance measure; thus, it does not seem to be a crucial determinant of firm performance" (Arora & Sharma 2015). A similar argument is raised by Lam and lee in 2008 who stated that neither agency theory nor stewardship theory can effectively explain the duality-performance relationship. Using the Hong Kong market data, (Lam & Lee 2008) found that CEO duality is perfect for small family businesses in Hong Kong while larger businesses needed to split the two leadership roles. Masood (2012) on the study of board characteristics and firm performance in the Construction & Material industry in Malaysia provided evidence that the CEO duality has a negative impact on firm performance, the study found that CEO duality decreases the effectiveness of the board of directors. Azeez (2015) found that the separation of the two posts of CEO and chairman has a significant positive relationship with the firm performance.

Although not many studies have been conducted in Kenya to examine the relationship between CEO duality and firm performance, the few studies have revealed a positive relationship between the two variables. In a study to examine the relationship between corporate governance and firms listed in the Nairobi Securities Exchange, Waweru (2014) found a positive relationship between CEO duality and financial performance. Similarly, Chemweno (2016) found a positive relationship among NSE listed firms.

2.4. Research Gap

From the existing literature, empirical studies done in Kenya on corporate governance have focused on different sectors and industries in the country's economy. It is worth noting that different findings have been arrived at depending on the theories used and the variables explored. Machuki and Rasowo (2018) in their study on corporate governance and performance among sugar producing companies in Kenya found that the corporate governance practices affected performance of the sugar companies although the degree of impact differed. Good corporate governance by the board of directors is recognized to influence the quality of financial reporting, which in turn has an impact on investor confidence (John & Senbet, 1998; Kemei, 2010). Although there is a growing body of cross-sectional evidence linking good governance to organizational performance, it remains an open question as to whether firms with good performance adopt good corporate governance practices or whether the adoption of good governance automatically leads to improved performance (Kemei, 2010). Prior studies have used financial measures of firm performance, yet the non-financial measures of firm performance are also way too important to be ignored.

A summary of the research gaps to be bridged by the current study are shown in Table 2.1.

Table 2.1: Summary of Literature and Research Gap to be bridged

Author	**Objective of the study**	**Findings**	**Research gaps to be filled**
Arora and Sharma (2016)	To examine the impact of corporate governance on firm performance for a large representative sample.	complying with good corporate governance practices can result to achieve higher accounting and market performance.	The study focused only on the manufacturing sector. There is need to apply the same variables in the financial sector.

Bhatt and Bhattacharya (2015).	To investigate the relationship between the various board characteristic measures, such as, board composition, board size, leadership structure and board activity, and accounting measures of performance.	A significant and positive relationship between board size and firm performance.	The study failed to give evidence to the aspect of agency theory linked to board independence and firm performance, the current study applied the Agency Theory as linked to board independence and firm performance.
Yang and Zhao (2014)	To establish the relationship between CEO duality and firm performance.	Duality firms outperform non-duality firms by 3–4% when their competitive environments change.	The authors used only one contract as a measure of corporate governance hence the need to use several constructs of corporate governance together board size, board independence and ownership structure.
Phung and Mishra (2016)	To examine the effect of ownership structure on firm performance	The study found a non-linear relationship between ownership structure and firm performance.	The study used only one construct of corporate governance. There is need to use other constructs of corporate governance example ownership structure and board size on firm performance.

Machuki and Rasowo (2018)	To examine the relationship between corporate governance practices and performance.	The study found a positive and statistically significant influence of corporate governance practices on firm financial performance. A combination of good corporate governance practices is responsible for a large percentage of good financial performance achieved	The study uses financial measures of performance only hence the need to use the non-financial measures of performance in the Kenyan set-up.

Source: Researcher (2020)

2.5. Conceptual framework

From the empirical review above, firm performance was identified as the dependent variable while the corporate governance practices represented by four variables; board size, board independence, ownership structure and CEO-duality were the independent variables in the study. Diagrammatical representation of the relationship among variables is shown in figure 2.1.

Figure 2.1: Conceptual Framework

Independent variable **Dependent variable**

Corporate governance

- Board size
- Board independence
- Ownership structure
- CEO-duality

Firm performance

- Customer perspective
- Internal business processes
- Learning and growth.

Source: Researcher (2020)

2.6. Operationalization of study variables

Operationalization of study variables entailed analysing how the study variables were measured. The independent variables in the study included the board size, board independence, ownership structure and CEO-duality, the dependent variable being the firm performance as summarized in table 2 below.

Table 2.2: Operationalization of study variables

Variables	**Measurements**			
Independent Variables			**Measurement**	**Source**
Corporate Governance	Board size	Board size is determined in terms of the number of directors serving on the board at a point in time. To measure the board size the number of directors will be grouped into 4 categories, 2-5, 6-10, 11-15 and above 16 members.	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Arora and Sharma (2016) Kohli, Jaworski andKumar (1993).
	Board Independence	The number of independent non-executive directors on the board.	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors.	Silva and Leal (2005)
	Ownership Structure	Ownership structure will be operationalized in terms of ownership concentration (percentage of shares owned by the top five shareholders) and ownership identity (actual identity of shareholders)	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Ongore and Obonyo (2011) Demsetz and Lehn (1985)
	CEO- duality	CEO- duality is the practice of one person serving both as a firm's CEO and the board chair. Duality will by establishing if the position of the Board chair and that of the CEO is held by the same person or the two are different individuals.	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Yang and Zhao (2014)
Dependent Variable				
Firm Performance	Customer perspective.	Organization specific target group in mind, namely its customers who it strives to meet their needs and expectations which change from time to time.	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Kaplan and Norton (1992)

	Internal business processes	Internal processes involve the valued adding activities an organization engages in to deliver value to its customers.	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Kaplan and Norton (1992)
	Learning & Growth	Continuous improvement and/or growth in a dynamic environment	5-point Likert- scale Using Strongly Agree and Strongly Disagree as Anchors	Kaplan and Norton (1992)

Source: Researcher (2020)

2.7 Chapter Summary

This chapter analyses the theoretical framework on corporate governance, different scholars have advanced the corporate governance study through different theories some suggesting the use of multiple theories, while it`s evident that the agency theory is the most used theory. Further analysis is done on the literature review focusing on the corporate governance practices, the review has narrowed down to board characteristics which includes board size, board independence, ownership structure and CEO-Duality. Finally, on analysis of the empirical literature, the chapter identifies the research gaps a major one being the lack of use of non-financial measures to measure performance. A conceptual framework has been developed on the study variables and how the variables were operationalized.

CHAPTER THREE

RESEARCH METHODOLOGY

3.1. Introduction

This chapter of the research study covers the research philosophy, a description of methods that were used to carry out the research and to analyse the research questions and objectives. The chapter discusses the research design, target population and sampling design, data collection methods and analysis, and how the data quality was tested and ethics issues in the research observed.

3.2. Research Philosophy

Research philosophy refers to the underlying belief and assumptions held by a researcher on the development of knowledge, the way data for a study should be collected, analysed and applied (Creswell, 2012). It defines the orientation of the person carrying out research. According to Burrell and Morgan (1979) every stage in the research process involves making some assumptions. These include epistemological assumptions, which relate to assumptions about human knowledge, or ontological assumptions about the realities encountered in research.

