EFFECTS OF BOARD CHARACTERISTICS ON THE OUTREACH PERFORMANCE OF MICROFINANCE INSTITUTIONS IN KENYA

By

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DECLARATION

I declare that the work in this dissertation has not been previously published or submitted elsewhere for award of a degree. I also declare that this is my own original work and contains no material written or published by other people except where due reference is made and author duly acknowledged.

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Signature: ……………………… Date: ………………………………………

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ABSTRACT

This study sought to examine the effects of board characteristics on the performance of MFIs in Kenya, largely on account of outreach performance. The specific objectives of this research include; to examine the effect of gender composition, board vigilance, and board independence on the outreach performance of MFIs, controlling for the effects of MFI type, size, and board size. The study will be important to the shareholders and management of MFI's in Kenya. The study will inform the management of these organizations on the specific corporate governance mechanisms they need to put in place to ensure that their respective firms perform optimally. The study adopted a descriptive research design targeting a population of all the 43 MFIs registered by AMFI - Kenya. A census survey was used. A self – construct data set of all the 43 MFIs in Kenya was developed and used to collect secondary data for 2013. Additional information was collected using structured questionnaires. Data was analysed using descriptive statistics and inferential statistics on SPSS version 20; and summarised using percentages, means, standard deviations and frequencies. The information was presented using tables and figures. The findings showed that Board Independence, Gender Composition, and Board Vigilance all had a positive effect on Outreach Performance (Breadth). Qualitative analyses showed that board characteristics have an effect on firm performance, compliance, culture, fairness, and efficiency. The study recommends measures of board characteristics and firm performance to be enhanced to include more quality indicators and control variables. The Researcher further recommends that the study og governance charateristis be extended to the entire financial services sector in Kenya.

Key words: Microfinance Institutions, governance, performance of microfinance institutions.

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DEDICATION

I wish to dedicate this research to my daughter Marjorie for allowing me to be absent when she needed me most in her tender age. I also dedicate this paper to my late Dad for the love he had towards education and was a great motivation to me in the undertaking of this course. I am sure he would have come for my graduation, if he was still alive, but let him rest in peace.

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ACRONYMS AND ABBREVIATIONS

AMFIK	Association of Microfinance Institutions in Kenya
ANOVA	Analysis of Variance
CBK	Central Bank of Kenya
CEO	Chief Executive Officer
IPO	Initial Public Offering
MFI's	Microfinance Institutions
NGO's	Non-Governmental Organisations
OSS	Operating Self Sufficiency
ROA	Return on Assets
SACCOs	Savings and Credit Cooperative Societies
SME's	Small and Medium Microenterprises
SPM	Social Performance Measures

TERMS AND DEFINITIONS

Microfinance Institutions	Micro-finance Banks, Commercial Banks which focus on microfinance, Credit only Microfinance Institutions, Wholesale Microfinance Lenders, Developmental Institutions, Insurance companies (micro-finance), and SACCOs (CBK, 2015).
Governance	Characteristics, systems of people and board processes that keep microfinance institutions on track in terms of financial and outreach performance (The Microcredit Summit Campaign, 2015).
Performance of MFI's	Ability of MFI's to reach more deserving (female poor) customers (Microfinance Market Outlook, 2015).

CHAPTER ONE: INTRODUCTION

1.1. Background of the Study

MFI's have a real chance to increase access to finance for micro and small enterprises in Kenya. Access to finance has been seen to be the key constraint to the growth and performance of many micro enterprises most of which are in the informal sector. Recent findings indicate the enterprises in this informal sector rank access to finance highest among the constraints they face (Safavian, 2013). Other constraints cited in the Safavian study include access to electricity, access to land, and corruption.

The Kenya Government and development stakeholders in the private sector, both at national and international level, and scholars reckon that the microfinance approach is a key instrument in the development of the informal enterprises and poverty alleviation. MFIs are seen to contribute to the growth of Small and Micro-Enterprises (SMEs) in Kenya through the provision of trainings, micro-credit services, and micro-saving accounts (Osoro & Muturi, 2013; Kisaka & Mwewa, 2014). In an analysis done by Morduch & Haley (2002) on the effects of microfinance on poverty reduction, it was found that MFIs have a 'beneficial effect' on income smoothing and increases in income; however there are doubts about MFIs capacity to reach the poorest of the poor. The poor have benefitted both economically and socially from microfinance. Provision of microcredit has contributed to poverty alleviation through offering of affordable loans to the poor. The poor use the finances to start income generating activities, access to health and education services, and improve their wellbeing (Nyakambi, 2014). Chowdhury(2009) argues that microfinance has not only played a key role in providing safety net and consumption smoothening, but also enabled its borrowers develop innovative business and management strategies.

In a recent survey done by FinAccess (2013), the proportion of the adult population using different forms of the formal financial services was found to have increased from 41.3% in 2009 to 66.7% in 2013 while at the same time the proportion of adult population totally excluded from financial services had declined from 31.4% to 25.4% in the same period. Globally, as of end of December 2013, out of the 114 million total poorest borrowers from Microfinance institutions worldwide, 94 million were women (The Microcredit Summit Campaign, 2015). The high number of women clientele and other marginalized communities necessitates a deliberate focus on MFIs particularly how they are managed and governed.

Since 2005, when the United Nations declared it the International year of Microcredit, MFIs have reported tremendous growth. Data by Microfinance Information Exchange shows that from 2006 to 2008 the average total assets in the industry expanded by 56%. During this period, average gross loan portfolio increased from $27.3 million to $49.9 million. The average number of active borrowers shot from 73 thousand to 106 thousand. Despite the impressive growth of the industry, most MFIs continue to struggle to survive. The MFIs that are deemed successful are those that operate profitably and efficiently meet the regulatory requirements (Microfinance Market Outlook, 2015).

The reputation of MFIs has been under attack for reasons such as: increasing focus on size and profitability; decline in lending standards; and the perception that MFIs are abandoning their original commitment to poverty alleviation in favour of financial profit (CSFI, 2011). The quality of MFIs board (in terms of composition, vigilance and independence) needs to be sufficiently high to provide the much needed leadership to navigate the challenges faced at every stage of MFI evolution. The Microfinance Banana Skins report (2014) identifies quality of management and governance, funding and control of credit as the major challenges that the microfinance sector has struggled with for a couple of years in order to address the demands of the evolving market. Although the report acknowledges other newer risks arising from the

evolution of microfinance, they are considered long-term, thus has not been given much attention by the industry players. Over-indebtedness of microfinance clients ranks directly and indirectly as the highest risk perceived to be facing microfinance institutions (CSFI, 2014). Surplus lending capacity, lack of professionalism within MFIs and the emphasis on growth and profit at the expense of prudence are cited in the report as the major causes of over-indebtedness.

Governance plays a critical role in the performance of MFIs both at the national and global levels. Countries which have transparent pricing and efficient dispute resolution mechanisms in their MFI sector rank highly in terms of performance of the regulatory and business environment (The Economist Intelligence Unit, 2015). Heavy government involvement in the MFI sector is seen to interfere with fair and competitive microfinance environment.

Microfinance provision is no-longer the preserve of purpose-built institutions whose sole mission is to provide access to microfinance. The industry has attracted players such as commercial banks, insurance companies, money transfer institutions and technology companies. This has led to increased competitive pressures in the industry. Unlike these 'new' players, the traditional microfinance institutions, despite being in critical stage of their development, have not given sufficient attention to strategic issues such as technology, new product designs, and client management (CSFI, 2014). Microfinance have increasingly become part of the global financial system, and this according to Wagner (2010) has made them to be indistinguishable from traditional banking, as they are all exposed to crises in domestic and global financial markets. In contrast to commercial banks, most MFIs have a two pronged objectives of reaching out to the poor customers (social objective) and covering long-term costs (sustainability objective). The formal banking sector has over the years regarded the social objective as risky and not commercially viable (Omino, 2005).

1.1.1. MFIs in Kenya

The Microfinance sub-sector has many stakeholders including grass root organizations and NGOs who practise some form of microfinance business in Kenya (Omino, 2005). The Ministry of Finance has made progress in engaging the stakeholders to create an enabling environment to enhance the effectiveness in the provision of savings, credit and other financial services to the poor and SMEs. The major challenges the industry players face in Kenya include: weak institutional reforms, inadequate governance and management capacity, limited outreach, unhealthy competition, limited access to funds, bad reputation and lack of performance standards (Omino, 2005).

Governance in a microfinance context has been broadly defined as the system of people and processes that keep an MFI on track and through which it makes major decisions (CMEF, 2005). Governance guides an entity's strategic goals, maintains organizations health, and ensures accountability at all levels. The key external actors in MFI governance have been identified as: regulators, funders, communities, clients, and employees; while the internal actors include: board of directors, management, and internal audit team (CMEF, 2005).

