CORPORATE GOVERNANCE, FIRM AGE AND FINANCIAL STABILITY OF MICROFINANCE BANKS IN KENYA

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A RESEARCH DISSERTATION SUBMITTED TO THE SCHOOL OF BUSINESS IN PARTIAL FULFILMENT OF THE REQUIREMENT FOR THE AWARD OF DEGREE OF MASTER OF SCIENCE IN COMMERCE (FINANCE AND ACCOUNTING) AT KCA UNIVERSITY

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DECLARATION

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

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I do hereby confirm that I have examined the master's dissertation of

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And have certified that all revisions that the dissertation panel and examiners recommended have been adequately addressed.

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ABSTRACT

Financial stability has remained a major challenge of the microfinance banks in Kenya. Statistics from the Central Bank of Kenya show that for the period 2018-2022, the aggregate net incomes of these institutions have been negative with return on equity (ROE) and asset (ROA) values averaging at 13.24% and -1.55% respectively. This implies that these institutions have been posting losses hence providing a pointer of concern about their financial stability. The instability of these microfinance banks is detrimental to the survival of the entire financial sector and the economy at large. The general objective of the study was to establish the effect of firm age on corporate governance and financial stability of microfinance Banks in Kenya. The following specific objectives guided the proposed study. To establish the relationship between board independence and financial stability of microfinance banks in Kenya; to determine relationship between ownership concentration and financial stability of microfinance banks in Kenya; to analyze the relationship between CEO compensation and financial stability of microfinance banks in Kenya and to assess the moderating effect of firm age on the relationship between corporate governance and financial stability of microfinance banks in Kenya. The agency theory, stewardship theory, the theory of growth of the firm as well as resource based view provided anchorage to the study. This study adopted explanatory design to meet the formulated objectives. The target population comprised of 12 Microfinance banks licensed by CBK and census was adopted, Secondary data was gathered in this study with the aid of the questionnaire that was in structured format. The analysis was done through panel data and findings presented through tables. It was established that board independence had p-value of $p=0.016$ i.e. $p<0.05$, ownership concentration had $p-0.015<0.05$ and CEO compensation had $p= 0.028<0.05$ hence all of them were significant. It was concluded that corporate governance significantly affects financial stability. The study recommended that shareholders and policy makers at the Central Bank of Kenya should balance between independent and non-independent director among microfinance banks in Kenya. Shareholder working with MFIs in Kenya should restructure their shareholding structures and composition so as to balance the interests of shareholders. Shareholders of microfinance banks should provide competitive remuneration package to the CEO which should be tied to their performance.

Key words: firm age, corporate governance, financial stability, board independence, ownership concentration, CEO compensation, microfinance banks

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DEDICATION

I dedicate this research project to my friends and family members for the support and encouragement I received from them while I was developing the same.

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ABBREVIATIONS AND ACRONYMS

CBK	Central Bank of Kenya
MFB	Microfinance Bank
ROA	Return on Assets
ROE	Return on Equity
SPSS	Statistical Package for Social Sciences
UK	United Kingdom

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Financial stability has been a key issue of concern by regulators especially for firms providing financial services like microfinance banks. An important reason for the increased recognition of financial stability of these institutions is because they hold deposits of customers and their long-term instability may put the said deposits at risk leading to significant losses by their customers. According to Thoha, Nugraha, Suryoko, Nadhifah and Rhosyida (2022), financial stability of lending institutions like microfinance banks is hinged on a number of factors including the corporate governance mechanisms that are in place. In Malaysia,Lassoued (2018) pointed out that the size and independence of the board as well as ownership concentration are critical components of corporate governance that promote financial stability of financial institutions.

Evidence in Vietnam indicate that corporate governance in terms of board size, independence and ownership concentration have been identified as critical pillars of enhancing financial stability of financial institutions in the country (Nguyen, Nguyen, Le & Le, 2022).In the United Kingdom (UK),Affes andJarboui(2023) noted that the positive effect of corporate governance on financial performance of financial institutions can in turn contribute towards realization of financial stability. According to Khan, Zada, Wong and Ahmed(2023) in Pakistan, the independence of the board has significant association with financial stability of financial institutions. Kieschnick and Moussawi (2018) said that older financial institutions are associated with strong corporate governance mechanisms which have potential to enhance their financial

stability. This means that the age of the financial institution play a key role when corporate governance and financial stability are considered.

In Africa and specifically in Ghana, Li, Kong, Atuahene, Bentum-Micah and Agyapong (2020) shared that corporate governance aspects like board independence and compensation of the chief executive officer (CEO) helps in reducing possibility and risk of insolvency hence contributing towards financial stability. Locally in Kenya, Mwangi (2013) indicated that corporate governance enhances financial stability of firms in the financial sector. Musau (2020) was of the view that independence and ownership concentration are significant predictors of financial stability of financial institutions. Chege (2021) attribute collapse of institutions in the financial sector in Kenya in the last decade to their poor corporate governance mechanisms and practices.

1.1.1 Corporate governance

Corporate governance is the interaction between the board, management and shareholders of the firm to ensure it attains its goals and objectives. It can also be defined as collection of systems under which a corporation is managed and controlled (Affes&Jarboui, 2023). Separation of ownership from management is associated with conflict of interests and hence the need for corporate governance mechanisms through the board to provide an oversight role. In corporate governance, each of the said parties including the management, board and shareholders has specific role to play in ensuring the firm attains its objectives (Khan, Zada, Wong & Ahmed, 2023).

Corporate governance includes board independence, ownership concentration and chief executive officer (CE0) compensation (Ngo, Le, Nguyen &Luu, 2023). Board independence is reflected in the number of independent directors. Independent board of directors helps in safeguarding the interests of the owners of the firm. It also promotes viable decision making while

supporting independent decision making in the firm (Almaqtari, Farhan, Al-Hattami& Elsheikh, 2022). In the long run, this can potentially minimize conflict of interests between directors of the firm. As predicted and anticipated from the agency theory, the whole idea of having in place independent directors to the board is to minimize agency problems and conflicts of interest (Potharla&Kolpula, 2023).

The second dimension of corporate governance that has attracted significant attention in literature is ownership concentration. According to Abdullah, Sarfraz, Qun and Chaudhary (2019), ownership concentration is the share capital amount that are not actively traded in open market. Thus, this type of share provides a key significant internal operating mechanisms in an organization. It is a very important internal mechanism where owners have potential to exercise influence and control on management undertaking so that their interests can be protected (Huang, 2023). Some trends have been registered as far as ownership concentration is concerned, especially with the growing decrease in publicly traded equity markets in most developed countries in the world (Gupta, Mittal, Agarwal, Bakhshi& Sahoo, 2022).

Chief executive officers (CEOs) are responsible for the daily running of the operations of the firm. They are involved in making of strategic decisions in the firm most of which are strategic. (Jeff-Boakye, Sam-Ahinful&Nsor-Ambala, 2020) One way of encouraging these CEOs to make sound decisions that can maximize the wealth of shareholders is through provision of competitive remuneration packages to them. As noted byOmamo, K'obonyoand Muindi (2022), competitive CEO remuneration is the best strategy of aligning their interests with those of shareholders and owners of the firm.

According to Ngo, Le, Nguyen and Luu (2023) the duality role of the CEO was negatively linked with financial performance while the proportion of non-executive members had positive relationship with financial performance. Almaqtari, Farhan, Al-Hattami and Elsheikh (2022) gave an indication of existence of inverse but significant nexus between independence of the board and financial performance. Potharla and Kolpula (2023) established from the analysis that a U-shaped nexus exists between independence of the board and earnings stability Sanni (2019) noted that board independence and financial performance were found to be having positive interplay with each other. Oludele, Margret and Tobiah (2016), indicated existence of significant connection between independence of the board and financial performance of manufacturing listed entities in Nigeria. In Kenya, Ombaba, Kosgei and Muriuki (2018) indicated existence of inverse nexus between independence of the board and financial distress. Abdifatah (2020) was able to point out that board independence significantly determines operational performance at firm level.

Huang (2023) established that ownership concentration and financial stability were positively linked with each other. Duong, Huynh, Van-Nguyen and Le (2022) stated that ownership concentration and innovation were positively linked with financial stability. Gupta, Mittal, Agarwal, Bakhshi and Sahoo (2022) noted after data processing that the shareholder with highest shareholding exerts greater effect on financial performance of the bank. Ozili and Uadiale (2017) showed that financial entities having higher concentration in ownership are characterized by higher returns generated on assets as well as their net interest margins are also highAbdullah, Sarfraz, Qun and Chaudhary (2019) provided an indication of existence of nexus which was inverse between ownership concentration and ROA. In a study that was done by Kiruga, Ombok and Adoyo (2023), the analysis was able to point out existence of significant nexus between ownership concentration and performance in monetary terms. Muriungi, Mwangi, Kinoti and

Okiro (2021) indicted existence of significant effect of ownership concentration on investment decisions. Enkirisai (2018) indicted that ownership structure was significant predictor of performance.

Ahamed (2022) shared that a positive and significant connection is evident between compensation to CEO and financial performance. Chatterjee, Jia, Nguyen, Taylor and Duong (2023) showed that the state of financial distress of an enterprise and remuneration to the CEO are inversely linked with each other. Jeff-Boakye, Sam-Ahinful and Nsor-Ambala (2020) provided evidence of existence of nexus between remuneration of the CEO and financial performance.Tarus (2014) noted that there existed non-significant but inverse link between compensation of CEO and financial performance. Omamo, K'obonyoand Muindi (2022) established that competitive remuneration packages paid to the CEO is motiving tor them to achieve the goals of the firm hence driving better financial performance outcomes. Kahuko (2018) indicated that annual bonuses for CEO, their fixed salaries and allowances had significant effect on financial performance.