According to Saunders, Lewis, and Thornhill (2009) there are five major philosophies used in business and management. These are positivism, critical realism, interpretivism, postmodernism and pragmatism. The argument underlying positivism and realism is that the social world can be studied according to the same principles as the natural sciences (Creswell & Creswell, 2017). On the contrary, interpretivism argues that the principles of natural sciences cannot be used to study the social world (Creswell & Creswell, 2017). Postmodernism is largely a reaction against the intellectual assumptions and values of the modern period in the history of Western philosophy. It is characterized by broad scepticism, subjectivism, or relativism (Sheehan, P., 2004). On the other hand, pragmatism is based on the proposition that researchers should use the philosophical and/or methodological approach that works best for the research problem that is being investigated (Tashakkori & Teddlie 1998).

The study utilized a positivist philosophical view. The approach postulates that only factual knowledge gained through observation and measurement is trustworthy. In a positivist study, the researcher`s role is limited to the objectives collection and interpretation of data. To this end, a positivist view was very useful in objectively collecting and analyzing the data.

3.3. Research Design

According to Cooper (2006), a research design clearly states the structure of the research problem, outlines the relationship between the study variables and the research strategy used to obtain empirical evidence on those relationships. The design refers to the basic methods of collecting evidence. It is fundaments to the research as everything else ultimately flows from it, the research questions and theories (Vogt ,2012).

The study used a descriptive survey design which provides a quantitative or numeric description of trends, attitudes or opinions of a population by studying the sample of that population (Creswell & Creswell, 2017). From the sample, the researcher generalizes results to the population. A descriptive survey design was appropriate for the current study as it helped in quantifying the study variables like CEO duality and board size. The study also benefited from the rapid turnaround in data collection and the economy of a survey design. Additionally, the survey design was cross sectional meaning data was collected at one specific point in time.

3.4. Target Population

The study targeted micro-finance institutions in Kenya, registered and regulated by the CBK as well as the non-deposit taking micro-finance institutions registered with AMFI. The population thus comprised of 45 Microfinance institutions out of which 13 were deposit taking and regulated by the central bank of Kenya, CBK (2018) while the other 32 were those which submitted their annual reports to AMFI for the 2018 sector report (AMFI, 2018). The researcher targeted the Board members, Top managers and the Middle lever managers of the institutions as these were deemed to have the relevant information on the corporate governance and performance of their respective institutions.

3.5. Sampling Design

According to Adams, Khan, Raeside, White (2007) sampling is the process of selecting a suitable sample from a population under study for the purpose of determining characterises of the population. There are two basic sampling techniques: probability and non-probability sampling. Where every element of the population has an equal chance of being selected, that`s probability sampling while if sample units are selected based on personal judgement, then that is a non-probability sample method (Adams et al., 2007).

The sampling design used in this study was non-probability sampling in particular judgemental sampling. Judgemental sampling is a method of sampling where the researcher collects data from population members based on his own existing knowledge and judgement to participate in study (Cooper & Schilndler, 2006). Judgment sampling was deemed appropriate for the study as it allows the researcher to go directly to their target population of interest, increasing the relevance of the sample to the population of interest, as only individuals that fit particular criteria are included in the sample. It was essential for the sample to have a proportional representation of the different micro-finance institutions. The study targeted 180 respondents, a representation of 4 respondents from the 45 micro finance institutions. The respondents targeted were the Board members, CEO`s, Finance Managers and Accountants of the institutions as these were best placed to respond to questions on corporate governance and performance of their institution and were deemed to have the relevant knowledge. The targeted respondents are also considered the key drivers of corporate governance and performance in their respective organizations.

3.6. Data Collection

The research study collected primary data using self-administered questionnaires. The advantage of using the self-administered questionnaire method for primary data collection was that it gave the respondents enough time and at their convenience to respond to the questions, it is not an expensive tool for data collection, and it is not time consuming (Creswell & Creswell, 2017). The questionnaires were dropped at the respondent's offices and picked at a later date to ensure a high response rate. The downsides in using questionnaire method is that it may have low response rate, ambiguity of questions and lack of opportunity to probe respondents (Creswell & Creswell, 2017). To mitigate this drawback, the researcher had to use the following guidelines to maximize response rate: Questionnaires were carefully designed with a clear layout with simple instructions and explanation and enough time was allowed to the respondents (Cooper & Schindler 2001)

To gather all the relevant data required for the study, the questionnaire were designed into three sections. Section A covered the bio data of the respondent while section B asked questions on corporate governance specifically the firm's board size, board independence, ownership structure, CEO duality. Section C of the questioner asked questions on firm performance, the non-financial measures firm performance measured through a balance score card. This study also adopted a 5 point Likert scale approach, of statement ranging from strongly disagree to strongly agree in both section B and C of the questionnaire. According to Burrell and Morgan (1979) adopting a Likert scale on a research study ensures all the qualitative responses from the respondents are converted into a quantitative form for statistical analysis. The questions in section B and C helped in meeting the study objectives.

3.7. Analysis of Data

According to Orodho and Kombo (2002) data analysis is the process of examining data collected in relation to a research study with the aim of making inferences by extracting important variables, detecting any inconsistencies and testing the underlying assumptions. After data collection was done, the questionnaires were carefully screened for errors, incomplete and missing items and then organized, coded. Data analysis was done using descriptive statistics and multiple regression analysis through the Statistical Package for Social Sciences (SSPS). Descriptive statistics measures such as mean and standard deviation were first used to describe variable characteristics. Descriptive statistics helps to provide simple summaries about the study (Schindler, 2014).

Pearson product-moment correlation test was used to assess whether two variables are correlated and the strength and the direction of that relationship (Creswell & Creswell, 2017). In the current study, Pearson test was used to test whether the dependent variable (firm performance) is correlated with the independent variables (board size, board independence, ownership structure and CEO duality) and whether the correlation is positive or negative. According to Pearson correlation test ranges between -1 to + 1 where +1 indicates a perfect positive relationship, -1 indicates a perfect negative relationship (Creswell & Creswell, 2017).

The correlation test was then followed by multiple regression. Multiple regression is used to predict a continuous dependent variable based on more than two independent variables (Creswell & Creswell, 2017). In the current study, multiple regression helped to explain the extent to which each of the four independent variables (board size, board independence, ownership structure and CEO duality) explain the dependent variable (firm performance). The equation for the study was as follows:

$Y = \beta_0 + \beta_1 X1 + \beta_2 X2 + \beta 3X3 + \beta 4X4 + \varepsilon$

Where: -

Y = Non-financial performance of the micro-finance institution as measured by the Balance scorecard dimensions.

β_0 = Constant. It is the intercept explaining the level of performance. It is the Y value when the predictor values equal to zero.

$\beta 1$, $\beta 2$ $\beta 3$, $\beta 4$ = the regression coefficient representing the contribution of the independent variable to the dependent variable.

X1 = Board size

X2 = Board Independence

X3 = Ownership structure

X4 = CEO-duality

ε = Error Term, which represented variations in the model not explained by the independent variables (Model error).

3.8. Research quality

According to Cooper and Schindler (2011) the accuracy of data collected in a research largely depends on the data collection instrument`s validity and reliability. A good measurement tool is one which passes tests on validity, reliability and practicability. Research quality was measured using validity and reliability test, this was equally important to ensure that the research is credible, applicable and consistent. A pilot study was conducted so as to test for reliability and validity of the instruments. The questionnaire was shared with 5 respondents from of the micro-finance institutions and later refined to ensure reliability and validity.