Good governance is critical in any industry to enhance continued peak performance and align organizational policies and procedures with its strategic goals. Pistelli, Geake, and Gonzalez (2012) observe that for governance to be strong, the board should represent key stakeholders, maintain a significant degree of independence, and have the collective knowledge and experience necessary to meet the strategic demands. The board should also be committed to organize and attend meetings frequently and enhance achievement of both the strategic and operational goals (Pistelli, Geake, & Gonzalez, 2012). In order for MFIs boards to excel in outreach performance, Mori et al (2015) asserts that independent members should be added to the board. Such membership enhances the board's capacity and capability to monitor performance, provide expertise, knowledge, and improve access to funding. It has been noted

that board diversity in terms of skills and expertise, more women board members, and separation of CEO and Chairperson's positions not only increases MFI's financial sustainability but also betters relations with other stakeholders (Chenuos, Mohamed, & Bitok, 2014). Bassem (2013) argues that the quality of governance has the potential of reducing both the operational risk (increasing repayment performance) and security risk (i.e. reducing incidences of theft, fraud) in MFIs.

The microfinance industry in Kenya comprises of: Micro-finance Banks, Commercial Banks which focus on microfinance, Credit only Microfinance Institutions, Wholesale Microfinance Lenders, Developmental Institutions, Insurance companies (micro-finance), and SACCOs. Prior to 2005, Microfinance institutions in Kenya were registered and regulated under different legislations namely: The Non-Governmental Organizations Co-ordination Act; The Building Societies Act; The Trustee Act; The Societies Act; The Co-operative Societies Act; The Companies Act; The Banking Act; and the Kenya Post Office Savings Bank (KPOSB) Act. In 2006, the Central Bank of Kenya enacted the Microfinance Act, 2006 (Amended in 2013) and the Microfinance (Deposit Taking Institutions) Regulations 2008 to give the legal, regulatory and supervisory framework for microfinance banks in Kenya. Micro-credit facilities offered by credit only MFIs remain substantially unregulated.

By end of 2015, there were 12 institutions licensed by Central Bank as microfinance banks (popularly known as deposit taking microfinance). Deposit-taking MFIs are categorized into community microfinance institutions, restricted to operate within a specified region; and nationwide microfinance institutions, licensed to operate countrywide. A nationwide deposit-taking MFI is required to maintain a minimum capital of at least Kes.60 million for a nationwide MFI, while the requirement for a community MFI is Kes.20 million. Deposit-taking MFIs must maintain a minimum holding of liquid assets of twenty per cent of all its deposit liabilities, and insider lending cannot exceed 2% of the core capital and aggregate of 20% of

core capital. Each year, a deposit-taking MFI must submit to the Central Bank an audited balance sheet, showing its assets and liabilities; an audited profit and loss account; and a copy of the auditor's report.

Although comprehensive regulations for Non Deposit Taking Microfinance Institutions (otherwise known as Credit –only institutions) are still being developed (CBK, 2015), they are self-regulated by the Association of Microfinance Institutions (AMFIK). AMFIK is a member organization established in 1999 under the Society's Act. For an institution to be eligible for AMFIK membership, it must demonstrate it is offering micro-finance services to the poor, demonstrate clear intent to become sustainable, have a minimum of 500 clients a year, and demonstrate management capacity to effectively manage their operation in accordance with internationally accepted principles. As of December 2013, AMFIK had 43 registered member institutions serving over six million customers. The study will focus on the registered MFIs since they publish performance data annually in a standardized format as required by AMFIK.

In 2009, a Financial Sector Regulators Forum was established under a Memorandum of Understanding to foster cooperation, share information and enhance policy coordination among financial regulators in Kenya comprising: CBK, Capital Market Authority (CMA), Retirement Benefits Authority (RBA), Insurance Regulatory Authority (IRA) and Sacco Societies Regulatory Authority (SASRA) with the National Treasury as an observer. The forum shares regular updates on the performance of the financial sector, its risks and vulnerabilities, and outlines policy recommendations to enhance stability of the financial sector.

1.2. Statement of the Problem

Governance has assumed an increasing important role in the microfinance industry, especially at a stage in its evolution when MFIs are facing heightened scrutiny of its effectiveness in attaining the two pronged goal of outreach and sustainability. The problem being addressed in

this study is outreach performance of MFIs attributable to board characteristics. Strong governance not only contributes to robust growth of MFIs, but also deters any chance of mission drift (MicroSave, 2005). Strøm, D'Espallier, & Mersland, (2014) observe that since the bulk of MFI customers are women, having female leadership improves the financial performance of MFIs. Findings show that while board diversity improves sustainability of MFIs (Chenuos, Mohamed, & Bitok, 2014; Bassem, 2013), and outreach performance (Hartarska, 2004), external auditing and performance based compensation affects outreach only (Hartarska, 2004). Managers' experience is seen to have an effect on outreach performance only and not sustainability of MFIs (Hartarska, 2004).

While some governance aspects such as board diversity seem to work, more analysis and investigation is needed to better understand the effect of board characteristics on performance of MFIs in Kenya. Previous studies undertaken in this area have mainly focused on financial performance of MFIs (Chenuos, Mohamed, & Bitok, 2014; Bassem, 2013). Although Mori et al (2015) examined the effect of board composition on social performance of MFIs in East Africa, the study building on microfinance literature used rough proxies of outreach performance.

This study will investigate effects of board characteristics on MFIs outreach performance to vulnerable populations in Kenya. The components of governance examined include: gender composition, board vigilance, board independence and board deversity. Understanding the mechanisms under which governance affects performance will help MFI leaders make necessary adjustments to their governance policies and practices so as to sustainably achieve peak performance in their social mission of outreach to vulnerable communities.

1.3. Objectives of the study

The purpose of this study is to examine the effects of board characteristics on outreach performance of MFIs in Kenya.

The specific objectives include the following:

i. To examine the effect of gender composition in MFI boards on outreach performance of MFIs in Kenya
ii. To determine the effect of board vigilance on outreach performance of MFIs in Kenya
iii. To assess the effect of board independence on the outreach performance of MFIs in Kenya

1.4 Research Questions

i. What is the effect of gender composition in MFI boards on outreach performance of MFIs in Kenya?
ii. How does the board vigilance affect outreach performance of MFIs in Kenya?
iii. To what extent does board independence affect the outreach performance of MFIs in Kenya?

1.5 Significance of the study

The study will be important to the shareholders and management of MFI's in Kenya. The study will inform the management of these organizations on the specific governance mechanisms they need to put in place to ensure that their respective firms perform optimally.

The study will be useful to regulators and policy makers in the microfinance industry in Kenya as it will inform them of the aspects that require policy restructuring and incentives to boost the overall performance of the industry.

Different scholars and researchers will benefit from the findings of this study to advance their works. The recommendations will form a basis for their investigations.

The study will contribute to the general health and wellbeing of MFI customers in Kenya. The envisaged improved MFI operations will result to appropriate products and services to the right clientele.

1.6 Limitation of the study

The model used in analysis does not capture potential endogeneity and/or reverse causality hence scholars and researchers need to be cautious while using the findings of the study.

The study is limited to MFI's in Kenya which are registered with AMFIK by March 2013. There are several other MFI's which are operational yet they are not registered with AMFIK.

The secondary data used in this study is self-reported by the institutions. Different institutions use different methods and standards in compiling their annual reports.

1.7 The Scope of the Study

The study investigates the effects of governance characteristics on the performance of MFI's in Kenya. The study focuses on all the 43 MFIs registered by AMFI - Kenya. The study was conducted between June and September 2017.

1.8 Organisation of the Study

Chapter one entails the background of the study, statement of the problem, purpose of the study, specific objectives, research questions, significance, limitations, and the scope. Chapter two covers the introduction, theoretical framework, related empirical literature on governance mechanisms and performance of MFI's, as well as the conceptual framework. Chapter three contains the research design, target population, data collection method, and data analysis.

CHAPTER TWO: LITERATURE REVIEW

2.1 Introduction

The literature review is organized in subheadings starting with the review of theoretical literature, critical literature, summary and gaps to be filled and the conceptual framework. Various sources of information including journal articles, books, and government documents, among others have been used to review the literature.

2.2 Review of Theoretical Literature

2.2.1 Agency theory

This theory has made momentous contributions in establishing the framework of organizational management. Agency theory explains the relationship between the principal (firm owners) and the agents (board of directors). According to this model, the principal contracts the agent and mandates him to act on his behalf in pursuit of his desired outcomes. In real life situations however, the agent's interests might conflict with the principal's goals. The reasons for the conflict could be their differences in goals, risk preferences, leadership philosophies, regulation mechanisms, among others (Eisenhardt, 1989). The principal can limit the tendency for the divergence of interests and goals by giving the agent more incentives, and incurring more costs in quality assurance.

According to Hill & Jones (1992) the board of directors may distort the information about the firm and mislead the shareholders, thus it is necessary for the shareholders to be vigilant in enhancing monitoring and control mechanisms that will help safeguard the interests of all the parties. These mechanisms may include establishing effective by-laws, hiring a highly competent governance organs, encouraging diversity in the firm and promoting a culture of excellence. All these need to be part of the firm's policies and procedures to guide staff at all levels, and be reviewed periodically based on the firm's experiences.