This study focused on three aspects of corporate governance being the board independence, ownership concentration and chief executive officer (CEO) compensation. These variables have been selected based on literature as reviewed in the background (Nguyen, Nguyen, Le & Le, 2022). Board independence is reflected and determined by the number of independent directors on the board. Ownership concentration is the highest percentage of shares held by the top shareholder (Thoha, Nugraha, Suryoko, Nadhifah&Rhosyida, 2022). This may include the government and their influence may determine the decisions undertaken for supporting the operations of a financial institution. CEO compensation is the amount of monetary and non-monetary rewards paid to the CEO (Ali, Rani, Shaikh & Shaikh, 2021).

1.1.2 Financial stability

Financial stability is defined as a state where there is fluctuation in the process of financial intermediation such that confidence is established among customers (Kiemo, Olweny, Muturi & Mwangi, 2019). It is also defined as the smooth operation of the system involved in the financial intermediation process in an economy(Ndinda, 2023). It is the capacity of the financial institution to carry out and achieve its financial intermediation role without reducing the level of confidence of customers in an economy (Odundo&Orwaru, 2018). It is maximum execution of operations in a financial institution in a way that is efficient and effective through sound financial structures.

Financial stability plays a critical role in an economy by facilitating exchange in value. It helps in facilitating the movement of funds from units having surplus to those with deficits in a way that is efficient hence supporting the growth and development of an economy(Ngaira&Miroga, 2018). One of the widely documented measures of financial stability is the use of Z-score through credit risk that incorporates non-performing loans as well as insolvency risk. This is usually determined on the basis of computed values of returns on assets (ROA) as well as equity (ROE) (Koskei, 2020). Thus, financial stability in the present study will be measured using ROE.

1.1.3 Firm age

Firm age is the number of years which an institution has been in operations since the year of establishment. This results into categorization of firms as under young or mature/older enterprises. There could exist some differences in financial stability of the new and relatively older firms (Memon & Samo, 2019). New firms in the industry are expected to be less stable compared to the

relatively older firms that have been in operation for a significant period of time (Gunu & Adamade, 2015).

Having been in an industry for a significant period of time, older firms are expected to be enjoying the economies of scale that allow them to achieve financial stability. In this study, firm age will be used as a moderating variable as successfully adopted by Kieschnick and Moussawi (2018). From the ongoing analyses, it can be asserted that age is moderator variable that has been adopted in the available literature. This study will consider firm moderator variable and it will be measured through natural logarithm of the number of years that respective firms will have been in operation.

1.1.4 Firm age, corporate governance and financial stability

Age of the firm is reflected in the number of years that an enterprise has been in operation. Young firms are relatively less stable and they and they can withstand significant period of uncertainties and instabilities that are usually evident in an economy. The relationship between firm age, corporate governance and financial stability is gaining momentum. Kieschnickand Moussawi (2018) indicated that firm age positively enhances the use of debts by management to achieve financial stability. Memon andSamo (2019) indicated that board independence negatively affects leverage although this effect reduces as the firm ages. Mallinguh, Wasike and Zoltan (2020) noted that financial stability of a financial institution is affected by both its age and the mechanisms of corporate governance that have been put in place.

Rwakihembo, Aryatwijuka, Kalinda and Nimusiima (2023) said that firm age influences financial stability. Ali, Rani, Shaikh and Shaikh (2021) noted that the level of board independence and firm age have positive and significant effect on financial stability. The foregoing discussion

indicate that the relationship between firm age, corporategovernanceand financial stability is mixed andinconsistent. It can be positive or negative, significant or insignificant. This same inconsistency will be cleared in the present proposed study.

1.1.5 Microfinance banks in Kenya

Microfinance is a financial institution that provides customized credit facilities to customers depending on their specific needs. They are special financial institutions designed to provide small credit facilities to people drawn from low income class or groups (Karanja &Simiyu, 2022).The reason why these low-income individuals are targeted by the microfinance is because they are unable to obtain similar credit facilities from large financial institutions like commercial banks. These institutions have long been designed and established to eradicate poverty and thus contribute towards the growth of the economy of the country (David &Muendo, 2018).

In Kenya, the microfinance sector is structured into credit only institutions and those that are allowed to accept deposits from customers (microfinance banks). This study will focus on microfinance banks in Kenya that are regulated by the Central Bank of Kenya (CBK) alongside other commercial banks (Ndirangu, Kiragu & Ngunyi, 2020). Financial stability has remained a key challenge of these microfinance banks in Kenya in the last decade with most of them posting losses (Ndirangu & Kimani, 2022). The loss making trend of these institutions has negatively eroded their ROE and ROA which are key in determination of Z-score when determining their financial stability. This therefore provides the basis and justification of conducting the proposed study.

1.2 Statement of Problem

Financial stability is important, especially to financial institutions that have a role of mobilizing deposits and lending out the same to customers in form of loans. In doing so, these institutions usually contribute towards financial inclusion which is key towards the growth of the economy for developing and developed countries in the world (Ngaira & Miroga, 2018). Institutions with financial stability issues may not be able to effectively realize their role in the economy as financial intermediaries. Central Banks in developing and developed countries in the world are more active in ensuring that financial institutions are financially stable so that deposits of the customers are safeguarded (Ndinda, 2023).

Financial stability has remained a major challenge of the microfinance banks in Kenya. Statistics from the Central Bank of Kenya show that for the period 2018-2022, the aggregate net incomes of these institutions have been negative with return on equity (ROE) and asset (ROA) values averaging at 13.24% and -1.55% respectively. This implies that these institutions have been posting losses (CBK, 2022) hence providing a pointer of concern about their financial stability. The instability of these microfinance banks is detrimental to the survival of the entire financial sector and the economy at large. This can also expose the institutions to different shocks which in turn could cause bankruptcy and possible collapse leading to significant loss in customer deposits (Odundo & Orwaru, 2018). This is especially true if the global financial crisis witnessed in 2007/2008 is to be considered (Pattnaik, Hassan, Kumar & Paul, 2020). Effective corporate governance is envisaged to help these institutions to solve the aforementioned challenges and concerns about corporate governance. All these issues that provide strong justification of the current problem of financial instability in the microfinance banking sector which deserve urgent measures to address hence the need of this proposed study.

The available studies include Thoha*et al*. (2022) who determined how good corporate governance affected financial stability in Indonesia. Nguyen et al. (2022) evaluated the effect of corporate governance on financial stability of commercial banks in Vietnam. Affes and Jarboui (2023) studied how corporate governance affected financial performance in UK. Li, Kong, Atuahene, Bentum-Micah and Agyapong (2020) studied how corporate governance and banking stability were linked to each other using evidence from Universal Banks in Ghana. Musau (2020) analyzed how corporate governance affected financial performance of savings and credit cooperatives in Nairobi. Chege (2021) covered listed banks in Kenya and determined how corporate governance affected their financial performance.

However, the aforementioned studies like Affes and Jarboui (2023) and Li, Kong, Atuahene, Bentum-Micah and Agyapong (2020) were done in UK and Ghana away from Kenya. Other studies like Musau (2020) used financial performance and not financial stability as the dependent variable. All these create gaps that will be filled by the present study which sought to establish the effect of firm age on corporate governance and financial stability of microfinance Banks in Kenya'.

1.3 Research Objectives

The study had the following general and specific objectives:

1.3.1 General objective

The general objective was to establish the effect of firm age on corporate governance and financial stability of microfinance Banks in Kenya.

1.3.2 Specific objectives

The following specific objectives guided the proposed study:

i. To establish the relationship between board independence and financial stability of microfinance banks in Kenya
ii. To determine relationship between ownership concentration and financial stability of microfinance banks in Kenya
iii. To analyze the relationship between CEO compensation and financial stability of microfinance banks in Kenya
iv. To assess the moderating effect of firm age on the relationship between corporate governance and financial stability of microfinance banks in Kenya

1.4 Research Hypotheses

The study tested the following hypotheses:

H01: There is no statistically significant relationship between board independence and financial stability of microfinance banks in Kenya

H02: There is no statistically significant relationship between ownership concentration and financial stability of microfinance banks in Kenya

H03: There is no statistically significant relationship between CEO compensation and financial stability of microfinance banks in Kenya

H04: Firm age has no statistically significant moderating effect on the relationship between corporate governance and financial stability of microfinance banks in Kenya

1.5 Significance of the Study

The findings of the study would be significant to the following:

1.5.1 Board of Directors

The study would guide the board of directors working with Microfinance banks in Kenya to improve and strengthen their role in corporate governance process. These board would understand the need for independence and the relevance of the same towards financial performance of these institutions. It would guide these boards to be more independent so as to effectively provide oversight role towards the management team.

1.5.2 The Management Team

The management of these institutions will also understand its roles in strengthening the corporate governance mechanisms in order to achieve financial stability. The managers of these institutions would be in position to understand their role in promoting corporate governance. They would understand their role and how best to align the same with the interests of shareholders of these institutions.

1.5.3 Policy Makers

The policy makers at CBK would be able to come up with effective policies top guide and operationalize corporate governance mechanisms embraced by these microfinance banks in Kenya. New policies guiding corporate governance of these banks would be formulated to promote financial stability and inclusion in the economy at large.

1.5.4 Future Scholars and Researchers

The study would allow future scholars carrying out related studies to review literature thus creating more knowledge in the economy. Scholars in future would be able to review literature of this study and this would boost and increase the level of information and knowledge available on corporate governance and financial stability.

1.6 Scope of the Study

The study sought to establish the moderating effect of firm age on the relationship between corporate governance and financial stability. Three specific aspects of corporate governance covered included board independence, ownership concentration and CEO compensation. The study was conducted among microfinance banks in Kenya. The study was done in May-June, 2024 using secondary data collected on a period 2019-2023.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

The chapter covers the theories and past empirical studies. Conceptual framework and operationalization of variables are also detailed.