3.8.1. Reliability

The reliability test measures the degree to which the measurement procedure is consistent in producing the same results on repeated trials, and is free from error (Cooper & Schindler, 2011). Reliability of the questionnaire used was tested through Cronbach's Alpha which measures the internal consistency. Cronbach's alpha was calculated by application of SPSS statistical software for reliability analysis. The value of the alpha coefficient ranges from 0-1 and may be used to describe the reliability of factors extracted from dichotomous and or multi-point formatted questionnaires or scales. The higher the value the higher the reliability of the data. Cooper & Schindler (2008) has indicated 0.7 to be an acceptable reliability coefficient.

Table 3.1 Cronbach's Alpha Values

VARIABLE	CRONBACH'S ALPHA
Board Size	0.769
Board Independence	0.797
Ownership Structure	0.848
CEO-duality	0.756
Firm Performance	0.844

Source: Researcher (2020)

Table 3.1 indicates that Cronbach alpha for all the variables under study were more than 0.7 and thus they were reliable.

3.8.2. Validity

Validity refers to whether or not an indicator or set of indicators devised to gauge a concept really measures that concept. To guarantee measurement validity in the current study, the researcher depended on existing theories to deduce hypothesis relevant to a concept (Creswell & Creswell, 2017). The theories that were used include resource dependency theory, agency theory and the stakeholder theory. The researcher also guaranteed convergent validity by comparing the measures of the concept to other measures that were developed by researchers in previous studies (Creswell & Creswell, 2017). External validity was guaranteed in the current study since the sample was a representative and as such, the results of the findings could be generalized to microfinance institutions in Kenya.

3.9. Ethical Considerations

Ethical considerations were put in place throughout the research, the researcher sought informed consent from the respondents informing them that the information they provided would be treated confidentially and used sorely for academic research purpose and no other purpose (Creswell & Creswell, 2017). The names of the respondents were not requested in the questionnaire to enhance confidentiality. The researcher personally administered the questionnaires, explaining to the respondents what the research entails and why it would be important for them to participate. Further, the use of pseudonyms to anonymize the specific organizations from which records were collected to eliminate the possibility of identification (Creswell & Creswell, 2017). The researcher also sought informed consent from the respondents by informing them orally of the purpose of the research, how the data would be used and that participating in the study was voluntary further, respondents were informed that all the data collected would be destroyed after writing the report. The researcher also applied for an ethical review approval with the Strathmore University Institutional Ethics Review Committee and NACOSTI research permit, which together helped to ascertain the credibility of the research study.

CHAPTER FOUR

DATA ANALYSIS AND INTEPRETATION

4.1 Introduction

In this chapter, details of information processed from data collected on the study of the relationship between corporate governance practices and performance of micro-finance institutions in Kenya are presented and interpreted to answer the research questions. The main data collection tool used was a closed ended questionnaire with five point Likert scale questions. The findings presented in this chapter explain the relationship between board size, board independence, ownership structure, CEO duality and the performance of micro-finance institutions in Kenya.

4.2 Response Rate

The study was conducted using a study population of 45 Microfinance institutions in Kenya with a target sample of 180 respondents representing 4 respondents from each Microfinance institution. Data collection was conducted over a period of three months. 180 questionnaires were issued, out of which 131 questionnaires were filled and returned representing a 72.78% response rate. 4 questionnaires were invalid as not all the questions were answer. The sensitivity of the financial industry in regards to giving information had an impact on the response rate as some of the financial institutions were not willing to provide any information in relation to their organization. The country`s lockdown and the curfew during the data collection period due to the covid-19 pandemic also prolonged the process of data collection and impacted on the response rate as most of the responded took long to fill in the questionnaire citing the reduced working hours while others were working from home therefore not accessible for the study. The 72.78% response rate is however considered satisfactory to make conclusions for the study. According to Mugenda & Mugenda (2003), a 50% response rate is adequate, 60% good and above 70% rated as very good.

4.3 Background Information

The first part of the questionnaire consisted of the basic information that describes the respondent's characteristics. This included Age category, Gender, Marital status, Position in the organization, number of years worked in the organization and the level of education of the respondents.

4.3.1 Age category

The respondents were asked to indicate their age bracket. The findings are presented below in table 4.1. The results indicated that majority of the respondents that is 40.46% were between the ages of 41-50 years, followed by 29.01% of the respondents who were between the ages 31-40 years. The rest that is 16.03% were in the age bracket of 26-30 years while only 2.29% where below 25 years. Those above the age of 50 years were 12.21%. These findings show that the board and management positions in the Micro finance industry in Kenya predominantly constitutes of older age group of 41 years and above which was taking 52.67% of the respondents. This could be due to the high level of skills and experience required to run such positions.

Table 4.1 Respondents Age

Age	Frequency	Percent (%)
25 years & below	3	2.29%
26 – 30 years	21	16.03%
31 - 40 Years	38	29.01%
41 – 50 Years	53	40.46%
Above 50 Years	16	12.21%
Total	**131**	**100%**

Source: Primary Data (2020)

4.3.2 Gender

The respondents were asked to indicate their gender. The findings are as shown in table 4.2. Results indicated that majority of the respondents 67.94 % were male while the remaining 32.06 % were female. These findings reveal that males are dominating in the management and board level in the Micro finance sector in Kenya.

Table 4.2 Gender

Gender	Frequency	Percent (%)
Male	89	67.94%
Female	42	32.06%
Total	**131**	**100%**

Source: Primary Data (2020)

4.3.3 Marital status

The respondents were asked to indicate their marital status. The findings are as shown in table 4.3. Results indicated that majority of the respondents 71.76 % were married while only a small percentage 28.24 % were single.

Table 4.3 Marital status

Marital Status	Frequency	Percent (%)
Single	94	71.76%
Married	37	28.24%
Total	**131**	**100%**

Source: Primary Data (2020)

4.3.4 Position in the Organization

The respondents were asked to indicate their position in the organization. The results are presented in table 4.4 below.

Table 4.4 Position in the Organization

Position	Frequency	Percent (%)
Board Member	34	25.95%
Top Management	43	32.82%
Middle Management	54	41.22%
Total	**131**	**100%**

Source: Primary Data (2020)

4.3.5 Years worked in the Organization

The study analysed the number of years the respondents had worked in the organization. The results are presented in table 4.5 below.

Table 4.5 Years worked in the Organization

Years Worked	Frequency	Percent (%)
0 – 1 year	12	9.16%
2 – 5 years	84	64.12%
6 - 9 Years	22	16.79%
10 Years & Above	13	9.92%
Total	**131**	**100%**

Source: Primary Data (2020)

The results on table 4.5 indicated that majority of the respondents 64.12% had worked with the institution for a period of between 2 to 5 years and another 26.71% had worked with the institution for over 6 years. Only a small percentage 9.16% of the respondents had worked less than 2 years. This goes to show that most of the top and managements levers in the micro finances were held by people who had served the institution for over two year. The relevant work experience of the respondents was key to responding to the research questions.