The major limitation with the agency theory is that it views the board members as being motivated solely by pursuit of self-interest. Bruce, Buck, & Main (2005) observe that board independence has an impact on corporate performance and that the board members need to be independent to pursue their personal interests while at the same time pursuing the interests of all the shareholders. The challenge for most firms is getting the agents to work in such a way that they pursue their self-interests in tandem with the interest of the principal.

This theory supports the view that board members act mostly based on self-interest and thus most agency theorists tend to advocate for limiting board independence in order to improve performance. This theory is relevant in this study which aims to establish the effect of board independence on the performance of MFIs.

2.2.2 Stakeholder theory

The continued existence and performance of the firm will ensure that the stakeholder's interests are safeguarded. The main categories of stakeholders identified include the employees, financiers, customers, and communities. Through the use of the universal principles of duty of care and the firm's governing instruments such as the constitution and procedures governing board operations, the stakeholders can hold the managers and executives to account on the firms operations to foster its continued existence or seek recourse in case their interests are violated (Freeman, 1984).

The stakeholder theory not only expands the definition of firm owners to include all the stakeholders but also places the burden on the management to ensure that interests of all the stakeholders are safeguarded. According to this theory, it is the responsibility of the management to be committed to selecting activities and directing resources to the advantage of all the legitimate stakeholders (Donaldson & Preston, 1995). The shift from shareholders to

stakeholders is dreaded to encourage managers to focus on self-interest on account of purportedly serving the broad range of interest groups (Donaldson & Preston, 1995).

The stakeholder theory was further revised to reflect the idea that the art of business is value creation and that managers need to be engrossed in value creation while the stakeholders focus on trading with the firm such that the resultant relationship is that which is defined by an exchange of value (Freeman, Wicks, & Parmar, 2004). The creation of value to the stakeholders determines the performance and success of an institution, and there is need for organisational leaders to be clear on corporate governance mechanisms that create an enabling environment for value addition and trading.

This theory supports the view that the board is mandated to create value for a broad range of stakeholders. The bulk of MFI customers are women and it can be argued that women directors would represent their interests better as compared to men. Also, in as much as board members represent a given category of stakeholders, it is required that they operate independently when discharging their duties. Thus the relevance of the theory to this study is largely in exploring how the board characteristics of gender, vigilance and independence affect the process of value creation in MFIs as informed by the stakeholder theory.

2.2.3 Stewardship Theory

The stewardship theory argues that institutions' managers and executives of a firm need to be empowered to take autonomous responsibility as stewards of the stakeholder's resources, rather than being controlled by the firm's owners through incentives. When the shareholders facilitate the board to undertake its roles effectively, the shareholder's returns will be high and the managers will be motivated by the mutual empowering relations between them and the shareholders (Donaldson & Davi, 1991).

Unlike the agency theory which sees the agents pursuing self-interest, self-serving and are opportunistic, the stewardship theory sees the managers and executives as acting on collective interests, trustworthy and reliable (Davis, Schoorman, & Donaldson, 1997). The implication of this view is that the independence of the board of directors is secured such that the shareholders are less likely to control it and meddle with its operations. Also, in firms that subscribe to stewardship theory, in most cases they have the CEO – Chair duality as they see no much value in separating the roles of the CEO and the board chair (Donaldson & Davi, 1991).

Governance structures that are facilitative and empowering are seen to contribute to improving performance as compared to restrictive – manipulative structures (Madison, 2014). Facilitative governance structures develop steward behaviours among the managers and executives and enhance firm performance. Specifically, managers and executives are seen to be motivated by the inherent need to perform, gain utmost satisfaction through excellent achievements amidst challenging work environments and therefore gain recognition from the owners and other relevant stakeholders.

Unlike the agency theory which views the board members as ‘suspect’, the stewardship theory holds that board members when adequately facilitated and empowered, will act in the interest of the good of all interested parties. Board members are seen as the stewards of the firm’s resources and thus they allocate it in such a way that it will achieve optimal performance. When board members are diverse experienced, skilled and vigilant, they are keen to ensure that the firm’s performance excels in both the outreach and sustainability. This study seeks to test this assertion by examining the stewardship of board members by being diverse and vigilant to protect the interests of all stakeholders and how this affects MFIs outreach performance.

2.3 Empirical Review

2.3.1 Gender composition and performance of MFIs

Studies have reported a direct relationship between gender composition in boards and firm's outcomes. The studies note that gender composition in boards act as a signal to both internal and external stakeholders of the value the entity places on hiring, retaining and advancing the rights of all gender (Rahman & Post, 2010). However the mechanisms through which gender composition influences financial and outreach performance of MFI's has received limited attention.

Zaruki (2012) tracked the changes in gender composition and the performance of 228 Initial Public Offering (IPOs) companies in Malaysia in the periods: a year prior to IPO, IPO year and then three (3) years after the IPO. The study found that the female comprised 8% of the total board membership in the year prior to the IPO; and that the percentage increased to 10.5% three years after the IPO. The findings showed that a greater percentage of women in company boards led to lower longrun underperformance as evidenced by return on investment. The situation was worse for companies that had larger representation of women who are foreigners. Farrell & Hersch (2005) observed that companies are increasingly adding women into their boards not necessarily to improve their performance, but in a bid to meet the internal and external pressures of embracing board diversity. When firms satisfy the minimum expectations of gender diversity, they are seen not to be keen on adding more women in the board.

Pletzer, Nikolova, Kedzior, and Voelpel (2015) observe that if other factors such as age, education, tenure are not considered, mere addition of women in corporate boards does not lead to improve financial performance of the institutions. The study adopted a systematic literature search of twenty (20) peer reviewed academic journals covering a total of 3097 companies. The companies were classified into two groups as per their countries, based on economic development status and on national income status. Female representation was measured as a

percentage of women in the company's board. Firm performance was measured in terms of Return on Assets (ROA). The study concludes that since the addition of more women to corporate boards does not adversely affect the performance of companies, women directors need to be included for ethical reasons. The findings are consistent with Strøm, D'Espallier, & Mersland (2014) that whereas female CEO and female chairperson has a significant positive relationship with MFI's performance, a female director has no effect. In other studies, it has been observed that the presence of women in boards may actually reduce the firm's value (Ma & Tian, 2014). However Bassem (2009) observes that a higher proportion of women in the board enhances performance, and the more they are, the better for the institution.

In a study that explored the relationship between board composition and outreach performance of MFI's, Mori, Golesorkhi, Randøy, & Hermes (2015) observed that adding more independent, international, female board members improves the board's expertise in monitoring, capacity to understand the needs of the poor and linkages with resource providers to enhance the firm's outreach goals. Like Pletzer, Nikolova, Kedzior, and Voelpel (2015), gender diversity was measured in terms of the percentage of board members who are female. MFI outreach was measured in terms of breadth (logarithm of the total number of customers served by the MFI) and the logarithm of the average loan size per customer). The study controlled for MFI type, MFI age, board size, and financial performance. Panel data estimation was used to examine the data for 6 years, and seemingly unrelated regression methodology was used to analyse the data. The findings revealed that 36% of the customers are women, 24% of the board members are women, and the average loan size was US$ 348 per customer. The multi-variate analysis showed that there is a positive relationship between board diversity and the proportion of female customers, and a negative relationship between gender diversity and the size of the loans. The study recommends subsequent research on outreach performance to develop better measures for poverty levels of the MFI customers.

Gender composition is generally seen to have a positive effect on the performance of MFI's. This study envisions a significant positive effect of gender composition on MFI performance considering that most of the clientele are mostly women. The presence of women in MFI boards adds value and expertise of the board in reaching out to the majority of the poor in the community. The study also expects gender composition in corporate boards to have no significant influence on financial performance of the company just as it has been observed by other scholars.

2.3.2 Board vigilance and performance of MFI's

Ntim and Osei (2011) investigated the impact of corporate board meetings on the performance of 169 listed corporations in South Africa from 2002 to 2007. The study used frequency of board meetings to measure the effectiveness of boards in advising, monitoring, and holding management accountable. The number of board meetings was transformed into logarithms while corporate performance was measured using the Tobins Q. Fixed–effect regression method was used to analyse the data. The median number of board meetings was 4 while the mean value of Tobin's Q was 1.56. The findings showed that board vigilance has a significant positive relationship with performance of MFIs. Additional analyses (by squaring the number of board meetings and also finding the cube) showed that corporate board meetings has a non linear relationship to firm performance, such that both less frequent and high frequency of board meetings have a significant positive relationship to firm performance depending on its firm specific characteristics. The findings are in line with agency theory which holds the view that frequency of board meetings expands the platform for boards to monitor, advice and discipline management and the resultant effect is improved financial performance.

Horváth and Spirollari (2012) examined the effect of board characteristics of firm performance. The study randomly sampled 136 US firms from S&P 500 index in 2005-2009. Board vigilance was measured in terms of the number of board meetings in a fiscal year. The results showed

that the average board meetings held were 7.6 meetings per fiscal year with a standard deviation of 3 meetings. The regression results showed that board vigilance does not have a significant effect on firm performance. The sample however, did not include companies operating in financial service industry.