2.2 Theoretical Review

This study was guided by the agency theory and the stewardship theory as discussed below:

2.2.1 Agency theory

Jensen and Meckling (1976) formulated this theory, and it describes the relationship existing between the management as the agents and the shareholders as principals. In this interaction, the theory regards managers as opportunistic and self-interested individuals whose interests may not fully be aligned with the owners of the firm (Panda & Leepsa, 2017). In countering these conflicts of interests, the theory requires organizations to have in place boards of directors to safeguard the interests of the owners of the firm. Thus, this agency theory is the foundation of company. A fiduciary duty is a duty of trust. A director must act on behalf of the company in total modern corporate governance practices and endeavors. In aligning the interests of the shareholders to those of the management, this theory argues that some agency costs are incurred (Lambert, 2006). The theory provides the board and the costs incurred to maintain the same in terms of compensation as critical in allowing it carry out its oversight role to check the actions of the managers (Shogren, Wehmeyer & Palmer, 2017).

The theory regards directors of the firm to be having fiduciary role to the company. In this regard, they are expected to demonstrate highest level of trust to the company which they manage and control as agents. However, the already indicated self-interested behavior of the directors may complicate their ability to act and operate as stewards and hence fail to demonstrate their fiduciary role to the company (Bendickson, Muldoon, Liguori & Davis, 2016). In aligning the interests of the owners of the firms with those in management, some costs are incurred. These are referred to agency costs and they increase as the firm also expands and increase in size. The aspects of these agency costs include the expenses incurred to monitor behavior of managers for ensuring their interests are well aligned with owners of the firm. These may also include the fees charged and incurred by the firm to support and run auditing activities. The other aspects of these costs include the expenses that are met to lower the costs of agency problem in an organization like share options or free share ownership in the firm. These also include the amount of remuneration perks that are paid to the directors of the firm (Mitnick, 2015).

Thus, in allowing managers to create more value to the firm and limit the said conflicts of interests, effective and competitive remuneration packages should be provided to them by owners. Besides remuneration, increasing the accumulation of debt in the financial structure of the firm can also aid to lower agency problems between managers and the owners of the firm. This is because debts would discipline them to engage in activities and invest in viable projects that generate revenues for debt repayment. Jensen and Meckling (1976) argued that agency problems are more pronounced in large firms which have a profitability record since the amount of free cash flows they generate are huge. Instituting a board of directors has also been identified as a mechanism of reducing agency problems between managers and the owners of the firm. Fama

and Jensen (1983) content that the constitution and composition of this board plays an instrumental role in reducing agency problems.

This theory has however been criticized for failing to offer a comprehensive account of the reason and main motive for the self-interested egocentric behavior of the managers that only amplifies the agency problems in the firm. Not all managers are guided by self-egocentric tendency. The relevance of this theory to the present study is that it will underpin the broad independent variable of the study being corporate governance and its proxies like board independence, CEO remuneration and ownership concentration. Thus, a significant relationship is predicted between this agency theory and financial stability.

2.2.2 Stewardship theory

This theory was developed by Donaldson and Davies (1991) and it argues that managers being agents are trustworthy and thus effectively utilize the resources provided to them including assets. This is theory where managers are not motivated to realize their individual and selfish goals but those that are well aligned with objectives of the principal. In this theory, managers are believed to give their value to reputation. The theory notes that stewards under the theory derive their satisfaction and motivation whenever the firm remains successful (Davis, Frankforter, Vollrath & Hill, 2007). The theory provides an incentive for managers to exercise autonomy when working in effort to maximize returns of their shareholders.

Thus, under the stewardship lens, the costs incurred to monitor and control the actions of managers are minimized (Segal & Lehrer, 2012). In this theory, a more unified role of the managers is suggested with aim of reducing agency costs. This also can allow them to effectively execute their roles as stewards of the firm.This theory is a normative alternative to the previously

discussed agency theory (Keay, 2017). The main argument is that when managers have been presented with an opportunity to engage in actions of the firm, they would do so as stewards of the assets of the firm. Effective and efficient stewards are managers who cooperate with employees in a manner that seeks to achieve the objective of wealth maximization. It is intrinsic rewards that guide and motivate stewards, these include realization of trust, earning recognition, and stability of their tenure in the firm (Chrisman, 2019).

Based on this theory, an insignificant role is expected between corporate governance and its elements on financial stability. This is because under this theory, managers are expected to lack the self-interested behavior discussed under the agency theory. Hence, this stewardship theory is in sharp contrast with the agency theory. It has been criticized for over assuming that managers are not self-interested, which is not the usual case as demonstrated in the agency theory (Davis, Schoorman & Donaldson, 2018). The relevance of this theory to the present study is that it will help to establish if corporate governance plays a significant role in promoting financial stability.

2.2.3 Theory of growth of the firm

The proponent of this theory was Penrose (1959) and it argues that within their course of operations shaped by their age, firms seek to grow and expand operations. It is defined in this theory that a firm is an institution that is established by individuals so that their goals and objectives can be achieved. People who are owners make all efforts to establish firms so that they can engage in operations and activities that maximize their wealth (Penrose, 2009). In this theory, firms are seen to comprise of bundles of resources which can be utilized by managers to create value for owners. These resources include human beings like employees and the finances and other physical facilities that are utilized on adaily basis by staff to achieve the formulated goals (Arkolakis, 2016).

These resources are utilized by firms to carry out specific tasks within the years of its operations for maximization of value. The theory further indicates that at their early, firms do encounter challenges of limited economies of scale, and this constrains the revenues at this stage (Coad, A., & Guenther, 2014). However, when a firm has operated in an industry for a relative period of time in terms of years, it gains stability and may be viewed as more stable compared to relatively young and upcoming firms (Coad & Guenther, 2014). Processes of firm growth and diversification: theory and evidence. Small. The theory offers the existing difference between small and large firms in terms of resources. It argues that larger firms have more resources at their disposal which can be used to support growth endeavors as compared to the smaller firms (Coad & Hölzl, 2012).

Critics of this theory argues that it confines and reduces the far-reaching goal of the firm to achievement of growth. In practice, firms have other incentives guiding their reasons for existence other than only growth (Pitelis, 2009). Despite this criticism, this theory will help to anchor the moderating variable being firm age. It is expected from this theory that relatively older firms are more stable, will have achieved growth as compared to new and less old firms. It is also anticipated from this theory that relatively older firms are large, implying that agency conflicts and problems are expected be higher in such firms compared to smaller firms.

2.2.4 Resource based view

The proponent of this theory was Wernerfelt (1984) and later developed further by Barney (1991). Its central tenet and argument are that firms need to effectively leverage the bundles of resources that they have in place in achieving competitive advantage and hence financial stability. It argues that firms operate in static environment when gaining and sustaining competitive advantage is

influenced by the use of resources and capabilities that are in place like employees, their specific skills and knowledge as well as competences (Barney, &Arikan, 2005).

The theory further indicates that gaining competitive advantage and thus financial stability is influenced by having in place resources which are rare, valuable and which cannot easily be initiated by competitors in an organization (Newbert, 2007). Possession of such resources make it hard for competitors to copy or imitate and this provides long term competitive edge to the firm in place. Resources can be tangible or intangible, can be internal or external to the firm (Madhani, 2010). The limitation of this theory however is that it largely operates on a premise that firms are operating in a static rather than a dynamic environment.

The above said limitation gave rise to the development and postulation of the dynamic capability theory (Clulow, Barry & Gerstman, 2007). In spite of this weakness, the resource based view is found relevant in the present study whose dependent variable is financial stability. It is expected that effective utilization of the existing resource bundles in the firm can allow it gain and sustain its competitive advantage which in turn leads to financial stability. Thus, the theory will appraise the central role played by the board of directors as resources in a firm that can drive financial stability of their respective institutions.

2.3 Empirical Review

A review of literature is as set out in subsequent sections below:

2.3.1 Board independence and financial stability

The focus of the study in Vietnam by Ngo, Le, Nguyen andLuu (2023) was on independence of the board and its implication on financial performance where the moderator variable was market

competition. Non-executive members and duality role were measures of independence of the board and gathering of information was from auxiliary sources on the time period from 2016 to 2020. Panel data was adopted for processing of the obtained information where it became apparent after analysis that the duality role of the CEO was negatively linked with financial performance while the proportion of non-executive members had positive relationship with financial performance.

Almaqtari, Farhan, Al-Hattami and Elsheikh (2022) covered Indian listed entities on the period 2010-2019 and determined the moderating implication of change in independence of the board in the nexus between attributes of the board and financial performance. The measures of financial performance adopted included earnings per share as well as Tobin Q. The processed and analyzed data gave an indication of existence of inverse but significant nexus between independence of the board and financial performance.

Potharla and Kolpula (2023) conducted a study with focus on board independence and its implication on stability of earnings with focus on firms in Indian context. The study was anchored by dynamic stewardship as well as resource dependence theory. Information was drawn from auxiliary sources and the analysis was aided by quadratic regression. The proxy of earning stability was return on assets. It was established from the analysis that a U-shaped nexus exists between independence of the board and earnings stability

Sanni (2019) analyzed the link between independence of the board, management of risk and financial performance of deposit taking banks in Nigeria. The embraced design in this study was correlational in nature and the period considered was 2009 to 2018. In total, 14 banks were covered from which 12 were sampled purposively. Leveraging panel data, board independence and financial performance were found to be having positive interplay with each other.

In a study conducted in Nigeria by Oludele, Margret and Tobiah (2016), the main focus wason determining relationship between independence of the board and financial performance of listed enterprises. The key emphasis was on manufacturing entities that added to 74 in total from which 34 were sampled purposively. Information was obtained in its first hand and auxiliary form. The gathered and processed information indicated existence of significant connection between independence of the board and financial performance of manufacturing listed entities in Nigeria.