4.3.6 Lever of Education

The respondents were asked to indicate their highest level of education. The results are presented in table 4.6 below

Table 4.6 Lever of Education

Gender	Frequency	Percent (%)
Diploma	15	11.45%
Bachelor`s Degree	94	71.76%
Master`s Degree	22	16.79%
Total	**131**	**100%**

Source: Primary Data (2020)

The results indicated that most of the respondents had attained graduate lever qualification taking 71.76% while 16.79% were at Masters Lever, only 11.45% had Diploma courses. This shows the positions are held by well-educated people with vast experience.

4.4 Descriptive Results of Corporate Governance

The first variable of the study was the corporate governance practices in Micro-Finance Institutions in Kenya. The study sought responses from respondents in the Micro-Finance Institutions on the corporate governance practices currently in place. Specifically, the corporate governance practices under consideration were board size, board independence, ownership structure and CEO-Duality. The results are summarized in this section below.

4.4.1 Board Size

The respondents were asked to Indicate the number of members currently serving on the organization`s Board of Directors. The results are shown below in table 4.1

Table 4.7 Board Size

Board Members	Frequency	Percent (%)
2 – 5 Members	33	25.19%
6 – 10 Members	67	51.15%
11 - 15 Members	17	12.98%
16 and Above Members	14	10.69%
Total	**131**	**100%**

Source: Primary Data (2020)

A high number of the respondents representing 51.15% indicated that they had boards composed of 6-10 members, while 25.19% indicated a board size of 2-5 members. The results showed that a large number of the Micro-Finance Institutions have a small board size of between 2- 10 board members representing 76.34%. 12.98% indicated they have a board size of 11-15 members while only 10.69% of the respondents indicated of having a large board size of over 16 members. The results shows that small board size of between 2 to 10 board members are common among the micro-finance institutions in Kenya. Large board size are not favoured and only has a small representation of 12.98%

From the Likert scale questions in relation to the board size, the results are presented on table 4.8 below.

Table 4.8 Board Size

	N	Mean	Std. Deviation
Smaller board size enhance an organization`s operational efficiency.	131	4.2016	0.8164
Small board size make decision making much easy and fast in an organization.	131	4.3664	1.6790
Large board size is more adept in the provision of resources to an organization.	131	3.0382	0.7267
A large board size will bring in more expertise and experience to the board.	131	2.8092	0.4927
As the board size increases the control and monitoring functions of the board are impaired.	131	3.7252	1.3293

Source: Primary Data (2020)

The respondents strongly agreed that small board enhances operational efficiency with a mean of 4.2016 and a standard deviation of 0.8164. A high number of respondents also strongly agreed with the statement that small board size make decision making much easy and fast in an organization a mean of 4.3664 and a standard deviation of 1.6790. This indicate that majority of the respondents were contented with a small board size. However, respondents were neutral on the statements that a large board is more adept in provision of resources to the organization (mean=3.0382) and that a large board size brings in more expertise and experience to the board (mean=2.8092). Most of the respondents agreed that as board size increases the control and monitoring functions of the board are impaired a mean of 3.7252 and a standard deviation of 1.3293. These results implies that a small board size contributes to an enhanced operational efficiency and makes decision making much easier and faster in an organization. The results further suggest that as much as more expertise and experience of the board of directors may be minimal in a small board as opposed to a larger board, with increased board size the control and monitoring functions of the board become impaired.

4.4.2 Board Independence

The respondents were requested to indicate the presence of independent directors in their board and their number. The results are shown in table 4.9 below.

Table 4.9 Board Independence

Independent Directors	Frequency	Percent (%)
None	20	15.27%
1 – 4 Directors	83	63.36%
5 - 9 Directors	24	18.32%
10 – 15 Directors	4	3.05%
16 and Above Directors	0	0 %
Total	**131**	**100%**

Source: Primary Data (2020)

In respect to the presence of independent directors in the board, a high number of the respondents indicated presence of between 1 and 4 independent directors in their boards representing 63.36% of the respondents. 15.27% indicated they had no independent directors while 18.32 % had between 5 to 9 directors. Only 3.05% of the respondents indicated to having many independent directors between 10 to 15 and none had above 16 independent directors. These results goes to show the importance of having independent directors in a board while it is also very critical to limit their number, between 1 and 4 being an optimal number.

From the Likert scale questions in relation to the board independence, the results are analysed on table 4.10 below.

Table 4.10 Board Independence

	N	Mean	Std. Deviation
The number of Executive directors should be higher than the Non-Executive directors in the board.	131	3.6947	0.9947
The board is more independent when the proposition of outside directors increase.	131	2.6870	0.6744
Executive directors are in a better position to handle the affairs of the Organization since they have a deeper understanding of the Org`s operations.	131	3.0305	0.6844
Existence of Non-Executive directors in the board increases the board efficiency significantly	131	3.5267	0.8054
Executive directors in a board does improve the board`s accountability and prosperity.	131	4.3435	1.2655

Source: Primary Data (2020)

The Likert scale question on the existence of independent directors on the board, the respondents strongly agreed with the statement that the executive directors improves the accountability and prosperity of the board with a mean of 4.3435 and a standard deviation of 1.2655. They also agreed that non-executive directors increase the board efficiency significantly (mean=3.5267). However, respondents disagreed that the board is more independent when the proposition of outside directors increase a mean of 2.6870 and a standard deviation of 0.6744. The respondents were neutral on the statement of the executive directors being in a better position to handle the affairs of the Organization since they have a deeper understanding of the organizations operations (mean=3.0305). The respondents agreed the number of executive directors should be higher than the non-executive directors in the board (mean=3.6947). The results emphasis on the resourcefulness of the presence of independent directors in a board through improving the accountability of the board, however their number should also have a limit.

4.4.3 Ownership Structure

The third variable of the study examined the Ownership structure within Micro-finance institutions and the research findings are as listed on table 4.11 below;

Table 4.11 Ownership Structure

	N	Mean	Std. Deviation
A diffused ownership structure reduces the risk of principal – principle conflict in an organization.	131	4.2125	0.9865
The top shareholders of the firm have an influence on the strategic emphasis of the organization.	131	4.1144	1.0675
The top shareholders are an important driver of change and improvements in the organization.	131	3.9671	0.5643
A concentrated ownership structure can limit an organization to access of a wide variety of resources required for organization`s growth.	131	3.0175	0.7654

Source: Primary Data (2020)

A majority of the respondents strongly agreed that a diffused ownership structure reduces the risk of principal – principle conflict in an organization (mean=4.2125). They also agreed that the top shareholders of the firm have an influence on the strategic emphasis of the organization (mean=4.1144) and that the top shareholders are an important driver of change and improvements in the organization (mean=3.9671). This finding goes to show that top shareholders have an influence on the decisions made at the board level. However, respondents were neutral on the statement that a concentrated ownership structure can limit an organization to access of a wide variety of resources required for organization`s growth (mean=3.0175). These results therefore implies that the majority shareholders are the key drivers of corporate governance and strategy of an organization. It further shows that the key decisions which in turn may influence performance are affected by the top shareholders of a firm.

4.4.4 CEO-Duality

The respondents were tasked to analyse the extent to which having one person serving both as a firm`s CEO and the board chair influences firm performance. The status of this variable was rated on a 5 point Likert scale ranging from; strongly agree (5), Agree (4), neutral (3), disagree (2), strongly disagree (1). The result findings are as highlighted in table 4.12 below.