Ma and Tian (2014) investigated the impact of board vigilance on the performance of listed Chinese firms. Board vigilance was measured by the frequency of board meetings and general stakeholder meetings. The results showed that the frequency of cognitive conflict in board meetings has a negative relationship to firm performance. The perception is that when there are frequent board meetings, it shows that the firm is considered inefficient in decision making and that it is experiencing a myriad of operational challenges. In constrast, the frequency of stakeholder meetings has a positive relationship to firm performance. This can be explained by the board members commitment to engage the stakeholders in improving the firm's performance. Firm performance was regressed against board vigilance factors of previous year periods.

The variations in findings of the effect of board vigilance on firm performance are attributed to country specific corporate governance characteristics, institutional and legal practices (Ntim & Osei, 2011). Measures should be taken to control the variations in auditing firm's size, capital expenditure, firm's size and the gearing. It is thus recommended that boards adopt a flexible approach to meetings and monitoring the strategic actions of mangers so as to maximize the value of the firm. The literature on effect of board vigilance on the outreach performance of MFIs is limited, especially for the developing countries; majority of the studies discussed have focused on the financial performance of MFIs (Park, Kim, Chang, Lee, & Sung, 2015).

From the above studies, board vigilance is likely to have significant influence on the performance of MFIs especially when the board members are experienced and the respective finance or audit sub committees meet frequently to query management reports. This study envisages a positive significant relationship between board vigilance and performance of MFIs in Kenya.

2.3.3 Board independence and performance of MFI's

Hartarska and Mersland (2008) studied the effectiveness of governance mechanisms on performance of MFI's institutions. The data set used comprised of 155 MFI's from 45 countries. Performance was measured in terms of the cost minimisation objective function targetted at reaching to the largest output (number of poor borrowers) at the least cost. A stochastic cost frontier estimation method was used to develop the cost minimisation objective. The resultant cost efficieny coefficients were regressed on the proportion of insiders on the board. The results showed that MFI's are less efficient when its boards have higher number of employees/insiders. The costs of monitoring are seen to exceed the benefits of insider knowledge brought about by the employees on the board. The study also notes that higher levels of corruption in the country affects efficiency while the other environmental factors such as competition and regulation do not have significant influence on efficiency of MFIs. Previous studies by Cull, Demirguc-Kunt, & Morduch (2007) observed that it is only the exceptional MFIs that are able to achieve both profitability and outreach performance; otherwise most MFI's trade-off between high average costs and high average profits at the expense of the poor customers.

Bassem (2009) observed that a higher proportion of independent directors leads to higher levels of sustainability (ROA and OSS) and outreach to poor customers. The study identified board independence as the proportion of voting board members who do not have any significant affiliation with any stakeholder of the MFI. The financial dataset was constructed from the

www.mix.org while additional information was collected by use of surveys in Euro – Meditterranean countries. The study findings also show that the age and size of MFI positively affects its performance, while high levels of inflation reduces its chances of sustainability.

Waithaka, Gakure, and Wanjau (2013) analysed the effects of board characteristics on the social performance of 39 MFIs registered with AMFI in Kenya as at June 2012. The study used the CERISE impact and social performance indicators tool and categorised social performance into the following categories: targetting and outreach, appropriateness of products and services, benefits to clients, and social responsibility. Data was collected through interveiw schedules and analysed using Pearson correlation coefficient, ANOVA, and logistic regression analysis. The mean SPM score was 52.5 and 33% of the directors are independent. The results show a significant positive relationship between board independence and social performance.

Mori, et al (2015) measured board independence as the percentage of directors who are outsiders (directors who are neither current nor past employees of the firm, and do not have significant family/business ties with the MFI's management). According to this view, an outsider dominated board is seen to be more independent as compared to an internally dominated board. The study observes a significant positive relationship between the independence of the board and outreach performance.

Although some studies observed a negative effect of board independence on the performance of MFI's, this study postulates a significant positive relationship between board independence and the outreach performance and sustainability of MFIs. Board independence depicts the extent of institutional strengthening that has taken place in stabilizing the operations of the MFI and thus shielding it from undue influence internally.

2.4 Conceptual framework

Gender composition has mixed effects on the performance of MFI's. Most of the studies specifically targeting microfinance industry (Bassem, 2009; Strøm, D'Espallier, & Mersland, 2014; Mori, et al, 2015; Pletzer, et al 2015) found a positive relationship between gender composition in boards and performance. The other studies that cut across industries (Farrell & Hersch 2005; Zaruki, 2012) observe that whereas gender composition in corporate boards has no significant influence on financial performance of the company, it does influence the reputation of the firm as one that embraces gender diversity.

While Ntim & Osei (2011) observes that board vigilance has a significant non-linear positive influence on the financial performance of MFIs, other scholars such as Horváth & Spirollari (2012) and Ma & Tian (2014) disagree. The reasons for variations in the findings could be variations in tenure of boards, audit firm size, capital expenditure, firm's size and gearing. It is thus recommended that boards adopt a flexible approach to meetings so as to maximize the performance of the firm and minimize cognitive conflicts between the board members and the management. Research on the effect of board vigilance on the outreach performance of MFIs is limited.

Studies have shown that independence of boards has a significant positive influence on both the financial and outreach performance of MFIs (Hartarska & Mersland, 2008; Bassem, 2009; Waithaka, Gakure, & Wanjau, 2013; Mori, et al, 2015). Although the studies examined the effect of board independence on both financial and social performance of MFIs, the studies used rough proxies to measure outreach performance. Waithaka, Gakure, & Wanjau (2013) focussed on SMEs in Kisumu County and thus does not reflect the national situation.

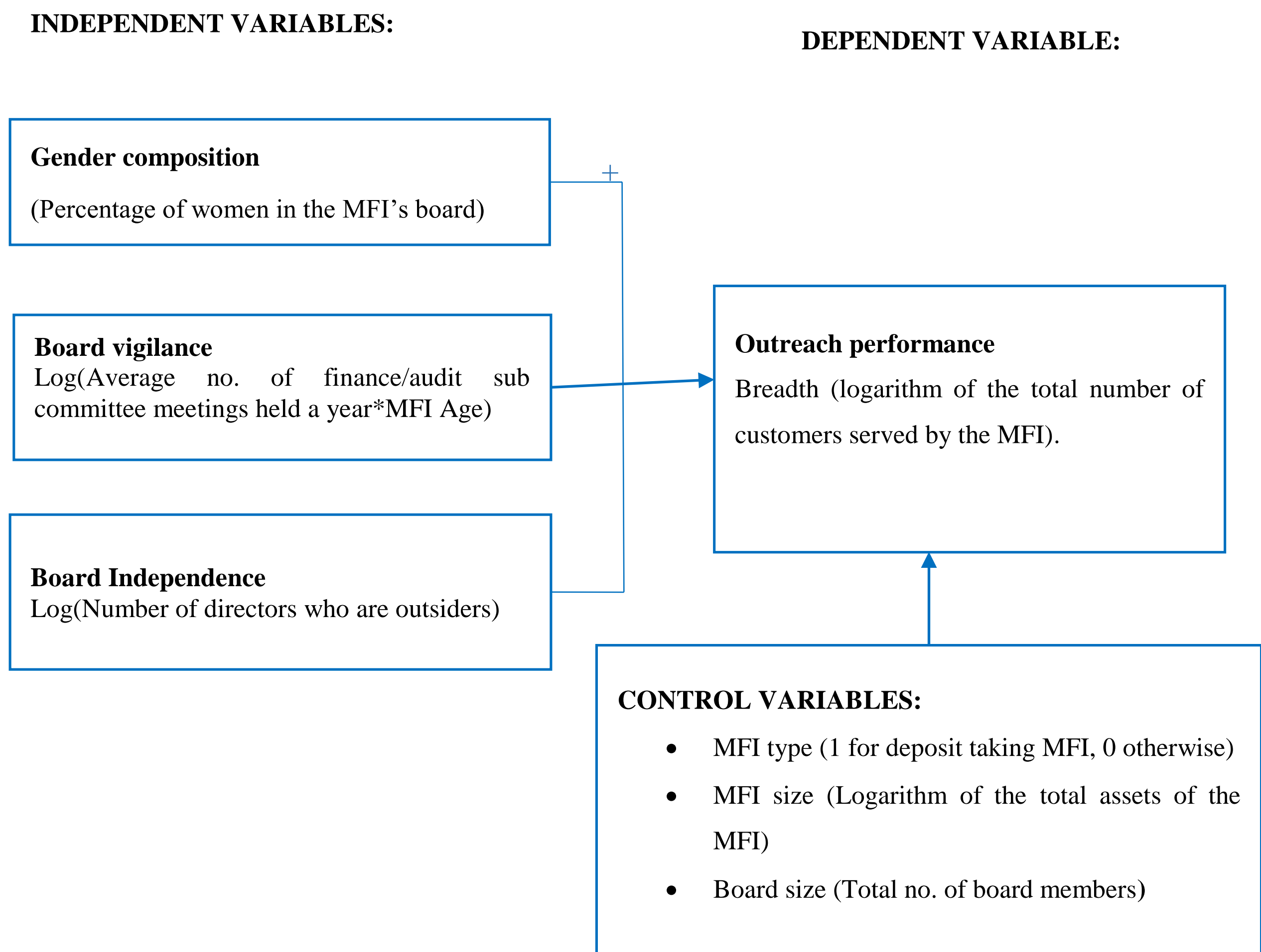
Studies show that there is a direct relationship between board diversity and firm performance (Mori, 2014; Leader-Chivée, 2014; Hartarska & Mersland, 2008). The results also showed that

director's level of education, age, skills and experience had a significant positive relationship with their ability to participate meaningfully in board meetings.