In Kenya, Ombaba, Kosgei and Muriuki (2018) covered corporate entities and determined the link between board independence and financial sustainability. Exploratory design was used and panel data methodologies were incorporated. In total, 39 listed entities were covered in the period from 2004 all through to 2013. The processed data indicated existence of inverse nexus between independence of the board and financial distress. The study conducted by Abdifatah (2020) was an evaluation of the relationship existing between the independence of the board and performance in operational terms. The study focused on the Kenyan listed construction firms. Descriptive survey was adopted with collection of secondary data. The analysis was able to point out that board independence significantly determines operational performance at firm level.

2.3.2 Ownership concentration and financial stability

Huang (2023) determined how ownership concentration was linked with stability of the bank with evidence from China. The specific focus of the inquiry was listed banks in Chinese context. The measure of financial stability was z-score. Auxiliary information was gathered and processed and the results were that ownership concentration and financial stability were positively linked with each other. This positive effect was found to be more pronounced for banks that were smaller in their relative sizes. In Vietnam, Duong, Huynh, Van-Nguyen and Le (2022) analyzed the link

between innovation and ownership concentration and their implication on financial stability with emphasis on energy entities. The total number of firms covered were 103 and the horizon was 2007-2020. Through panel data as a methodology, it became apparent that ownership concentration and innovation were positively linked with financial stability.

Gupta, Mittal, Agarwal, Bakhshi and Sahoo (2022) focused on Indian banks and did an analysis of the link between ownership concentration and financial performance. The time period was 2009-2019 and information gathering was from auxiliary sources. It was noted after data processing that the shareholder with highest shareholding exerts greater effect on financial performance of the bank. Ozili and Uadiale (2017) aimed at determining how ownership concentration was connected with profitability of the bank. The total direct equity shares by the majority shareholder proxied ownership concentration. It was shown that financial entities having higher concentration in ownership are characterized by higher returns generated on assets as well as their net interest margins are also high

Abdullah, Sarfraz, Qun and Chaudhary (2019) conducted an assessment in Pakistan with focus on ownership concentration and its implication on financial performance. In total, 36 firms were covered and which had been listed. Gathering of information was from annual reports and publications from these firms. The approach embraced in this study was quantitative in nature. The processed information provided an indication of existence of nexus which was inverse between ownership concentration and ROA.

In a study that was done by Kiruga, Ombok and Adoyo (2023), the main focus was on ownership concentration and its nexus with financial performance taking evidence from listed entities in Kenya. The period considered was 2016-2020 and gathering of information was

reinforced by auxiliary sources. The analysis was able to point out existence of significant nexus between ownership concentration and performance in monetary terms. In particular, both local and government ownership concentration were found to have negative nexus with financial performance in the studied firms.

The focus of the study by Muriungi, Mwangi, Kinoti and Okiro (2021) was ownership concentration and its effect on financial decision and value of the firm. The study covered listed firms in Kenya. The time period considered was 2008 all through to 2017. The agency theory and institutional monitoring theory guided the study variables. The analyzed findings indicted existence of significant effect of ownership concentration on investment decisions. Enkirisai (2018) explored the relationship existing between ownership structure of the firm and the link with performance focusing on State owned entities in the NSE. The adopted design was quantitative in nature. Among the theories that were adopted included the stakeholder theory and the theory of growth of the firm. Total of 11 listed parastatals were covered. The collected information afteranalysis indicted that ownership structure was significant predictor of performance.

2.3.3 Chief executive officer compensation and financial stability

Ahamed (2022) was interested in determining how compensation of the CEO was linked with financial performance of banks with focus on Bangladesh. The period of consideration was 2010 all through to 2020. The analyzed results were that a positive and significant connection is evident between compensation to CEO and financial performance. Chatterjee, Jia, Nguyen, Taylor and Duong (2023) determined how remuneration to the CEO and financial distress were linked with the lifecycle of the firm. The time period was 2004 all through to 2021 and the processed

information shoed that the state of financial distress of an enterprise and remuneration to the CEO are inversely linked with each other.

Jeff-Boakye, Sam-Ahinful and Nsor-Ambala (2020) covered alternative investment markets in the United Kingdom and determined how compensation of CEO affected financial performance. The specific emphasis of this inquiry was on 201 AIM listed entities in UK. The time considered was 2011 running all through to 2016. The processed data provided evidence of existence of nexus between remuneration of the CEO and financial performance.

Tarus (2014) covered the nexus existing between compensation of the CEO and financial performance with focus on insurance firms. The approach adopted in this study was quantitative in nature and gathering of information was from auxiliary sources. It was noted that there existed non-significant but inverse link between compensation of CEO and financial performance. The interpretation of the inverse connection gave suggestion for the need to cap the compensation of CEO for maximization of shareholders' wealth.

Omamo, K'obonyo and Muindi (2022) focused on establishing the effect of CEO compensation on financial performance. The study was conducted focusing on listed firms in Kenya that were 65 in total. The study utilized data from primary sources. Once information had been gathered and analyzed, the findings were that competitive remuneration packages paid to the CEO is motiving tor them to achieve the goals of the firm hence driving better financial performance outcomes. Kahuko (2018) covered listed banks in Kenya will collection of secondary data to determine the effect of CEO compensation on financial performance. The timeframe was 2012 all through to 2027. The analyzed findings indicated that annual bonuses for CEO, their fixed salaries and allowances had significant effect on financial performance.

2.3.4 Firm age, corporate governance and financial stability

Kieschnick and Moussawi (2018) focused on the age of the firm, corporate governance issues and the choices of capital structure. The processed information indicated existence of correlation between the use off debts and the age of the firm. Memon and Samo (2019) covered corporate governance concerns, the age of the firm and leverage and the connection between them borrowing evidence from China among its listed entities. It emerged that the duality role of the CEO and commissions to the board significantly determined leverage. On the other hand, the independence of the board and leverage was found to be negative.

Mallinguh, Wasike and Zoltan (2020) concentrated on medium sized entities and determined how the sector of the firm and its age affected its financial performance. The analysis of the data indicated that firm age significantly affected leverage at firm level. Rwakihembo, Aryatwijuka, Kalinda and Nimusiima (2023) covered listed entities in Uganda and examined the nexus between age of the firm and financial performance. Cross sectional design was adopted, and information was obtained from primary sources aided with questionnaire. It was noted after analysis that the age of the firm and financial performance is positively linked with each other. Ali, Rani, Shaikh and Shaikh (2021) focused on Pakistan and determined how corporate governance, the age of the firm and capital structure were linked. Panel data of non-financial firms listed within Pakistan's context was used. It was shown that the age of the firm and its size are positively linked with financial performance.

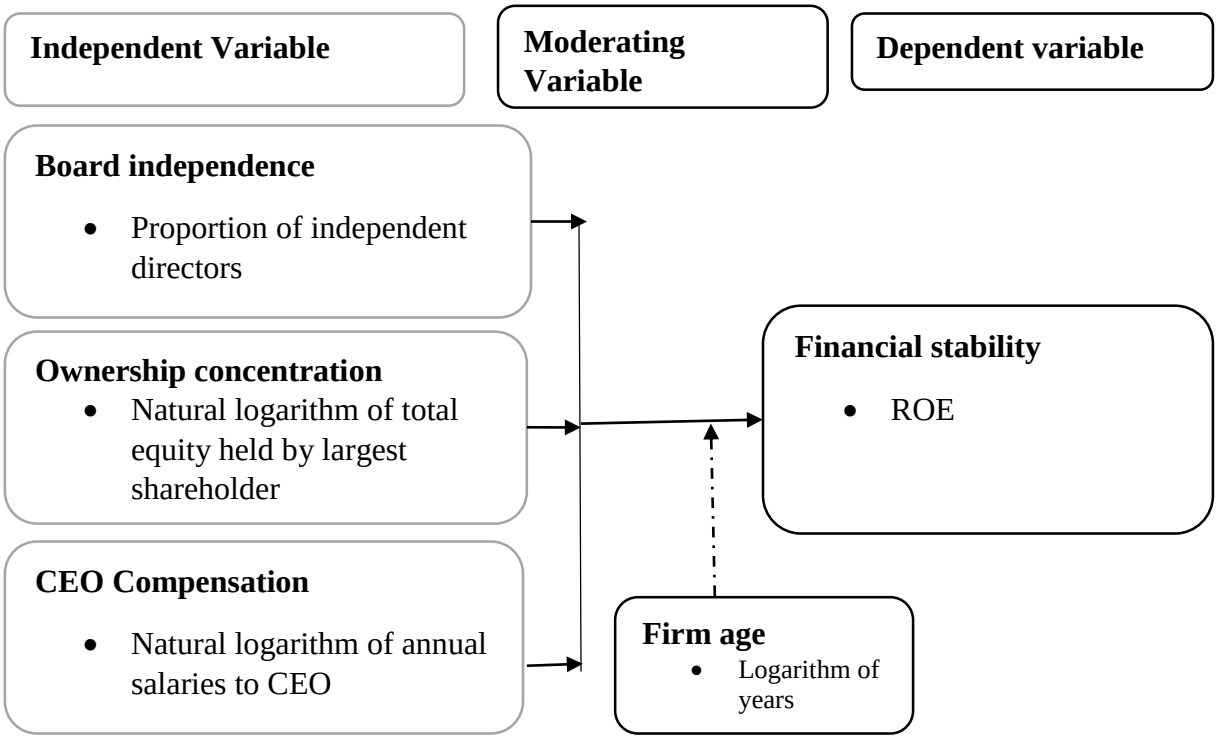
2.4 Conceptual Framework

Consider Figure 2.1. In Figure 2.1, the broad independent variable of the study being corporate governance was proxy by board independence, ownership concentration as well as CEO

concentration. On the other hand, firm age was the moderator variable. Financial stability was taken as the dependent variable. The essence of the present study was determining the implication of board independence, ownership concentration and CEO compensation all in relation to financial stability with firm age as a suitable moderator variable.