Table 4.12 CEO-Duality

	N	Mean	Std. Deviation
Having one person serving both as a firm`s CEO and the board chair, leads to high operational efficiency.	131	4.246	0.9106
The CEO, as agent of shareholders, always act in the best interests of shareholders.	131	4.1466	0.8522
CEO-Duality promotes unity of command and quick response to constantly changing business environment.	131	3.8126	1.1443
The CEO is more inclined to the reputation of the organization and takes responsibility all the time.	131	3.9412	1.2761
Entrusting the CEO with the position of the board chair can led to a conflict of interest in the organization.	131	4.2322	0.8765

Source: Primary Data (2020)

Majority of the respondents felt that having one person serving both as a firm`s CEO and the board chair, leads to high operational efficiency (mean=4.246). The respondents were neutral on the statement that the CEO, as agent of shareholders, always act in the best interests of shareholders (mean=4.1466) as well as that CEO-Duality promotes unity of command and quick response to constantly changing business environment (mean=3.8126). Even though the respondents agreed with the statement that a CEO is more inclined to the reputation of the organization and takes responsibility all the time with a (mean=3.9412), They also strongly agreed with the statement that entrusting the CEO with the position of the board chair can led to a conflict of interest in the organization (mean=4.2322). The results indicate that CEO-Duality has little or no major influence on an organization`s strategic direction, therefore it does not affect the organization`s business environment and well as performance in general.

4.5 Performance of Micro Finance Institutions

Section C of the questionnaire covered the dependent variable of the study the non-financial performance of Micro-Finance Institutions in Kenya. The respondents were tasked to analysis some of the key measures of non-financial performance in their institution. The measures under consideration included: Customer perspective, internal business processes and learning and growth.

The status of this variable was rated on a 5 point Likert scale ranging from; strongly agree (5), Agree (4), neutral (3), disagree (2), strongly disagree (1).

4.5.1 Customer Perspective

Table 4.13 Customer Perspective

Customer Perspective	**Mean**	**Std. Deviation**
Our organization has a robust and effective Customer service system in place.	4.5653	0.7564
Customer experience and satisfaction is of utmost importance in our organization.	4.2370	0.8564
We have a high customer retention rate and get new referrals from existing customers.	3.9164	1.2720
Overall		

Source: Primary Data (2020)

4.5.2 Internal Business Processes

Table 4.14 Internal Business Processes

Internal Business Processes	Mean	Std. Deviation
Our organization has an easy to follow standard operating procedure which ensure smooth running of business processes.	3.9117	1.1922
Our products are periodically reviewed to ensure they deliver the required customer value.	4.1264	0.8205
Our turn-around time of service delivery is prompt as scheduled	3.7290	1.2161
Overall		

Source: Primary Data (2020)

4.5.3 Learning and Growth

Table 4.15 Learning and Growth

Learning and Growth	Mean	Std. Deviation
Our workforce is well motivated and the compensation package is competitive.	3.7691	1.8264
The workforce efficiency is measured overtime and There is continues improvement.	3.9018	0.9876
Our organization has a good staff retention rate and growth of top performers through internal promotions.	4.0159	0.8476
Overall		

Source: Primary Data (2020)

From the study findings, greater part of the respondents concurred their organization had a robust and effective customer service systems as demonstrated by a mean of 4.5653 and that customer satisfaction was of utmost importance in the organization mean of 4.2370. This has as a result led to a high customer retention rate and getting new referrals from existing customers as show by a mean of 3.9164. The respondent also agreed their organizations had a good standard operating procedures which ensured smooth business running a mean of 3.9117. Products were periodically reviewed to ensure they deliver customer value indicated by a mean of 4.126 and turn-around time of service delivery was prompt as scheduled a mean of 3.7290.

In regards to workforce motivation and competitive compensation packages, the respondents were not all in agreement if the was in place and had a mean of 3.7691 and a std. deviation of 1.8264. The workforce efficiency was measured over time to ensure continues improvement and staff retention rate and growth of internal performers through internal promotions were notably high mean of 3.9018 and 4.0159 respectively. These results goes to show that the performance of the micro finance institutions in Kenya in terms of customer perspective, internal business processes and learning and growth was quite commendable as indicated by the results.

4.6 Inferential Statistics

Correlation and regression analysis were conducted to check on the relationships between the variables.

4.6.1 Results of Correlation Analysis

Table 4.16: Correlation analysis results

Firm performance	Pearson Correlation	1				
	Sig. (2-tailed)					
	N	131				
Board size	Pearson Correlation	.724**	1			
	Sig. (2-tailed)	.000				
	N	131	131			
Board independence	Pearson Correlation	.747**	.799**	1		
	Sig. (2-tailed)	.000	.000			
	N	131	131	131		
Ownership structure	Pearson Correlation	.590**	.585**	.575**	1	
	Sig. (2-tailed)	.000	.000	.000		
	N	131	131	131	131	
CEO-Duality	Pearson Correlation	.786**	.664**	.709**	.709**	1
	Sig. (2-tailed)	.000	.000	.000	.000	
	N	131	131	131	131	131
**. Correlation is significant at the 0.01 level (2-tailed).						

Source: Primary Data (2020)

From the outcomes of this research, it portrayed that a strong, positive relationship existed between the first variable of the study board size and firm performance as indicated by the value of 0.724, which is significant as its significance level was 0.00<0.05. There was also a strong and positive relationship between board independence and firm performance as indicated by the value of 0.747, the significant level value was 0.000 and hence significant as it is below 0.05.

There existed a strong positive relationship between ownership structure and firm performance as indicated by the correlation value of 0.590 and was termed significant at the p-value of 0.00 which was below 0.05. There was also a strong positive relationship between CEO-Duality and firm performance as indicated by the correlation value of 0.786 and was termed significant at the p-value of 0.00 which was below 0.05.

4.6.2 Results of Regression Analysis

The study used a multiple regression analysis to establish the extent of the relationship between the independent variable which is corporate governance and the dependent variable firm performance. The researcher used the statistical package for social sciences (SPSS V 21.0) software to input and compute the study's measurements of the multiple regressions. Coefficient of determination explains the extent to which changes in the independent variables (Board size, board independence, ownership structure and CEO-duality) explained the variations in the dependent variable (firm performance).
Below is a summary of how the various independent variables relate to the dependent variable.

4.6.3 Model summary

Table 4.16: Model summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.724[a]	.524	0.508	.06265

Source: Primary Data (2020)

a. Predictors: (Constant), Board size, board independence, ownership structure and CEO-duality.

b. Dependent Variable: Firm performance

The R squared of this model is 0.724 which shows that the model is a good fit of the actual data. The coefficient of determination of 0.524 implies that 52.4% of the variance in dependent variable is explained by changes in the independent variables.

Table 4.13 above shows the model summary of regressed variables of the study. The main aim of the study was to determine the relationship between corporate governance practices and performance of micro-finance institutions in Kenya. The correlation coefficient (R) value represents the degree and strength of relationship between dependent variable and the independent variables. Coefficient of correlation ranges between -1 and 1 and in this model the coefficient of correlation is 0.724 which indicates a positive correlation between board size, board independence, ownership structure and CEO-duality. The R Squared is the coefficient of determination which indicates how much of the total variation in the dependent variable. The regression analysis showed that 52.4% *-R2=.524* of the variations in performance of micro-finance institutions in Kenya are determined by the corporate governance practices. From the above the R squared statistic indicated that the model was a good fit based on the real data.