The study structures the conceptual framework shown in figure 2.1. As shown in the framework, gender composition, board vigilance, and board independence are all seen to have an effect on the performance of MFI's in Kenya.

FIGURE 2.1

Conceptual Framework



2.4.1 Operationalization of the Variables

The outreach performance of MFIs in Kenya is the dependent variable. Outreach performance is measured by breadth (logarithm of the total number of customers served by the MFI). The

data was transformed into natural logarithm for logical reasons in order to make the findings interpretable due to the large numbers involved.

The independent variables are gender composition, board vigilance, and board independence. Gender composition is measured by percentage of women in the MFI board while board independence is measured by logarithm of the number of directors who are outsiders. Board vigilance is measured by the logarithm of the product of average number of finance/audit sub committee meetings held at the firm premises a year and the MFI Age (which is measured as the number of years since establishment of the MFI) (Pistelli, Geake, & Gonzalez, 2012).

The control variables include: MFI type (measured 1 for deposit taking MFI, 0 otherwise); MFI size (measured as the logarithm of the total assets of the MFI); and Board size (measured as the total number of board members. Controlling for MFI type is important since deposit taking microfinance institutions are seen to experience tight regulations from the Central Bank of Kenya. A large and old MFI is seen to have an enhanced ability to absorb risks and enhance performance through diversification of products and services as compared to a smaller and younger MFI (Bassem, 2013). Mori, et al (2015) controls for board size when examining the effect of corporate governance on performance of MFIs is seen to enhance stakeholder's participation.

2.5 Critique of Existing Literature

Gender composition has mixed effects on the performance of MFI's. Most of the studies specifically targeting microfinance industry (Bassem, 2009; Strøm, D'Espallier, & Mersland, 2014; Mori, et al, 2015; Pletzer, et al 2015) found a positive relationship between gender composition in boards and performance. The other studies that cut across industries (Farrell & Hersch 2005; Zaruki, 2012) observe that whereas gender composition in corporate boards has

no significant influence on financial performance of the company, it does influence the reputation of the firm as one that embraces gender diversity.

While Ntim & Osei (2011) observes that board vigilance has a significant non-linear positive influence on the financial performance of MFIs, other scholars such as Horváth & Spirollari (2012) and Ma & Tian (2014) disagree. The reasons for variations in findings could be variations in audit firm size, capital expenditure, firm's size and gearing. It is thus recommended that boards adopt a flexible approach to meetings so as to maximize the performance of the firm. Research on the effect of board vigilance on the outreach performance of MFIs is limited.

Studies have shown that independence of boards has a significant positive influence on both the financial and outreach performance of MFIs (Hartarska & Mersland, 2008; Bassem, 2009; Waithaka, Gakure, & Wanjau, 2013; Mori, et al, 2015). Although the studies examined the effect of board independence on both financial and social performance of MFIs, the studies used rough proxies to measure outreach performance. Waithaka, Gakure, & Wanjau (2013) focussed on SMEs in Kisumu County and thus does not reflect the national situation.

2.6 Research Gaps

The available literature indicates insufficient empirical studies designed to specifically explain the influence of corporate governance on outreach performance of MFIs in Kenya. Research on the effect of board vigilance on the outreach performance of MFIs is limited: while Ntim & Osei (2011) observes that board vigilance has a significant non-linear positive influence on the financial performance of MFIs, other scholars such as Horváth & Spirollari (2012) and Ma & Tian (2014) disagree.

Furthermore, these studies used different measures for the performance variable. Although the studies examined the effect of board independence on both financial and social performance of

MFIs, the studies used rough proxies to measure outreach performance. Waithaka, Gakure, & Wanjau (2013) focussed on SMEs in Kisumu County and thus does not reflect the national situation. Therefore this study seeks to fill this gap.

3.0 CHAPTER THREE: RESEARCH METHODOLOGY

3.1 Introduction

This chapter provides a discussion of the outline of the research methodology that will be used in the study. It presents the research design, the target population, sampling design, data collection method and data analysis method the study will adopt. The geographical coverage of the research is Kenya.

3.2 Research Design

The study adopted a descriptive research design as it examined governance characteristics and its effects on the performance of MFIs in Kenya. Data for each variable was collected and then analysed to establish the effect of gender composition, board vigilance, and board independence on the performance of MFIs in Kenya. Descriptive study was preferred for this study because it helped to demonstrate associations or relationships between corporate governance mechanisms and the performance of MFI's. Descriptions aim at answering the "what, who, why, where, and when" questions in a research (Grimes & Schulz, 2002). The nature of this study is to investigate the 'what' question as the study seeks to identify the effect governance characteristics on the performance of MFI's in Kenya.

3.3 Sampling design

The target population for this study comprised all the 43 MFIs registered by AMFI - Kenya. The rationale of choosing AMFIK recognized MFIs is because they must demonstrate that they offer micro-finance services to the poor, demonstrate clear intent to become sustainable, have a minimum of 500 clients a year, and demonstrate management capacity to effectively manage their operation in accordance with internationally accepted principles. This study assumed that the 43 MFIs have fulfilled the above minimum requirements and that they are voluntarily reporting on progress made on an annual basis. Given that descriptive designs are characterised

by surveying large sizes of population from which adequate quantitative information is collected, the study adopted a census design and thus covered all the 43 MFIs registered by AMFI - Kenya.

3.4 Data Collection Method

The study used both primary and secondary quantitative data to analyse the relationship between governance characteristics and performance of MFIs in Kenya. Secondary data on specific indicators was obtained from the 2014 AMFI Sector Report. This year was appropriate since the most recent AMFIK publication is for 2014 capturing data for 2013. The report outlines: the name of the MFI; the charter type; the contact person details; the year of starting operations; total assets; and total number of active borrowers; among others. The author established the purpose of the publication in order to ascertain the quality of the data and evaluate the level of potential bias in the data presentation. The author also checked the date of publication, the intended audience, the scope of the report, and the extent to which the report was based on primary data. The author then constructed a data set of all the indicators of the study for all the 43 MFIs in Kenya for 2013, which is the most recent data reported by MFIs in Kenya. The data set formed the summary schedule and basis for data entry in to the SPSS software for analysis.

The data that was collected from the primary sources included the following: the total number of board members; total number of women board members; number of directors who are outsiders; and the average number of finance/audit sub committee meetings held at the firm premises a year. The data collection process began with the researcher seeking authority from the institution’s contact person. The respondents in this study were the MFIs CEOs who are also secretaries to the board as they were in a better position to comment on governance affairs. The respondents were contacted and data collected through structured questionnaires. To

enhance the effectiveness of this data collection method, the researcher made the questions brief and clear.

3.5 Data Collection Instruments

Bryman and Bell (2007) notes that instrumentation refers to the tools or means by which the researcher attempt to measure variables or items of interest in the data collection process. It is related not only to instrument design, selection, construction, and assessment, but also the conditions under which the designated instruments are administered.

In this study, the researcher used structured questionnaires. The questionnaire was carefully designed to enhance the validity and accuracy of the data collected during the study. Secondary data was collected from the 2014 AMFI Sector Report using a self constructed data set for the indicators available in the report. The 2014 AMFI Sctor Report was preferred because it is the most current report in the AMFI website. The data set included data on: the name of the MFI; the charter type; the year of starting establishment; total assets; and total number of active borrowers.

3.5.1 Validity of Research Instrument

A research instrument is said to be valid if it measures what it is supposed to measure (Gall, 2003). In order to test face validity, the structured questionare tool was shared with research supervisor, a person knowledgeable in research to ascertain the suitability of the questions in obtaining information according to the study objectives. This process assists in eliminating any potential problems of the research instrument and provided a basis for design or structural changes to the instrument. The structured questionnaire is valid since the respondents reported on actual observed data, and the outcome measures based on empirical literature.

3.5.2 Reliability of the Research Instrument

Reliability of the instruments is concerned with the degree to which a particular instrument gives similar results over a number of repeated trials (Mugenda & Mugenda, 2005). The bulk of data being sought for in this research instrument largely depended on the honesty of the respondents so as to make it reliable. Since the data was published in a report, it is highly likely to be consistent. The report outlined: the name of the MFI; the charter type; the year of establishment; total assets; and total number of active borrowers; among others. Since the variables were measured in a single –item measurement, there were no reliability issues in the research instrument.