FIGURE 2. 1

Conceptual Framework



Source: Author 2024)

2.5 Operationalization of Variables

Table 2.1 is the operationalization of the study variables:

TABLE 2.1

Operationalization of Variables

Variable	Scale of measurement	Indicators/measurement	Supporting literature
Independent variable board independence	• Ratio	No. of independent directors./Total directorship	Almaqtari et al. (2022)
Independent variable ownership concentration	• Interval	Natural logarithm of total equity held by largest shareholder	Gupta et al. (2022)
Independent variable CEO compensation	• Interval	Natural logarithm of annual salaries to CEO	Ahamed (2022)
Moderating variable firm age	• Interval	Logarithm of firm years of operation	Kieschnick and Moussawi (2018)
Dependent variable financial stability	• Ratio	ROE	Koskei(2020)

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

The chapter covers the research design, targeted population as well as sample size determination. The instrument for gathering data and associated procedures and analysis is also indicated in this chapter.

3.2 Research Design

Research design is a structure or plan that determines how the study is to be conducted in terms of data collection and processing (Harris, Holyfield, Jones, Ellis & Neal, 2019). It is an outline that provide clear picture from the start to the end of the study (Bougie & Sekaran, 2019). This study adopted explanatory design to meet the formulated objectives. According to Liamputtong (2019), explanatory design usually quantitative techniques and is more idea in testing of hypotheses. The present study was guided by null hypotheses and their analysis and testing to determine whether they are accepted or rejected was taken careof by this explanatory design.

3.3 Target Population

Target population is a collection of individuals having similar observable attributes that of great interest to the researcher (Strijker, Bosworth & Bouter, 2020). This study targeted 12 Microfinance banks licensed by CBK (appendix I). Since the population was small and could easily be accessed, census was undertaken. N/B: While the above 12 MFIs could be small to support generalization of the findings, the adoption of cross-sectional approach involving a 5-year period meant a total of 60 data points that were adequate to support generalization of the results of the study.

3.4 Sample Size and Sampling Techniques

The selection of representative units from the target population is called sampling. It is usually done to save on money and time (Dźwigoł, 2019). In this study, census was undertaken hence no sampling was required. Thus, all the 12 microfinance banks licensed by CBK were included in the analysis.

3.5 Research Instrument

The study collected secondary data with the aid of the data collection sheet. This secondary data was collected from secondary sources like CBK reports and financial statements of respective institutions. The study focused on a 5-year period (2019-2023). This period was selected because it is more current and up to date.

3.6 Data Collection Procedure

The study accessed secondary data through online reports and publications from CBK and respective institutions. The reports were downloaded and saved after which an excel file was opened and relevant information keyed in. Care was exercised to ensure information gathered from the reports isas accurate as possible.

3.7 Data Analysis and Presentation

This study adopted panel data. The analysis was performed through means and standard deviations, correlation and regression analysis and presented through tables and figures.

3.7.1 Model specification

Below is the regression model that aided in the analysis of results:

$$Y_{it} = \beta_0 + \beta_1 X_{1it} + \beta_2 X_{2it} + \beta_3 X_{3it} + \beta_4 FA_{4it} + \beta_5 CG*FA_{4it} + \varepsilon$$

Where Y_{it} = financial stability of microfinance bank i at time t

B_0 = Constant

β_1, β_2, β_3, β_4 and β_5 are Coefficients

ε = error term

FA_{4it}= Firm age of microfinance bank i at time t

$CG*FA_{4it}$ = Interaction term of microfinance bank i at time t

3.7.2 Diagnostic tests

The assumptions of regression analysis were tested before the actual data was keyed and processed to generate results. More specifically, the study tested for multicollinearity test, autocorrelation and Heteroskedasticity Test. Each of these tests will be interpreted appropriately.

3.7.1.1 Multicollinearity Test

Multicolinearity arises whenever one of explanatory variable has high correlation with others which need not to be the case (Strijker, Bosworth & Bouter, 2020). This condition is undesirable unless it is treated. The study determined the values of Variance of Inflation Factors (VIF) to test for multicollinearity and as noted by Bougie and Sekaran (2019), such values in the range of 1-10 signifies absence of this condition.

3.7.1.2 Autocorrelation Test

Autocorrelation is the presence of serial correlation in the sample data, and it should not be case (Dźwigoł, 2019). In this study, the presence of serial correlation was determined through Durbin Watson statistic with values ranging approaching 2 signifying absence of this condition as observed by Harris, Holyfield, Jones, Ellis and Neal (2019).

3.7.1.3 Heteroskedasticity Test

The presence of this assumption was tested in this study through Breusch Pagan test with the recommendation by Eden and Nielsen (2020) that p>.05 means absence of this condition.

3.7.3 Panel data analysis

Since this study was conducted using 12 microfinance banks as licensed by CBK on the period of 5 years (2019-2023), panel data methodologies were adopted. This implies a total of (12*5) data points. To begin with, the data was first entered into excel and key ratios measuring each variable being appropriately determined. Thereafter, it was exported to Stata software version for performing panel data analysis. Efforts were made to ensure that the resultant dataset from excel is balanced before exporting to Stata. Diagnostic tests listed above were then followed after which determination of fixed or random effect was conducted as discussed below:

Fixed effect (FE) model: This is a model where all time variant differences are controlled between individuals to avoid biasness of its estimated coefficients due to omitted time variant attributes. The only limitation with FE model is that it cannot be used to analyze time-variant causes of the dependent variables. Thus, these models are suitable for investigating and determining the causes of changes within an individual or organization. The fixed effect model of an entity generally takes the following form:

$$Y_{it} = \alpha_i + \beta X_{it} + u_i + e_{it}$$

$$i = 1...n \; ; \; t = 1....T$$

Where:

Y_{it} outcome variable (for entity *i* at time *t*).
α_i is the unknown intercept for each entity (*n* entity-specific intercepts).
X_{it} is a vector of predictors (for entity *i* at time *t*) .
u_i within-entity error term ; e_{it} overall error term.

The interpretation of a βcoefficient: for a given entity, when a predictor changes one unit over time, the outcome will increase/decrease by βunits (assuming no transformation is applied).* Here, βrepresents a common effect across entities controlling for individual and time heterogeneity.

Random effect (RE) model: This is a model where variation across entities is assumed to be uncorrelated and random within the independent/predictor variables that have been incorporated in the model. An assumption made by RE model is that the error term of an entity is not correlated with the predictors such that time invariant variables can act as explanatory variables. The RE model can take the following form:

$$Y_{it} = \alpha_i + \beta X_{it} + \gamma Z_i + e_{it}$$

Where Y_{it} is the dependent variable of firm i at time t

X_{it} and Zi represent number of predictor variables in a sample study while e_{it} is the error term

Hausman test: To choose between RE and FE model, Hausman-test is used (Green, 2008) where the null hypothesis is that the models are not random. The p-values after running this test can be interpreted appropriately based on the said null hypothesis so as to choose between RE or FE model. If Prob > chi2 is < 0.05, one should use fixed effects

Langrage multiplier (LM) test: This test is conducted to decide whether to use RE or simple ordinary least square model (discussed under 3.7.1 under model specification). When using LM test, the null hypothesis is that variances across entities are equal to zero that is, there is no significant difference across units (i.e. no panel effect). When Prob > chibar2 < 0.05, we fail to accept the null hypothesis and conclude that random effects are needed.

CHAPTER FOUR

DATA ANALYSIS AND DISCUSSION

4.1 Introduction

The analysis and presentation of results is as set out in the subsequent sections. The study targeted 14 MFIs institutions in Kenya. An important point to note is the fact that some of these MFIs had undergone mergers and acquisitions resulting into change in names of the parent MFIs. For instance, while Century MFI is now named Branch MFI, Key MFI is now referred to as LOLC with Uwezo being named Salaam Microfinance Bank. Muungano Microfinance Bank PLC' was licensed on 30.10.2019. Cactus Cantina Investments Limited acquired 55.8% of Maisha MFB on 01.05.2023 and named it On It MFB. Hence the two MFB's were excluded from the analysis and hence a total of 12 MFIs were covered on a period of 5 years thus adding to 60 data points which were adequate to support the analysis of the findings.

4.2 Summary of Descriptive Statistics

Consider Table 4.1.