Table 4.17 ANOVA Summary

Model		Sum of Squares	Df	Mean Square	F	Sig.
1	Regression	.019	3	.006	3.597	.000b
	Residual	.016	4	.004		
	Total	.034	7			

Source: Primary Data (2020)

a. Dependent Variable: Firm performance

b. Predictors: (Constant), Board size, board independence, ownership structure and CEO-duality.

The findings of the ANOVA model sought to examine the statistical significance of the model in determining the association between the study variables. The results indicated that the f statistic = 3.597, p-value = .000<.005 indicating that the model was statistically significant and fit in determining the relationship between corporate governance practices and performance of micro-finance institutions in Kenya.

Table 4.14: Coefficients

Model	Unstandardized Coefficients	Standardized Coefficients	t	Sig.
	B	Std. Error		
(Constant)	7.232	0.367	6.87	0.000
Board size	0.724	0.032	4.08	.001
Board independence	0.712	0.025	4.22	.000
Ownership structure	0.643	0.044	4.87	.003
CEO-Duality	0.423	0.061	4.85	.004

Ybt = 7.232 + 0.724$X1$+ 0.712 $X2$+ 0.643 $X3$+ 0.423 $X4$

Source: Primary Data (2020)

As seen from the regression model, an additional unit in board size would result to a 0.724 rise in firm performance; a unit change in board independence will increase firm performance by 0.712. An additional unit of ownership structure would lead to an increase in firm performance by 0.643 while a unit change in CEO-duality would lead to an increase in firm performance of by 0.132 and vice versa. A significance level of 5% was used in the analysis. The technique used for comparison of significance of the predictor variables was by comparing the value of probability and α=0.05.If p< α, predictor variable was significant and vice versa. In the model, predictor variables had probabilities below 0.05 and were therefore significant since α=0.05. The models indicates that board size and board independence are the two variables which case a significate change on firm performance with any slight change.

4.6.4 Board size and firm performance

On the board size, the regression model below indicates that when board size changes by one unit firm performance will increase by 0.724. The model further showed that firm performance

is a function of a constant value of 7.232 and board size (0.724).

Ybt = f (7.232 + 0.724X1)

Where;

Predictors: (Constant) and Board size

Ybt = Firm performance

4.6.5 Board independence and firm performance

The model indicates that when board independence changes by one unit firm performance increased by 0.712. The model further showed that firm performance is a function of a constant value of 7.232 and board independence (0.712).

The model is as shown below;

Ybt = f (7.232 + 0.712X2)

Where;

Predictors: (Constant) and board independence

Ybt = Firm performance

4.6.6 Ownership structure and firm performance

Further, the study analysed the influence of ownership structure on the firm performance. The model revealed that when the ownership structure value changed by one unit the firm performance increased by 0.643. The model showed that firm performance is a function of a constant value of 7.232 and ownership structure (0.643).

The model is as shown below;

Ybt = f (7.232 + 0.643X3)

Where;

Predictors: (Constant) and ownership structure

Ybt = Firm performance

4.6.7 CEO-duality and firm performance

The study analysed further on the influence of CEO-duality on the firm performance. The results of the model revealed that when the CEO-duality value changed by one unit the firm performance increased by 0.423. The model showed that firm performance is a function of a constant value of 7.232 and CEO-duality (0.423).

The model is as shown below;

Ybt = f (7.232 + 0.423X4)

Where;

Predictors: (Constant) and CEO-duality

Ybt = Firm performance

4.6.8 Board size, Board independence, Ownership structure and CEO-duality on Firm performance.

The general regression model showed that at any given time, firm performance will be 7.232 when all the predictor values are zero. The model indicated that when board size changed by one unit the firm performance increased by 0.724. When board Independence changed by one unit the firm performance increased by 0.712. In addition, when the ownership structure changed by one unit the firm performance increased by 0.643.

Further, the study findings revealed that when the CEO-Duality value changed by one unit the firm performance increased by 0.423. The general regression model showed that firm performance is a function of a constant value of 7.232, board size (0.724), board independence (0.712), ownership structure (0.643) and CEO-duality (0.423).

It is as summarized below.

Ybt = 7.232 + 0.724$X1$+ 0.712 $X2$+ 0.643 $X3$+ 0.423 $X4$

a. Predictors: (Constant), Board size, board independence, ownership structure and CEO – duality.

b. Dependent Variable: Firm performance

The study findings revealed that corporate governance influenced firm performance in the Micro-finance institutions in Kenya. However, board size and board independence had more influence on the firm performance compared to the ownership structure and CEO-duality, which had the least influence on the firm performance of micro-finance institutions in Kenya.

4.7 Summary of Findings

The study analysed the relationship between corporate governance practices and performance of micro-finance institutions in Kenya. Four of the key pillars of corporate governance in a firm including Board size, board independence, ownership structure and CEO-duality were examined. From the respondents, there was a clear indication that four pillars of corporate governance influenced the performance of micro-finance institutions in Kenya. However, board size and board independence played a major role than the other two.

CHAPTER FIVE

DISCUSSIONS, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

This chapter provides the major findings of the research study, discussion of research findings, summary, conclusion and recommendation of the main findings on the study and further research.

The research findings were derived from the analysis and interpretation of the data collected where the questions and responses were based on the objectives of the study and the research questions. The findings have been discussed in details and a summary is given to capture the essence of the study. The conclusion highlights the lessons from the study followed by a recommendation section and the limitations of the study. At the end, areas of further studies are given.

5.2 Discussions

The aim objective of the study was to establish the relationship between corporate governance practices and firm performance among Micro-Finance Institutions operating in Kenya. The research findings have some similarities with prior studies while some of the findings contradicts findings in relation to particular corporate governance practices and firm performance. The findings are discussed below in line with the research specific objectives.

5.2.1 Board size and firm performance

The first variable of the study examined the board size of the Micro-Finance Institutions in Kenya and how it relates to firm performance. The study found that majority of the Micro-Finance Institutions had a small board size of between 6 to 10 board members. The respondents agreed that the small board size enhances operational efficiency and makes decision making easy and fast in the organization. This implies that board size in a major aspect affecting non-financial performance in Micro-Finance Institutions in Kenya. The findings are in line with those of Nawaz (2017) which found a positive relationship between board size and firm performance and urged for a small board size. The findings indicated that as board size increases, control and monitoring functions are impaired (Nawaz, 2017).

The respondents were neutral on the statements that a large board is more adept in provision of resources and that it brings in more expertise and experience to the board. Large board size was not supported in the Micro-Finance Institutions in Kenya. This findings opposes the resource dependency theory that supports larger board size in organizations implying that bigger boards have a more diverse skillset thus increasing the breadth of knowledge to harness the organization's performance (Van den, Berghe & Levrau, 2004).

The results of the correlation analysis indicated that there is a positive and significant effect of board size to performance in the Micro-Finance Institutions. Machuki and Rasowo (2018) in their study on corporate governance and firm performance in sugar producing companies in Kenya similarly concluded that there is a positive and statistically significant influence of board size on firm performance. These findings shed more light on the importance of the board size and how that relates to firm performance. A small board size has been found to improve fast and quality decision making in an organization as opposed to where the board size is large.