3.6 Data Analysis and Presentation

The data collected from primary and secondary sources was converted into the appropriate computed variable measures such as percentages, logarithms and ratios. For instance, the total number of board members and the total number of women board members was used to calculate the percentage of women board members. Date of incorporation was subtracted from 2013 to compute the MFI age (number of years since establishment).

Descriptive statistics (frequencies, means, standard deviation and percentages) was the first step used to analyse the data. Presentation of findings was done using tables and figures. Regression model was used to analyse the joint effect of the independent variable measures on the dependent variable. Regression model was appropriate for this study since it described the strength and direction of the relationship between the independent variables and the dependent variable.

The following multiple regression model was adopted from the robust study of Horváth & Spirollari (2012) which focussed on board characteristics and firm performance. The regression data was analysed using the SPSS software. The prediction equation is shown below:

$$lnY = \beta_0 + \beta_1 x_1 + \beta_2 lnx_2 + \beta_3 lnx_3 + Controls + \epsilon$$

Where:

Y Performance of MFI's in Kenya

x_1 Gender Composition

lnx_2 Board Vigilance

lnx_3 Board Independence

β_0 is the intercept; and reflects the constant of the equation

$\beta_1, \beta_2,$ and β_3 is the regression coefficient associated with each independent variable

$Controls$ – the control variables MFI type, MFI size, and Board size.

ϵ is the error term

The data was transformed into natural logarithm for logical reasons in order to make the findings interpretable due to the large numbers involved in the size of MFIs as measured by the total assets. Regression analysis has five major assumptions: linearity; normality; multi-collinearity; autocorrelation; and homoscedasticity. A Shapiro – Wilk's test (p > 0.05) and a visual inspection of the normal Q-Q plots was used to test for normality. Variance inflation factor analysis was run among the independent variables to ascertain the levels of multi-collinearity. The variance inflation factors were accepted if the values are strictly less than 4, otherwise the explanatory variable with a variance inflation factor greater than 4 were removed from the model. The Breusch – Pagan test was used to test for heteroscedasticity and check the extent to which the residuals in the model were significant.

The regression results were interpreted based on the Pearson correlation, R-squared, adjusted R-squared, Test of significance using F statistic through the Analysis of Variance (ANOVA), coefficients of the independent variables and their p-values.

CHAPTER FOUR: DATA ANALYSIS AND PRESENTATION

4.1 Introduction

This study sought to examine the effects of board characteristics on the performance of MFIs in Kenya, largely on account of outreach performance. The specific objectives of this research included; to examine the effect of gender composition, board vigilance, and board independence on the outreach performance of MFIs, controlling for the effects of MFI type, size, and board size. The study adopted a descriptive research design targeting a population of all the 43 MFIs registered by AMFI - Kenya. A census survey was used. A self – construct data set of all the 43 MFIs in Kenya was developed and used to collect secondary data for 2013. This chapter presents the analysis of the findings of the study. It also analyses findings on the objectives of the study and discusses them in detail.

4.2 Analysis of Response rate

A total of 35 out of 43 questionnaires administered to the total population were returned, which represented a response rate of 81.4% . The high response rate can be explained by the administration of the questionnaires through emailing and follow up via phone. With this high response, the survey conducted was then described as successful. The respondents answered all the questions and so there were no missing values. The response rate comprised 22 Credit Only MFIs; 9 MFBs; and 4 Banks, all totalling to 35. The results of the response rate are as tabulated in table 4.1.

TABLE 4.1
Response Rate

	Frequency	Percent	Valid Percent	Cumulative Percent
Credit Only MFIs	22	62.9	62.9	62.9
Micro Finance Banks	9	25.7	25.7	88.6
Banks	4	11.4	11.4	100.0
Total	**35**	**100.0**	**100.0**	

4.3. Descriptive Statistics

TABLE 4.2
Descriptive Statistics

Variables	N	Mean	Std. Deviation
Gender Composition	35	30.41	12.74
Board Vigilance	35	1.75	0.43
Board Independence	35	.78	.16
Outreach Performance – Breadth	35	4.0	1.07
Valid N (listwise)	35		

From the findings in Table 4.2, the mean score of Gender Composition was 30.41 (SD = 12.74). This shows that the percentage of women in the boards was 30.41%. Gender Composition has a standard deviation of 12.74% implying that the percentage of women in the boards varies between 17.67% and 43.15%. The findings are consistent with the 2015 survey by the Kenya Institute of Directors which showed that the average percentage composition of women in MFI boards is 26% (IOD, 2017).

From the findings in Table 4.2, the mean score of Board Vigilance was 1.75 (SD = 0.43). This shows that the mean logarithm of the number of audit/finance sub committee meetings since the establishment of the MFIs was 1.75. Board Vigilance has a standard deviation of 0.43 implying that the the mean logarithm of the number of audit/finance sub committee meetings since the establishment of the MFIs varies between 1.32 and 2.18. A study by Ntim and Osei (2011) on the impact of corporate board meetings on the performance of 169 listed corporations in South Africa from 2002 to 2007 showed that the mean number of board meetings was 4 per year.

From the findings in Table 4.2, the mean score of Board Independence was 0.78 (SD = 0.16). This shows that the logarithm of directors who are outsiders in the boards was 0.78. Board Independence has a standard deviation of 0.16 implying that the logarithm of outsider directors in the boards varies between 0.62 and 0.94. The findings are consistent with the study of Waithaka, Gakure, and Wanjau (2013) which analysed board independence in 39 MFIs registered with AMFI in Kenya as at June 2012. The study showed that 73% of the directors were independent.

From the findings in Table 4.2, the mean score of Outreach Performance (Breadth) was 4.0 (SD = 1.07). This shows that the logarithm of total active borrowers was 4.03. Outreach Performance (Breadth) has a standard deviation of 1.07 implying that the logarithm of total active borrowers varies between 2.93 and 5.07.

4.4. Regression Analysis

A Shapiro – Wilk's test and a visual inspection of the normal Q-Q plots was used to test for normality; the findings are shown in Table 4.3 and Figure 4.1 respectively. Shapiro – Wilk's test is used since the sample size is 35 which is less than 2000, otherwise the Kolmogorov –Smirnov test would have been used.

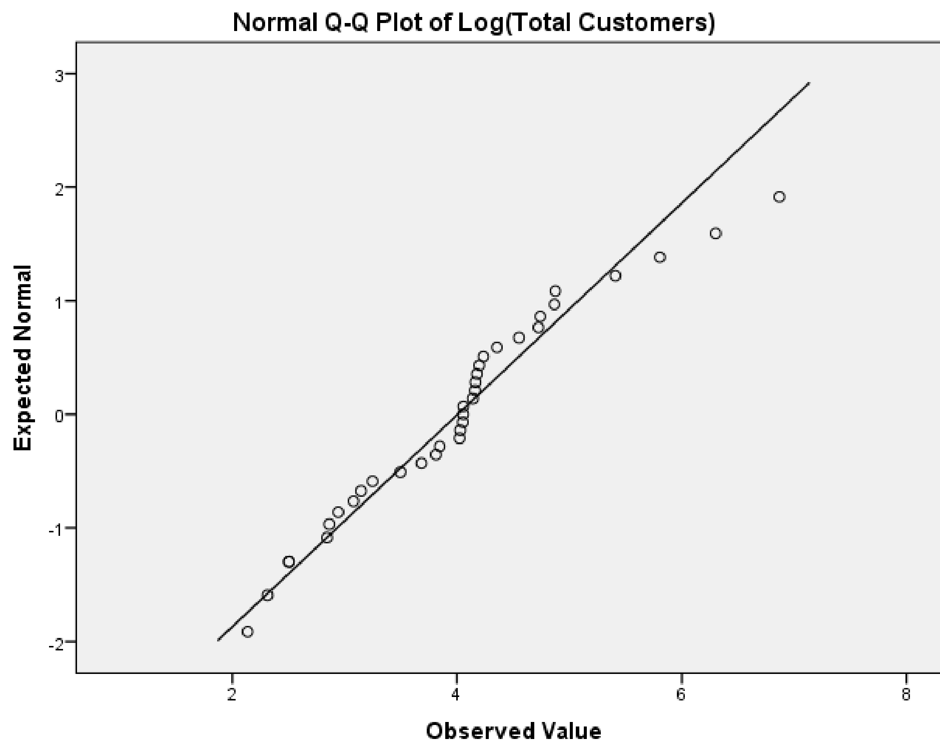
TABLE 4.3
Normality Test Results

	Kolmogorov-Smirnov[a]			Shapiro-Wilk		
	Statistic	df	Sig.	Statistic	df	Sig.
Outreach - Breadth	.130	35	.144	.957	35	.189

a. Lilliefors Significance Correction

The null hypothesis is that the data is normally distributed and the alternative hypothesis is that the data is not normally distributed. Since the Sig. value under the Shapiro-Wilk column is greater than 0.05, reject the alternative hypothesis. Thus the data for "Outreach - Breadth" comes from a normal distribution.