TABLE 4. 1

Summary of Descriptive Statistics

Variable	Obs	Mean	Std. Dev.	Min	Max
Boardindep~e	60	.3937111	.0734674	.2727273	.5454545
Ownershipc~n	60	2.525906	.5128237	.7781513	3.600319
CEOCompens~n	60	.7072063	.5430089	0	2.255273
Firmage	60	.7695137	.3059625	0	1.146128
CorporateG~e	60	3.626823	.8347407	1.564034	6.144643
Interacton~m	60	2.894493	1.35018	0	5.86348
Financials~y	60	-.2647463	.6971007	-4.135135	.565097

From the findings in Table 4.1, the mean value of board independence stood at 0.3937111. This implies that overall, 39.37% of the directors working with microfinance banks in Kenya were independent while the rest were non-independent. The role played by independent directors of the firm on soundness and stability cannot be underscored. The focus of the study in Vietnam by Ngo, Le, Nguyen and Luu (2023) was on independence of the board and its implication on financial performance where the moderator variable was market competition. Panel data was adopted for processing of the obtained information where it became apparent after analysis that the duality role of the CEO was negatively linked with financial performance while the proportion of non-executive members had positive relationship with financial performance. Almaqtari, Farhan, Al-Hattami and Elsheikh (2022) covered Indian listed entities on the period 2010-2019 and determined the moderating implication of change in independence of the board in the nexus between attributes of the board and financial performance. The measures of financial performance adopted included earnings per share as well as Tobin Q. The processed and analyzed data gave an indication of existence of inverse but significant nexus between independence of the board and financial performance. Potharla and Kolpula (2023) established from the analysis that a U-shaped nexus exists between independence of the board and earnings stability Sanni (2019) analyzed the link between independence of the board, management of risk and financial performance of deposit taking banks in Nigeria. Leveraging panel data, board independence and financial performance were found to be having positive interplay with each other. Oludele, Margret and Tobiah (2016) determined the relationship between independence of the board and financial performance of listed enterprises. The gathered and processed information indicated existence of significant connection between independence of the board and financial performance of manufacturing listed entities in Nigeria. In Kenya, Ombaba, Kosgei and Muriuki (2018) covered corporate entities and determined

the link between board independence and financial sustainability. The processed data indicated existence of inverse nexus between independence of the board and financial distress. The analysis was able to point out that board independence significantly determines operational performance at firm level.

The mean value of ownership concentration stood at 2.525906, CEO compensation at 0.7072063 and firm age at 0.7695137.This shows that on overall, there was concentration in the board of the firms that were covered in this study. The findings further indicate that CEOs of the studied institutions received considerable remuneration which perhaps acted as a reward for their efforts. The entire score of corporate governance across all the studied microfinance banks stood at 3.626823 with financial stability standing at - 0.2647463. The most surprising findings in this study is the negative value under financial stability. This could be an indication that the financial stability of the studied banks was being threatened. Huang (2023) determined how ownership concentration was linked with stability of the bank with evidence from China. The specific focus of the inquiry was listed banks in Chinese context. The measure of financial stability was z-score. Auxiliary information was gathered and processed and the results were that ownership concentration and financial stability were positively linked with each other. This positive effect was found to be more pronounced for banks that were smaller in their relative sizes. In Vietnam, Duong, Huynh, Van-Nguyen and Le (2022) analyzed the link between innovation and ownership concentration and their implication on financial stability with emphasis on energy entities. The total numbers of firms covered were 103 and the horizon was 2007-2020. Through panel data as a methodology, it became apparent that ownership concentration and innovation were positively linked with financial stability.

Gupta, Mittal, Agarwal, Bakhshi and Sahoo (2022) focused on Indian banks and did an analysis of the link between ownership concentration and financial performance. The time period was 2009-2019 and information gathering was from auxiliary sources. It was noted after data processing that the shareholder with highest shareholding exerts greater effect on financial performance of the bank. Ozili and Uadiale (2017) aimed at determining how ownership concentration was connected with profitability of the bank. The total direct equity shares by the majority shareholder proxied ownership concentration. It was shown that financial entities having higher concentration in ownership are characterized by higher returns generated on assets as well as their net interest margins are also high

Abdullah, Sarfraz, Qun and Chaudhary (2019) conducted an assessment in Pakistan with focus on ownership concentration and its implication on financial performance. In total, 36 firms were covered, and which had been listed. Gathering of information was from annual reports and publications from these firms. The approach embraced in this study was quantitative in nature. The processed information provided an indication of existence of nexus which was inverse between ownership concentration and ROA. In a study that was done by Kiruga, Ombok and Adoyo (2023), the period considered was 2016-2020 and gathering of information was reinforced by auxiliary sources. The analysis was able to point out that both local and government ownership concentration were found to have negative nexus with financial performance in the studied firms.

The focus of the study by Muriungi, Mwangi, Kinoti and Okiro (2021) was ownership concentration and its effect on financial decision and value of the firm. The study covered listed firms in Kenya. The time period considered was 2008 all through to 2017. The agency theory and institutional monitoring theory guided the study variables. The analyzed findings indicted existence of significant effect of ownership concentration on investment decisions. Enkirisai

(2018) explored the relationship existing between ownership structure of the firm and the link with performance focusing on State owned entities in the NSE. The adopted design was quantitative in nature. Among the theories that were adopted included the stakeholder theory and the theory of growth of the firm. Total of 11 listed parastatals were covered. The collected information after analysis indicated that ownership structure was significant predictor of performance. Ahamed (2022) was interested in determining how compensation of the CEO was linked with financial performance of banks with focus on Bangladesh. The period of consideration was 2010 all through to 2020. The analyzed results were that a positive and significant connection is evident between compensation to CEO and financial performance. Chatterjee, Jia, Nguyen, Taylor and Duong (2023) determined how remuneration to the CEO and financial distress were linked with the lifecycle of the firm. The time period was 2004 all through to 2021 and the processed information showed that the state of financial distress of an enterprise and remuneration to the CEO are inversely linked with each other. Jeff-Boakye, Sam-Ahinful and Nsor-Ambala (2020) covered alternative investment markets in the United Kingdom and determined how compensation of CEO affected monetary realization of goals. The specific emphasis of this inquiry was on 201 AIM listed entities in UK. The time considered was 2011 running all through to 2016. The processed data provided evidence of existence of nexus between remuneration of the CEO and financial performance. Kieschnick and Moussawi (2018) focused in the age of the firm, corporate governance issues and the choices of capital structure. The processed information indicated existence of correlation between the use off debts and the age of the firm. Memon and Samo (2019) covered corporate governance concerns, the age of the firm and leverage and the connection between them borrowing evidence from China among its listed entities. It emerged that the duality role of the CEO and commissions to the board significantly determined leverage. On the other

hand, the independence of the board and leverage was found to be negative. Mallinguh, Wasike and Zoltan (2020) indicated that firm age significantly affected leverage at firm level.

4.3 Diagnostic Tests

The assumptions of regression analysis will be tested before the actual data is keyed and processed to generate results. More specifically, the study will test for multicollinearity test, autocorrelation and Heteroskedasticity Test. Each of these tests will be interpreted appropriately.

4.3.1 Multicollinearity test

The study will determine the values of Variance of Inflation Factors (VIF) to test for multicollinearity and as noted by Bougie and Sekaran (2019), such values in the range of 1-10 signifies absence of this condition. The findings of the test are as presented in Table 4.2

TABLE 4.2

Multicollinearity Test

Variable	VIF	1/VIF
Firmage	1.98	0.504714
Ownershipc~n	1.71	0.584239
CEOCompens~n	1.54	0.648382
Interacton~m	1.44	0.692323
Boardindep~e	1.23	0.813742
CorporateG~e	1.15	0.870515
Mean VIF	1.51	

Table 4.2 gives average VIF figureas 1.51, which is still within the range of 1-10. This is a clear indication that there is absence of multicolinearity in the sample data that was used in study.

4.3.2 Autocorrelation test

Table 4.3. give an overview of results of autocorrelation.

TABLE 4.3

Autocorrelation Test

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Durbin-Watson
1	.245[a]	.060	-.027	.706539107693806	2.194

a. Predictors: (Constant), Interacton term , Board independence, CEO Compensation, Ownership concentration, Firm age

b. Dependent Variable: Financial stability

Table 4.3 indicate the value of Durbin Watson statistic as 2.194 which is in line withHarris et al (2019).

4.3.3 Heteroskedasticity test

Breusch Pagan test was adopted to test for this condition and according to Eden and Nielsen (2020), $p<0.05$ mean absence of this condition. The finding was determined and presented as shown in Table 4.4.

TABLE 4.4

Heteroskedasticity Test

```
Breusch-Pagan / Cook-Weisberg test for heteroskedasticity
         Ho: Constant variance
         Variables: fitted values of Financialstability

         chi2(1)      =    37.15
         Prob > chi2  =   0.0000
```

From the findings in Table 4.4, probability p=37.15, with p<0.05. This implies that Heteroskedasticity as a condition was not in the data that was gathered and analyzed in this study.

4.4 Panel Data Analysis

Since this study will be conducted using 12 microfinance banks as licensed by CBK on the period of 5 years (2019-2023), panel data methodologies were adopted. This implied a total of (12*5) data points. To begin with, the data was first entered into excel and key ratios measuring each variable being appropriately determined. Thereafter, it was exported to Stata software version for performing panel data analysis. Efforts were made to ensure that the resultant dataset from excel is balanced before exporting to Stata. Visualization of panel data was then conducted with the help of graphs and pie charts followed by a common to run descriptive statistics covering means, standard deviations, skewness and kurtosis among others. Diagnostic tests listed above were then followed after which determination of fixed or random effect will be conducted as discussed below:

4.4.1 Fixed effect (FE) model

This is a model where all time variant differences are controlled between individuals to avoid biasness ofits estimated coefficients due to omitted time variant attributes. The only limitation with FE model is that it cannot be used to analyze time-variant causes of the dependent variables. Thus, these models are suitable for investigating and determining the causes of changes within an individual or organization. The fixed effect model of an entity generally takes the following form:

$$Y_{it} = \alpha_i + \beta X_{it} + u_i + e_{it}$$
$$i = 1...n \; ; \; t = 1....T$$

Where:

Y_{it} outcome variable (for entity *i* at time *t*).
α_i is the unknown intercept for each entity (*n* entity-specific intercepts).
X_{it} is a vector of predictors (for entity *i* at time *t*) .
u_i within-entity error term ; e_{it} overall error term.

The interpretation of a βcoefficient: for a given entity, when a predictor changes one unit over time, the outcome will increase/decrease by βunits (assuming no transformation is applied).* Here, βrepresents a common effect across entities controlling for individual and time heterogeneity. The findings of FE are in Table 4.5.