5.2.2 Board independence and firm performance

The second variable examined the board independence within the Micro-Finance Institutions in Kenya. Majority of the respondents indicated the presence of independent directors on the board. The findings implies that the respondent Micro-Finance Institutions had independent boards. This finding is in line with good governance practice (Beasley, 1996; Uzun et al., 2004). This means that Micro-Finance Institutions in Kenya have adopted good governance practice by electing independent directors to their boards. The respondents agreed with the statement that the executive directors improve the accountability and prosperity of the board also increasing the board efficiency significantly. The respondents disagreed with the statement that the board is more independent when the proposition of outside directors increase also indicating that the number of executive directors should be higher than the non-executive directors in the board.

The results of the correlation analysis indicated that there is a positive and significant effect of board independence on the non -financial performance measures in the Micro-Finance Institutions in Kenya. These findings are in line with Badu & Appiah (2017) who found a statistically significant and positive relationship between board independence and firm performance using evidence from Ghana and Nigeria using a sample of 137 listed firms.

5.2.3 Ownership structure and Firm performance

The study further revealed that the top shareholders of Micro-Finance Institutions in Kenya have an influence on the strategic emphasis of the organization and are an important driver of change and improvements. They also have an influence on the decisions made at the board level. Majority of the respondents supported a diffused ownership. However, they were neutral on the statement that a concentrated ownership structure can limit an organization to access of a wide variety of resources required for organization`s growth.

The study reveals that there is no significance relationship between the ownership structure of a firm and the non-financial performance however the owners of a firm influences the decisions of the firm (Ongore & Obonyo, 2011). The ownership structure also impacts on conflict of interest (Demsetz ,1983). This has not been found to have a direct relationship to a firm non-financial performance.

5.2.4 CEO-duality and Firm performance

Kenyan Micro-Finance Institutions exercise separation of the role of the Executive director and chairman of the board as elicited by the research findings. This response implies that majority of the Micro-Finance Institutions have no CEO duality. However, Majority of the respondents felt that having one person serving both as a firm`s CEO and the board chair, leads to high operational efficiency, they were also in agreement with the statement that entrusting the CEO with the position of the board chair can led to a conflict of interest in the organization. It has been established from the study that CEO duality has no significant relationship with the non-financial performance of a firm. Similar findings have been obtained in other studies by Meme (2012) and Ouna (2014), who found no CEO duality in governance studies on NGOs in Somalia consortium and NGOs in Kenya. The similarities in the findings of this study with other studies emphasises more on the fact that CEO duality may not have an implication on the non-financial performance of a firm.

5.3 Conclusions

The study sought to establish the relationship between corporate governance practices and performance of micro-finance institutions in Kenya. The research objectives focused on the extent to which board size, board independence, ownership structure, and CEO duality influenced the non-financial performance of micro-finance institutions in Kenya. The study concluded that board size significantly affects the non-financial performance in micro-finance institutions in Kenya. Small board size has been associated with enhancing operational efficiency and decision making as well as improved monitoring.

Similarly, board independence has also a significant role in the non-financial performance. Presence of executive directors improves the accountability and prosperity of the board. The board independence significantly affects the non-financial performance of micro-finance institutions in Kenya.

The study further concludes that ownership structure, and CEO duality are not very significant in explaining the non-financial measures of performance in micro-finance institutions in Kenya.

5.4 Recommendations

The board of directors are mandated with the overall corporate governance implementation role in the organization as they are the key drivers. Two main board characteristics, the board size and board independence stand out to be the most important.

To the Board of Directors, the study gives the following recommendations, the results of the study reveals that the presence of good corporate governance practices provides a firm with structures that ensure checks and balances. The effectiveness of this structures is well reflected through the firm performance and the long-term sustainable value of the firm. The board size was significant in explaining a firm`s performance. The study recommends a small board size consisting of a maximum of 10 members. Small board size has been found to be more effective in monitoring the management and are quick in effective decision making. The presence on independent directors in the board also has a positive correlation to firm performance. The study recommends Executive directors to the board with a maximum of 4 members. Independent directors are able to monitor board behaviour without bias and can also offer extensive experience to the firm and the shareholder’s interest. Diversity is recommended in the appointment of the executive directors in order to encourage independent decision making which as well enhances effectiveness.

The study has expounded more on the knowledge on corporate governance practices particularly the optimal board size, the study further recommends on presence of independent directors on the board and lastly the on recommendation that CEO-duality does not affect firm performance. On firm performance, the study also recommends the use of non-financial measures of performance which are also equally important measures of performance in an organization.

The study recommends to the regulators and policy makers in the micro finance sector to give guidelines on the optimal board sizes as indicated by the study and also to lay emphasis in the importance of independent directors on the board. The independent directors help increases accountability of a board of directors and its credibility of its operations.

5.5 Limitations of the study

The study focused on the Micro-Finance Institutions operating in Kenya and due to the sensitivity of the information especially on governance structures and performance, some of the firms were not willing to disclose this information. Another limitation was time constants during the data collection period. It was during the lockdown period due to the Covid 19 pandemic in the country and most of these institutions were operating on minimum time during the day. Some of the senior management we operating form home therefore not accessible. This created a delay in the data collection process.

The limitation of scope as the study did not factor in all the corporate governance variable, the finding may be limited to the variables factored in, board size, board independence, ownership structure and CEO-duality.

5.6 Recommendation for further studies

The study assessed the relationship between corporate governance practices and firm performance among Micro-Finance Institutions operating in Kenya, the study makes recommendations for further analysis on the internal or external corporate governance practices in other sectors of the economy in Kenya example the agriculture sector.

The study used non-financial measures of firm performance to assess the dependent variable, further studies are recommended using the financial measures in different sectors of the economy so that reliable information can be depicted on the corporate governance practices. The study also suggests use of different tools of data collection such interviews and focus group discussions to further elaborate more on corporate governance structures and their relation to firm performance.

The study does not focus exhaustively on all the variables of corporate governance, future studies can broaden the scope and definition of governance to include the broad definition of corporate governance and other internal and external mechanisms of corporate governance.

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APPENDICES

APPENDIX I: Introductory letter.

Ole Sangale Rd, Madaraka Estate
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Strathmore
UNIVERSITY
BUSINESS SCHOOL

30 January 2020

TO WHOM IT MAY CONCERN

Facilitation of Research for Njora Julius Nyiri Student No. 113633

Mr. Njora Julius Nyiri is a postgraduate student in our Master of Commerce (MCom) programme. In partial fulfilment of the MCom degree, students are required to carry out a research project and write a thesis on a contemporary subject within their field of specialisation. Among other activities, the project involves data collection and analysis.

Julius is requesting to gather information to be used in his research. The information he will obtain from your organization will be used for this academic purpose only and will be kept confidential. The results of the survey will be in summary form and will not disclose any individual, company name or company information in any way.

Our MCom seeks to establish links with industry, and one of these ways is by directing our research to areas that would be of direct use to industry. We would be glad to share the findings with you after the research, and we trust that you will find them of great interest and of practical value to your organization.

The research study is entitled **"The relationship between corporate governance practices and firm performance among microfinance institutions in Kenya."**

We appreciate your support and shall be willing to provide any further information if required.