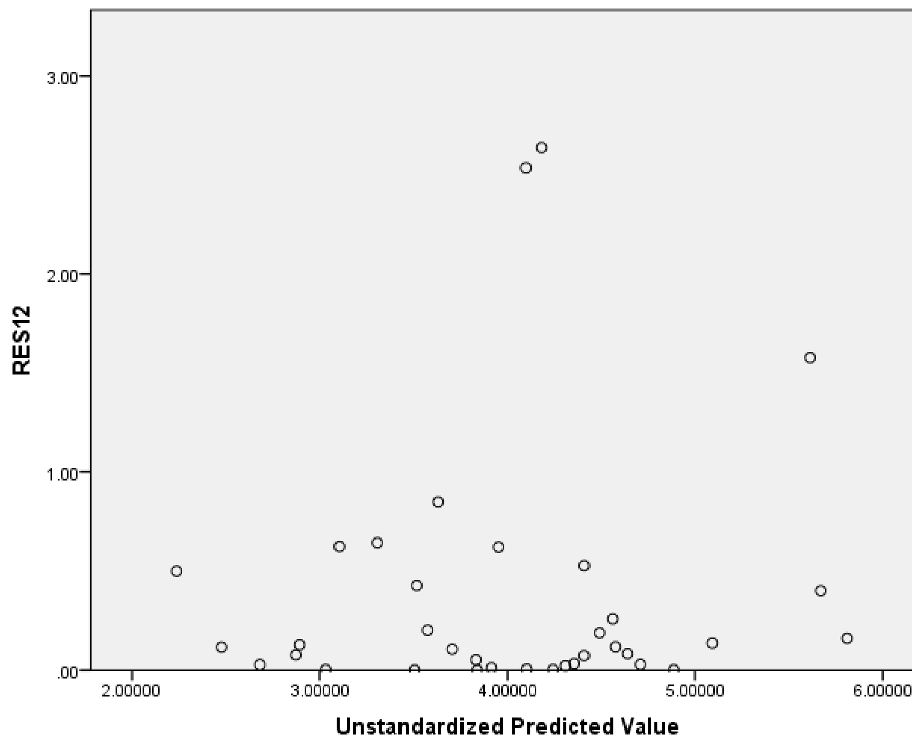
Figure.4.1 Normal Q-Q Plot



From the graph in Figure 4.1 above the data for Outreach Breadth as measured by the logarithm of total customers appears to be normally distributed as it approximately follow the diagonal line with some points on the line and others closely above and below the line – though with some outliers.

Plotting the square of the residual values (RES12) against the unstandardized predicted values suggests that there is no indication that heteroscedasticity may be present in the model as shown in Figure 4.2.

Fig. 4.2 Breusch-Pagan test



The Breusch-Pagan test was done by regressing RES12 against the unstandardized predicted values and the square of the predicted values (PRE12). The findings in Table 4.4 show that the model has no heteroscedasticity problem since p is greater than 0.05.

TABLE 4.4

Test for Heteroscedasticity

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.148	2	.074	.171	.844[b]
	Residual	13.839	32	.432		
	Total	13.986	34			

a. Dependent Variable: RES12

b. Predictors: (Constant), Unstandardized Predicted Value, PRE12

Multiple regression analysis was used to determine the relationship between outreach performance (breadth) against gender composition, board vigilance, and board independence; controlling for MFI type, MFI size, and board size. The results were as follows:

TABLE 4.5

Regression Model Summary

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate
1	.815[a]	.664	.592	.68521

a. Predictors: (Constant), Gender Composition, Board Vigilance, Board Independence and Controls (MFI Type, MFI Size, and Board Size)

From the findings, the R^2 value of 0.664 indicated that Board Independence, Gender Composition, and Board Vigilance factors, while controlling for MFI Type, MFI Size, and Board Size explained 66.4% of the variability of the Outreach Performance (Breadth) in the 35 MFIs in Kenya; 33.6% of the variability of Outreach Performance (Breadth) is explained by other factors.

TABLE 4.6

ANOVA[a]

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	25.941	6	4.323	9.208	.000[b]
	Residual	13.146	28	.470		
	Total	39.087	34			

a. Dependent Variable: Log(Total Customers)

b. Predictors: (Constant), Gender Composition, Board Vigilance, Board Independence and Controls (MFI Type, MFI Size, and Board Size)

The F-ratio was used to test whether the overall regression model was statisitically significant ($F=9.21$, $p<0.001$).

TABLE 4.7

Coefficients

Model		Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
		B	Std. Error	Beta			Tolerance	VIF
1	(Constant)	-3.923	1.737		-2.259	.032		
	Board Vigilance	1.488	.375	.601	3.966	.000	.523	1.911
	Board Independence	.858	1.805	.125	.476	.638	.173	5.795
	Gender Composition	.020	.012	.233	1.697	.101	.636	1.573
	MFI Size	.441	.234	.321	1.882	.070	.413	2.423
	MFI Type	.085	.295	.039	.287	.776	.659	1.517
	Board Size	.015	.078	.050	.192	.849	.179	5.592

a. Dependent Variable: Outreach Performance – Breadth

The findings above showed that Board Vigilance had a significant positive effect on Outreach Performance (Breadth) at 5% level of significance. Board independence and Gender Composition were insignificant

The fitted regression model is:

$$Y = -3.923 + 0.020(Gender\ Composition) + 1.488ln(Board\ Vigilance) + 0.858\ ln(Board\ Independence) + 0.441ln(MFI\ Size) + 0.085ln(MFI\ Type) + 0.015(Board\ Size) \text{.............................(i)}$$

From the estimated regression equation (i) above β_0, which was the value of y in the absence of all the other independent variables or when all the other variables were equals to zero assumed a value of -3.923.

4.5 Discussion of the findings

The research findings indicated that Board Independence, Gender Composition, and Board Vigilance all had a positive effect on Outreach Performance (Breadth) in the 35 MFIs in Kenya. The findings showed that Board Vigilance had a significant positive effect on Outreach Performance (Breadth) at 5% level of significance. Qualitative analyses showed that board

characteristics have a positive relationship on firm performance, compliance, fairness, and efficiency.

Whereas Bassem (2009) agrees that a higher proportion of women in the board enhances performance, Ma & Tian (2014) notes that the presence of women in boards may actually reduce the firm's value. Mersland (2014) is of the opinion that whereas female CEO and female chairperson has a significant positive relationship with MFI's performance, a female director has no effect.

Ntim and Osei (2011) showed that board vigilance has a significant positive relationship with performance of MFIs. Additional analyses (by squaring the number of board meetings and also finding the cube) showed that corporate board meetings has a non linear relationship to the firm performance, such that both less frequent and high frequency of board meetings have a significant positive relationship to the firm performance depending on its firm specific characteristics. The findings are in line with agency theory which holds the view that frequency of board meetings expands the platform for boards to monitor, advice and discipline management and the resultant effect is improved financial performance.

Bassem (2009) observed that a higher proportion of independent directors leads to higher levels of sustainability (ROA and OSS) and outreach to poor customers.

Waithaka, Gakure, and Wanjau (2013) analysed the effects of board characteristics on the social performance in terms of the following categories: targeting and outreach, appropriateness of products and services, benefits to clients, and social responsibility. The results show a significant positive relationship between board independence and social performance.

CHAPTER FIVE: SUMMARY, CONCLUSIONS AND RECOMMENDATIONS

5.1 Introduction

In this final chapter, the researcher highlighted a summary of the findings of the study basing it on the objectives of the research. Conclusion and recommendation of the research findings are discussed herein. This study sought to examine the effects of board characteristics on the performance of MFIs in Kenya, largely on account of outreach performance. The specific objectives of this research included; to examine the effect of gender composition, board vigilance, and board independence on the outreach performance of MFIs, controlling for the effects of MFI type, size, and board size.

5.2 Summary of the Findings

5.2.1 Gender Composition

The descriptive statistics showed that the the mean score of Gender Composition was 30.41 (SD = 12.74). This shows that the percentage of women in the boards was 30.41%. Gender Composition has a standard deviation of 12.74% implying that the percentage of women in the boards varies between 17.67% and 43.15%. Regression analysis showed that co-efficient of Gender Composition was 0.020 indicating that when the percentage of women in the board increases by 1%, the Outreach Performance (Breadth) increases by 0.020. The t-value and corresponding p-value indicated that the coefficient is not statistically significantly different to 0 (zero), since p = 0.101 at 5% and 10% level of significance. According to the stakeholder theory, the bulk of MFI customers are women and it can be argued that women directors would represent their interests better as compared to men.

5.2.2 Board Vigilance

The descriptive statistics showed that the the mean score of Board Vigilance was 1.75 (SD = 0.43). This shows that the mean logarithm of the number of audit/finance sub committee meetings since the establishment of the MFIs was 1.75. Board Vigilance has a standard deviation of 0.43 implying that the the mean logarithm of the number of audit/finance sub committee meetings since the establishment of the MFIs varies between 1.32 and 2.18. Regression analysis showed that the co-efficient of Board Vigilance was 1.488 indicating that when the logarithm of the number of audit/finance sub committee meetings since the establishment of the MFIs increases by 1, the Outreach Performance (Breadth) increases by 1.488. The t-value and corresponding p-value indicates that the coefficient is statistically significantly different to 0 (zero), since p = 0.000 at 5% level of significance. According to the

stewardship theory, Board members are seen as the stewards of the firm's resources and thus they allocate it in such a way that it will achieve optimal performance. When board members are diverse experienced, skilled and vigilant, they are keen to ensure that the firm's performance excels in both the outreach and sustainability.