TABLE 4.5

Fixed Effect (FE) Model

```
Fixed-effects (within) regression               Number of obs      =        60
Group variable: NameofMFI1                      Number of groups   =        12

R-sq:                                           Obs per group:
     within  = 0.2478                                         min =         5
     between = 0.0004                                         avg =       5.0
     overall = 0.1571                                         max =         5

                                                F(6,42)            =      2.31
corr(u_i, Xb)  = -0.3180                        Prob > F           =    0.0516

------------------------------------------------------------------------------
      Financialstability |      Coef.   Std. Err.      t    P>|t|     [95% Conf. Interval]
-------------------------+----------------------------------------------------------------
       Boardindependence |   .7357476   1.730181     0.43   0.673    -2.755898    4.227394
  Ownershipconcentration |   .0600418   .2694884     0.22   0.825    -.4838079    .6038915
         CEOCompensation |   .2495416   .2325879     1.07   0.289    -.2198397     .718923
                 Firmage |  -.8579094   .5422813    -1.58   0.121    -1.952277    .2364586
CorporateGovernancescore |   .1662006   .1237497     1.34   0.186    -.0835364    .4159375
          Interactonterm |  -.1410994   .0860914    -1.64   0.109     -.314839    .0326401
                   _cons |  -.4167514   .9739669    -0.43   0.671    -2.382296    1.548793
-------------------------+----------------------------------------------------------------
                 sigma_u |  .32862563
                 sigma_e |  .66954392
                     rho |  .19413614   (fraction of variance due to u_i)
------------------------------------------------------------------------------
F test that all u_i=0: F(11, 42) = 0.78                     Prob > F = 0.6570
```

The F – test tests whether the overall fixed effects model is a good fit. If the p – value < 0.05, then the fixed effects model is a good fit. From the output in Table 4.5, ($F_{(5,43)}$ = 2.31; p – value = 0.0516). This implies that the FE model is not a good fit for the panel data since the derived P – value > 0.05.

4.4.2 Random effect (RE) model

This is a model where variation across entities is assumed to uncorrelated and random within the independent/predictor variables that have been incorporated in the model. An assumption made by RE model is that the error term of an entity is not correlated with the predictors such that time invariant variables can act as explanatory variables. The RE model can take the following form:

$$Y_{it} = \alpha_i + \beta X_{it} + \gamma Z_i + e_{it}$$

Where Y_{it} is the dependent variable of firm i at time t

X_{it} and Zi represent number of predictor variables in a sample study while e_{it} is the error term. The findings of Random effect were established as shown in Table 4.6:

TABLE 4.6

Random Effect (RE) Model

```
Random-effects GLS regression                   Number of obs     =         60
Group variable: NameofMFI1                      Number of groups  =         12

R-sq:                                           Obs per group:
     within  = 0.2033                                         min =          5
     between = 0.2487                                         avg =        5.0
     overall = 0.2090                                         max =          5

                                                Wald chi2(6)      =      14.00
corr(u_i, X)   = 0 (assumed)                    Prob > chi2       =     0.0296
```

Financialstability	Coef.	Std. Err.	z	P>|z|	[95% Conf.	Interval]
Boardindependence	-.3817898	.185004	-2.06	0.016	-2.900351	2.136772
Ownershipconcentration	-.01258382	.002599	-4.84	0.015	-.4516597	.3999833
CEOCompensation	.429169	.1947692	2.20	0.028	.0474284	.8109095
Firmage	-.160979	.3917889	-0.41	0.681	-.928871	.6069131
CorporateGovernancescore	.2498065	.109346	2.28	0.022	.0354923	.4641207
Interactonterm	-.1045663	.0758048	-1.38	0.168	-.2531409	.0440084
_cons	-.8321397	.7555053	-1.10	0.271	-2.312903	.6486235
sigma_u	0					
sigma_e	.66954392					
rho	0	(fraction of variance due to u_i)				

In essence, $p < 0.05$ signify model fitness. From Table 4.6, the p-value is given as p=0.0296, i.e $p<0.05$. Thus, the study inferred that RE is favorable compared to fixed effect model earlier presented.

4.4.2.1 Hausman test

To choose between RE and FE model, Hausman-test is used (Green, 2008) where the null hypothesis is that the models are not random. The p-values after running this test can be interpreted appropriately based on the said null hypothesis so as to choose between RE or FE model. If Prob > chi2 is < 0.05, one should use fixed effects

TABLE 4.7

Hausman Test

```
. hausman fe re

                ---- Coefficients ----
             |      (b)          (B)            (b-B)     sqrt(diag(V_b-V_B))
             |       fe           re         Difference          S.E.
-------------+------------------------------------------------------------
Boardindep~e |    .7357476    -.3817898        1.117537        1.158573
Ownershipc~n |    .0600418    -.0258382           .08588        .1594433
CEOCompens~n |    .2495416      .429169       -.1796273        .1271302
     Firmage |   -.8579094     -.160979       -.6969304        .3749273
CorporateG~e |    .1662006     .2498065       -.0836059        .0579434
Interacton~m |   -.1410994    -.1045663       -.0365332         .040809
------------------------------------------------------------------------------
                           b = consistent under Ho and Ha; obtained from xtreg
            B = inconsistent under Ha, efficient under Ho; obtained from xtreg

    Test:  Ho:  difference in coefficients not systematic

                  chi2(6) = (b-B)'[(V_b-V_B)^(-1)](b-B)
                          =        5.86
                Prob>chi2 =      0.4387
```

The Hausman Test is done to determine between fixed effects and random effects model on which model to adopt. The test assumes a null hypothesis of non-systematic difference in coefficients. The decision is made by examining the derived p – value against the scale of 0.05. Thus, p< 0.05, FE is desirable. This means the FE model would be appropriate. Otherwise the RE

model becomes appropriate.From the output in Table 4.7, the derived P – value = 0.4387>0.05, this implies that we accept the null hypothesis and hold the RE model appropriate. Thus the RE model is appropriate and this is further specified below:

4.4.2.2 Langrage Multiplier (LM) Test

This test is conducted to decide whether to use RE or simple ordinary least square model. When using LM test, the null hypothesis is that variances across entities are equal to zero that is, there is no significant difference across units (i.e. no panel effect). When Prob > chibar2 < 0.05, RE is desirable.

TABLE 4.8

Langrage Multiplier (LM) Test

```
. xttest0

Breusch and Pagan Lagrangian multiplier test for random effects

        Financialstability[NameofMFI1,t] = Xb + u[NameofMFI1] + e[NameofMFI1,t]

        Estimated results:
                         |       Var     sd = sqrt(Var)
                 --------+------------------------------
               Financi~y |   .4859494       .6971007
                       e |   .4482891       .6695439
                       u |          0              0

        Test:   Var(u) = 0
                            chibar2(01) =     0.00
                          Prob > chibar2 =   1.0000
```

H_0:The variances across the groups is zero. If we accept the null hypothesis, POLS regression is appropriate. We run the OLS model using regress command. In this case, we accept the null hypothesis (Chisq = 0 and its p – value = 1). Thus, the most appropriate model that was adopted in this study was the random effect one and its detailed interpretation is as indicated in the subsequent sections:

4.4.3 RE model fitting and interpretation

From the foregoing discussion, it emerged that RE was the most effective and preferred model in this study. This decision made after conducting relevant tests including Hausman and Langrage Multiplier (LM) Test as presented in earlier sections. Table 4.9 gives RE findings:

TABLE 4.9

RE Model fitting and Interpretation

```
Random-effects GLS regression                   Number of obs      =          60
Group variable: NameofMFI1                      Number of groups   =          12

R-sq:                                           Obs per group:
     within  = 0.2033                                         min =           5
     between = 0.2487                                         avg =         5.0
     overall = 0.2090                                         max =           5

                                                Wald chi2(6)       =       14.00
corr(u_i, X)   = 0 (assumed)                    Prob > chi2        =      0.0296

------------------------------------------------------------------------------
      Financialstability |      Coef.   Std. Err.       z    P>|z|     [95% Conf. Interval]
-------------------------+----------------------------------------------------------------
       Boardindependence |  -.3817898   .185004     -2.06   0.016    -2.900351    2.136772
  Ownershipconcentration |  -.01258382   .002599     -4.84   0.015    -.4516597    .3999833
         CEOCompensation |    .429169   .1947692      2.20   0.028     .0474284    .8109095
                 Firmage |   -.160979   .3917889     -0.41   0.681     -.928871    .6069131
CorporateGovernancescore |   .2498065    .109346      2.28   0.022     .0354923    .4641207
           Interactonterm |  -.1045663   .0758048     -1.38   0.168    -.2531409    .0440084
                    _cons |  -.8321397   .7555053     -1.10   0.271    -2.312903    .6486235
-------------------------+----------------------------------------------------------------
                  sigma_u |          0
                  sigma_e |  .66954392
                      rho |          0   (fraction of variance due to u_i)
------------------------------------------------------------------------------
```

From Table 4.9, the overall R^2 = 2090 shows the amount of variation in the dependent variable (Financial Stability) that is explained by the independent variables. This implies that 20% of variation in financial stability of the studied microfinance banks can be explained by variation in their corporate governance moderated by their relative age.