Yours faithfully,

Quindos Karanja
Master of Commerce (MCom)
Strathmore University Business School
Email: qkaranja@strathmore.edu

Strathmore University Business School is a proud member of:

Association of African Business Schools AABS EFMD AACSB

APPENDIX 2: Questionnaire

QUESTIONNAIRE

This questionnaire is designed for the purpose of collecting data for a research study on The Relationship between Corporate Governance Practices and Firm Performance among Micro Finance Institutions in Kenya. You are requested to participate in this study which is voluntary. The information provided here will be used solely for academic purposes and will be treated with utmost confidentiality.

Questions will only take 20 minutes to complete. Your participation will be highly appreciated.

Instructions

Please answer the following questions in Section A, B and C by placing a tick (√) in the space provided or by filling in the necessary details in the spaces provided.

SECTION A: BASIC INFORMATION

1. Age:

☐ 25 years & below ☐ 26 – 30 years ☐ 31 – 40 years ☐ 41 – 50 year

☐ above 50 years

2. Gender:

☐ Male ☐ Female

3. Marital status:

☐ Single ☐ Married

4. Position in the organization:

☐ Board Member ☐ Top Management ☐ Middle Management

5. How long have you been working in the organization?

☐ 0 – 1 year ☐ 2 – 5 years ☐ 6 – 9 years ☐ 10 years & above

6. What is your highest level of education?

☐ Diploma ☐ Bachelor's Degree ☐ Master's Degree

Other (specify)……………………………………………………………………………..

SECTION B: CORPORATE GOVERNANCE

This section aims at determining corporate governance practices in Micro-Finance Institutions in Kenya.

Board Size

7. How many members currently serve on your organizations 'Board of Directors?

☐ 2 – 5 ☐ 6 – 10 ☐ 11 – 15 ☐ 16 and above

Please indicate the extent to which you agree with the following statements based on a scale of 1 to 5.

Key: 1-Strongly Disagree 2-Disagree 3-Neutral 4-Agree 5-Strongly Agree.

	Board Size	1 **Strongly Disagree**	2 **Disagree**	3 **Neutral**	4 **Agree**	5 **Strongly Agree**
8.	Smaller board size enhances an organization`s operational efficiency.					
9.	Small board size make decision making much easy and fast in an organization.					
10.	Large board size is more adept in the provision of resources to an organization.					
11.	A larger board size will bring in more expertise and experience to the board.					
12.	As the board size increases the control and monitoring functions of the board are impaired.					

Board Independence

13. How many independent board members are currently present on your BOD?
(An independent director is one who does not take part in the day to day running of the MFI).

☐ None ☐ 1 – 4 ☐ 5 – 9 ☐ 10 – 15 ☐ 16 and above

	Board Independence	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
14.	The number of Executive directors should be higher than the non-executive directors in the board					
15.	The board is more independent when the proposition of outside directors' increase					
16.	Executive directors are in a better position to handle the affairs of the Organization since they have a deeper understanding of the org`s operations					
17.	Existence of non-executive directors in the board increases the board efficiency significantly					
18.	Executive directors in a board does improve the board`s accountability and prosperity.					

	Ownership Structure	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
19.	A diffused ownership structure reduces the risk of principal-principal conflict in an organization.					
20.	The top shareholders of the firm have an influence on the strategic emphasis of the organization.					
21.	The top shareholders are an important drivers of change and improvements in the organization.					
22.	A concentrated ownership structure can limits an organization to access of a wide variety of resources required for organization`s growth.					

	CEO-Duality	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
23.	Having one person serving both as a firm's CEO and the board chair, leads to a high operational efficiency.					
24.	The CEO, as agent of shareholders, always act in the best interests of shareholders.					
25.	CEO-Duality promotes unity of command and quick response to constantly changing business environment.					
26.	The CEO is more inclined to the reputation of the organization and takes responsibility all the time.					
27.	Entrusting the CEO with the position of the board can led to a conflict of interest in the organization.					

SECTION C: PERFORMANCE OF MICRO FINANCE INSTITUTIONS

This section aims at determining the non-financial performance of Micro-Finance Institutions in Kenya.

Instructions

Please answer the questions by placing a tick (√) in the space provided as appropriate in relation to your organization.

	Customer Perspective	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
28.	Our organization has a robust and effective customer service system in place.					
29.	Customer experience and satisfaction is of utmost importance in our organization.					
30.	We have a high customer retention rate and get new referrals from existing customers.					

	Internal Business Processes	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
31.	Our organization has an easy to follow standard operation procedure which ensure smooth running of business processes.					
32.	Our products are periodically reviewed to ensure they deliver the required customer value.					
33.	Our turn-around time for service delivery is prompt as scheduled.					

	Learning and Growth	1 Strongly Disagree	2 Disagree	3 Neutral	4 Agree	5 Strongly Agree
34.	Our workforce is well motivated and the compensation package is competitive.					
35.	The workforce efficiency is measure over time and there is continues improvement.					
36.	Our organization has a good staff retention rate and growth of top performers through internal promotions.					

Thank you for your time

APPENDIX 3: List of Deposit - taking Microfinance banks

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

Source; CBK BANK SUPERVISION ANNUAL REPORT (2018)

APPENDIX 4: List AMFI Members Credit-only MFIs

1. AAR Credit Services
2. Agakhan First Microfinance Agency
3. BIMAS Ltd
4. Blue Limited
5. Canyon Rural Credit Limited
6. ECLOF Kenya
7. Fusion Capital Ltd
8. Greenland Fedha Limited
9. IndoAfrica Finance
10. Jitegemea Credit Scheme
11. Jitegemee Trust Limited
12. Juhudi Kilimo Company Limited
13. Micro Africa Limited
14. Micro Enterprises Support Fund (MESPT)

15. Microensure Advisory Services
16. Molyn Credit Limited
17. Musoni Kenya Ltd
18. Ngao Credit Ltd
19. One Africa Capital Limited
20. Opportunity International
21. 0ikocredit
22. Platinum Credit Limited
23. Real People
24. Rupia Limited
25. SISDO
26. Springboard Capital Ltd
27. Swiss Contact
28. Ushindi bora ltd
29. Vision Fund Kenya
30. Women Enterprise Fund
31. Yehu Microfinance trust
32. Youth Initiatives - Kenya (YIKE)

APPENDIX 5: Ethical Clearance Approval

Final Decision Certificate

This document certifies that the study:

"THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PI PERFORMANCE AMONG MICRO FINANCE INSTITUTIONS IN KE

Principal Investigator: Mr. Njora, Julius Nyiri
Reference number: SU-IERC0737/20

Was reviewed and received the following status:
"done"
Additional Comments: Final decision: **approved**
Comments sent:

Reviewer #1:
'The applicant should make the minor comments and submit for quick review sinc

APPENDIX 6: NACOSTI Permit

REPUBLIC OF KENYA

NATIONAL COMMISSION FOR SCIENCE,TECHNOLOGY & INNOVATION

Ref No: 906426

Date of Issue: 21/April/2020

RESEARCH LICENSE

This is to Certify that Mr.. Julius Nyiri Njora of Strathmore University, has been licensed to conduct research in Nairobi on the topic: THE RELATIONSHIP BETWEEN CORPORATE GOVERNANCE PRACTICES AND PERFORMANCE OF MICRO FINANCE INSTITUTIONS IN KENYA for the period ending : 21/April/2021.

License No: NACOSTI/P/20/4819

906426

Applicant Identification Number

Director General
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