5.2.3 Board Independence

Descriptive statistics showed that the mean score of Board Independence was 0.78 (SD = 0.16). This shows that the logarithm of directors who are outsiders in the boards was 0.78. Board Independence has a standard deviation of 0.16 implying that the logarithm of outsider directors in the boards varies between 0.62 and 0.94. Regression analysis showed that the co-efficient of Board Independence was 0.858 indicating that when the logarithm of directors who are outsiders in the boards increases by 1%, the Outreach Performance (Breadth) increases by 0.858. The t-value and corresponding p-value indicates that the coefficient is not statistically significantly different to 0 (zero), since p = 0.638 at 5% level of significance. According to the stakeholder theory, the board is mandated to create value for a broad range of stakeholders; thus as much as board members represent a given category of stakeholders, it is required that they operate independently when discharging their duties.

5.2.4 Outreach Performance

Descriptive analysis showed that the the mean score of Outreach Performance (Breadth) was 4.0 (SD = 1.07). This shows that the logarithm of total active borrowers was 4.0. Outreach Performance (Breadth) has a standard deviation of 1.07 implying that the logarithm of total active borrowers varies between 2.93 and 5.07. The fitted regression model of the variables is presented below:

$$Y = -3.923 + 0.020(Gender\ Composition) + 1.488ln(Board\ Vigilance) + 0.858ln(Board\ Independence) + 0.441ln(MFI\ Size) + 0.085(MFI\ Type) + 0.015(Board\ Size) \text{..............................(i)}$$

The fitted regression model 2 of the variables without the controls is presented below – board vigilance and board independence was significant:

$$Y = 0.022(Gender\ Composition) + 1.839ln(Board\ Vigilance) + 2.238ln(Board\ Independence) \text{ ....(ii)}$$

5.3 Conclusion

From the study, the researcher concluded that the objectives of the study had been achieved. The research findings indicated that Board Independence and Gender Composition, and Board Vigilance all had a positive effect on Outreach Performance (Breadth) in the 35 MFIs in Kenya. The findings showed Board Vigilance had a significant positive effect on Outreach Performance (Breadth) at 5% level of significance. Board Independence was also significant but after dropping control variable of board size. Gender composition remained insignificant Qualitative analyses showed that board characteristics have an effect on firm performance, compliance, culture (equity), and efficiency.

5.4 Recommendations

Based on the findings of this study the following recommendations were made to enhance the outreach performance:

5.4.1 Gender Composition

The study recommends a mix of both men and women in the boards of MFIs in Kenya. A higher proportion of women in the board is insignificant hence there is no evidence that it enhances performance.

5.4.2 Board Vigilance

The study recommends frequent audit/finance sub committee meetings at least once every quarter. Increasing the frequency of board meetings helps the members to contribute to the effectiveness of boards in advising, monitoring, and holding management accountable.

5.4.3 Board Independence

The study recommends independent board members. Directors who are neither current nor past employees of the firm, and do not have significant family/business ties with the MFI's management tend to be effective in their governance role.

5.5 Suggestions for Further Research

This research contributed to the existing body of knowledge on governance characteristics and firm performance. While the findings of this research pointed out on how board characteristics influences the outreach performance of 35 MFIs in Kenya, the research should be extended to the entire financial services sector in Kenya. Measures of board characteristics and firm performance should be enhanced to include Board Member diversities in terms of experience, age, level of education, etc.

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APPENDICES

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KCAU/SGS/MSc/August.17/4 ***July 19, 2017***

To whom it may concern,

Dear Sir/Madam,

RE: MARY WANJIKU MACHARIA REG. NO. KCA/09/02365

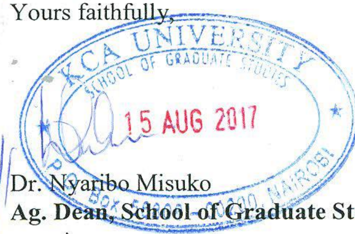
It is my distinct pleasure to introduce to you Ms. Mary Macharia who is a student in our institution pursuing a Master of Science in Commerce at the School of Business and Public Management.

Mary is conducting research on a topic titled: "*. Corporate Governance and Its Effect On The Performance of Micro Finance Institutions On Kenya"* which is part of the requirements of the program she is pursuing. The research as well as the data procured thereof shall be used for academic purposes only.

Any assistance accorded to her is highly appreciated.

In case of further inquiry, do not hesitate to contact the undersigned.

Yours faithfully,



Dr. Nyaribo Misuko
Ag. Dean, School of Graduate Studies & Research

Structured Questionnaire

Dear Respondent,

This questionnaire aims to collect information related to the effects of corporate governance on the outreach performance of MFIs in Kenya. The information given is for academic purpose only and will be treated as confidential.

Questions

Board Size

1) (a) What is the total number of board members?

(b) What is the rationale of this size of board?

…………………………………………………………………………………………

…………………………………………………………………………………………

Gender Composition

2) (a) How many board members are female?

(b) What is the rationale of having female board members?

…………………………………………………………………………………………

…………………………………………………………………………………………

Board Independence

3) How many board members are outsiders?

(b) What is the rationale of having outsiders in the board?

…………………………………………………………………………………………

…………………………………………………………………………………………

Board Vigilance

4) What is the average number of finance/audit sub committee meetings held at the firm premises a year?

(b) What is the rationale of this frequency of meetings?

…………………………………………………………………………………………

…………………………………………………………………………………………

Outreach Performance

1) What is the total number of female customers?

(b) What is the rationale of considering female customers?

…………………………………………………………………………………………

Thank you for your participation.

LIST OF MFIs DATA

MFIName	MFI Type	Total Board	Outreach Breadth	MFI Age	Board Vigilance	MFI Size	Board Independence	Gender Composition
Faulu MFB	1	11	4.87	22.00	1.94	10.09	1.00	18.18
Kenya Women MFB	1	10	5.41	32.00	2.51	10.34	.95	20.00
SMEP MFB	1	8	4.72	38.00	2.36	9.40	.78	25.00
REMU MFB	1	10	2.84	2.00	.78	8.53	.78	40.00
Rafiki MFB	1	12	3.68	12.00	1.68	9.57	1.00	25.00
Uwezo MFB	1	9	2.31	3.00	.95	9.09	.85	33.33
Century MFB	1	4	2.94	1.00	.60	8.21	.60	50.00
Sumac MFB	1	7	2.51	9.00	1.65	9.55	.70	28.57
U&I MFB	1	6	2.86	6.00	1.48	7.90	.70	50.00
AAR Credit Services	0	6	4.06	14.00	1.75	8.83	.60	33.33
Bimas	0	13	4.06	21.00	2.02	8.85	1.00	23.08
ECLOF Kenya	0	10	4.23	19.00	2.06	9.01	.85	30.00
Greenland Fedha	0	8	4.74	10.00	1.90	9.25	.70	12.50
Jitegemee Credit Scheme	0	7	3.85	15.00	1.78	8.73	.70	28.57
Jubilant Kenya	0	6	3.15	9.00	1.65	7.53	.70	16.67
Juhudi Kilimo	0	7	4.16	12.00	1.86	8.91	.78	28.57
KEEF	0	6	4.03	9.00	1.56	8.26	.70	50.00
Letshego Kenya	0	9	4.14	13.00	2.02	9.13	.60	33.33
Milango Financial Services	0	4	3.50	4.00	1.20	8.14	.60	75.00
Musoni	0	16	4.02	4.00	1.38	8.74	1.00	25.00
Opportunity Kenya	0	8	4.05	25.00	2.00	8.91	.85	37.50
PAWDEP	0	10	4.55	9.00	1.43	8.87	.90	30.00
Platinum Credit	0	8	4.36	11.00	1.94	9.27	.85	37.50
Rupia Limited	0	6	3.25	9.00	1.43	7.58	.70	33.33
Real People	0	8	4.18	14.00	2.05	9.39	.85	12.50
Samchi	0	6	2.14	5.00	1.40	7.68	.60	16.67
SISDO	0	5	3.81	20.00	2.00	8.79	.60	20.00
Springboard Capital	0	3	2.51	14.00	1.75	7.98	.48	33.33
Vision Fund Kenya	0	8	4.16	13.00	1.81	8.97	.85	37.50
YEHU	0	5	4.20	15.00	1.95	8.80	.60	40.00
KREP Development Agency	1	3	5.81	29.00	1.94	8.88	.60	33.33
Equity Building Society	1	10	6.87	29.00	2.24	10.44	.90	30.00
Jamii Bora Bank	1	20	4.88	14.00	1.75	9.91	1.15	15.00
Kenya Post Office Savings Bank	1	12	6.30	103.00	2.61	9.46	.90	25.00
Taifa Option Microfinance	0	12	3.08	17.00	1.71	7.11	.90	16.67