$\mathbf{Y_{it}=-0.8321397-0.3817898X_{1it}-0.0258382X_{2it}+0.429169X_{3it}+\varepsilon}$**…… (i)**

Where $\mathbf{Y_{it}}$= financial stability

β_1, β_2, β_3, β_4 and β_5 are Coefficients

ε = error term

X_{1it}= Board independence

X_{2it}= Ownership Concentration

X_{3it}= CEO Compensation

In order to establish the moderating effect of firm age, the following regression model will be used:

$\mathbf{Y_{it}= -0.8321397-0.3817898X_{1it}-0.0258382X_{2it}+0.429169X_{3it}-0.160979FA_{4it}-0.1045663CG*FA_{5it}+\varepsilon}$**-- (ii)**

Where $\mathbf{Y_{it}}$= financial stability

β_1, β_2, β_3, β_4 and β_5 are Coefficients

ε = error term

X_{1it}= Board independence

X_{2it}= Ownership Concentration

X_{3it}= CEO Compensation

In order to establish the moderating effect of firm age, the following regression model will be used:

FA_{4it}= Firm age of microfinance bank i at time t

$CG*FA_{4it}$ = Interaction term of microfinance bank i at time t

As per the model fitted above, it can be inferred that when all other factors are held constant, financial stability of microfinance banks in Kenya would be at -0.832139 units. A unit increase in board independence would reduce financial stability of microfinance banks in Kenya by 0.3817898

units or 38.2%. A unit reduction in ownership concentration of microfinance banks in Kenya would improve their financial stability by 0.0258382 or 2.6%. Increasing CEO compensation of microfinance bank in Kenya would increase their financial stability by 0.429169 units or 42.9%. A unit increase in the number of years operated by microfinance banks in Kenya (represented by their ages) would reduce their financial stability by 0.160979 or 16.1%. This therefore means that CEO compensation is more sensitive (42.9%) on financial stability of microfinance banks in Kenya followed by their board independence (38.2%), their age (16.1%) and lastly their ownership concentration (2.6%).

4.4.3 1 Hypotheses testing

The first hypothesis was**H01:** there is no statistically significant relationship between board independence and financial stability of microfinance banks in Kenya. From the findings in Table 4.9, board independence had p-value as $p=0.016$ i.e. $p<0.05$. Thus, this study rejects hypothesis **H01** deducing that a significant relationship exists between board independence and financial stability of microfinance banks in Kenya. The focus of the study in Vietnam by Ngo, Le, Nguyen and Luu (2023) was on independence of the board and its implication on financial performance where the moderator variable was market competition. Non-executive members and duality role were measures of independence of the board. Panel data was adopted for processing of the obtained information where it became apparent after analysis that the duality role of the CEO was negatively linked with financial performance while the proportion of non-executive members had positive relationship with financial performance.

Almaqtari, Farhan, Al-Hattami and Elsheikh (2022) covered Indian listed entities on the period 2010-2019. The measures of financial performance adopted included earnings per share as

well as Tobin Q. The processed and analyzed data gave an indication of existence of inverse but significant nexus between independence of the board and financial performance. The inquiry by Potharla and Kolpula (2023) was anchored by dynamic stewardship as well as resource dependence theory. Information was drawn from auxiliary sources and the analysis was aided by quadratic regression. The proxy of earning stability was return on assets. It was established from the analysis that a U-shaped nexus exists between independence of the board and earnings stability

Sanni (2019) analyzed the link between independence of the board, management of risk and financial performance of deposit taking banks in Nigeria. The embraced design in this study was correlational in nature and the period considered was 2009 to 2018. In total, 14 banks were covered from which 12 were sampled purposively. Leveraging panel data, board independence and financial performance were found to be having positive interplay with each other. In a study conducted in Nigeria by Oludele, Margret and Tobiah (2016), the main focus was on determining relationship between independence of the board and financial performance of listed enterprises. The key emphasis was on manufacturing entities that added to 74 in total from which 34 were sampled purposively. Information was obtained in its first hand and auxiliary form. The gathered and processed information indicated existence of significant connection in the study variables. .

Ombaba, Kosgei and Muriuki (2018) covered corporate entities and determined the link between board independence and financial sustainability. Exploratory design was used and panel data methodologies were incorporated. The processed data indicated existence of inverse nexus between independence of the board and financial distress. The study conducted by Abdifatah (2020) was an evaluation of the relationship existing between the independence of the board and performance in operational terms. The study focused on the Kenyan listed construction firms.

Descriptive survey was adopted with collection of secondary data. The analysis was able to point out that board independence significantly determines operational performance at firm level.

The study had the second hypothesis being **H02** there is no statistically significant relationship between ownership concentration and financial stability of microfinance banks in Kenya. According to results in Table 4.9, the p-value of ownership concentration was p-0.015, which is less than 0.05 hence **H02** was rejected. Huang (2023) determined how ownership concentration was linked with stability of the bank with evidence from China. The specific focus of the inquiry was listed banks in Chinese context. The measure of financial stability was z-score. Auxiliary information was gathered and processed and the results were that ownership concentration and financial stability were positively linked with each other. This positive effect was found to be more pronounced for banks that were smaller in their relative sizes. In Vietnam, Duong, Huynh, Van-Nguyen and Le (2022) analyzed the link between innovation and ownership concentration and their implication on financial stability with emphasis on energy entities. The total number of firms covered was 103 and the horizon was 2007-2020. Through panel data as a methodology, it became apparent that ownership concentration and innovation were positively linked with financial stability.

Gupta, Mittal, Agarwal, Bakhshi and Sahoo (2022) focused on Indian banks and did an analysis of the link between ownership concentration and financial performance. The time period was 2009-2019 and information gathering was from auxiliary sources. It was noted after data processing that the shareholder with highest shareholding exerts greater effect on financial performance of the bank. Ozili and Uadiale (2017) aimed at determining how ownership concentration was connected with profitability of the bank. The total direct equity shares by the majority shareholder proxied ownership concentration. It was shown that financial entities having

higher concentration in ownership are characterized by higher returns generated on assets as well as their net interest margins are also high. Abdullah, Sarfraz, Qun and Chaudhary (2019) conducted an assessment in Pakistan with focus on ownership concentration and its implication on financial performance. In total, 36 firms were covered and which had been listed. Gathering of information was from annual reports and publications from these firms. The approach embraced in this study was quantitative in nature. The processed information provided an indication of existence of nexus which was inverse between ownership concentration and ROA.

In a study that was done by Kiruga, Ombok and Adoyo (2023) considered was 2016-2020 and gathering of information was reinforced by auxiliary sources where both local and government ownership concentration were found to have negative nexus with financial performance in the studied firms.The focus of the study by Muriungi, Mwangi, Kinoti and Okiro (2021) was ownership concentration and its effect on financial decision and value of the firm. The study covered listed firms in Kenya. The time period considered was 2008 all through to 2017. The agency theory and institutional monitoring theory guided the study variables. The analyzed findings indicted existence of significant effect of ownership concentration on investment decisions. Enkirisai (2018) explored the relationship existing between ownership structure of the firm and the link with performance focusing on State owned entities in the NSE. The adopted design was quantitative in nature. Among the theories that were adopted included the stakeholder theory and the theory of growth of the firm. Total of 11 listed parastatals were covered. The collected information after analysis indicated that ownership structure was significant predictor of performance.

The third hypothesis of the study was **H03** there is no statistically significant relationship between CEO compensation and financial stability of microfinance banks in Kenya. As per the

findings in Table 4.9, the p-value of CEO compensation was 0.028, i.e. $p<0.05$ and thus **H03**was rejected. Ahamed (2022) was interested in determining how compensation of the CEO was linked with financial performance of banks with focus on Bangladesh. The period of consideration was 2010 all through to 2020. The analyzed results were that a positive and significant connection is evident between compensation to CEO and financial performance. Chatterjee, Jia, Nguyen, Taylor and Duong (2023) determined how remuneration to the CEO and financial distress were linked with the lifecycle of the firm. The time period was 2004 all through to 2021 and the processed information showed that the state of financial distress of an enterprise and remuneration to the CEO are inversely linked with each other.

Jeff-Boakye, Sam-Ahinful and Nsor-Ambala (2020) covered alternative investment markets in the United Kingdom and determined how compensation of CEO affected monetary realization of goals in UK. The time considered was 2011 running all through to 2016. The processed data provided evidence of existence of nexus between remuneration of the CEO and financial performance. Tarus (2014) covered the nexus existing between compensation of the CEO and financial performance with focus on insurance firms. The approach adopted in this study was quantitative in nature and gathering of information was from auxiliary sources. It was noted that there existed non-significant but inverse link between compensation of CEO and financial performance. The interpretation of the inverse connection gave suggestion for the need to cap the compensation of CEO for maximization of shareholders' wealth.

Omamo, K'obonyo and Muindi (2022) focused on establishing the effect of CEO compensation on monetary performance with focus on listed firms in Kenya that were 65 in total. The study utilized data from primary sources. Once information had been gathered and analyzed, the findings were that competitive remuneration packages paid to the CEO is motiving tor them

to achieve the goals of the firm hence driving better financial performance outcomes. Kahuko (2018) covered listed banks in Kenya will collection of secondary data to determine the effect of CEO compensation on financial performance. Results were that annual bonuses for CEO, their fixed salaries and allowances had significant effect on financial performance.

The last hypothesis of the study was **H04:** Firm age has no statistically significant moderating effect on the relationship between corporate governance and financial stability of microfinance banks in Kenya. The results in Table 4.9 give p-value under firm age and the interaction term as 0.681 and 0.168 respectively all of which are greater than 0.05. Thu, the study accepts hypothesis **H04** and deduced that firm age was an insignificant. Kieschnick and Moussawi (2018) focused in the age of the firm, corporate governance issues and the choices of capital structure. The processed information indicated existence of correlation between the use off debts and the age of the firm. Memon and Samo (2019) covered corporate governance concerns, the age of the firm and leverage and the connection between them borrowing evidence from China among its listed entities. It emerged that the duality role of the CEO and commissions to the board significantly determined leverage. On the other hand, the independence of the board and leverage was found to be negative.

Mallinguh, Wasike and Zoltan (2020) concentrated on medium sized entities and determined how the sector of the firm and its age affected its financial performance and it was indicated that firm age significantly affected leverage at firm level. Rwakihembo, Aryatwijuka, Kalinda and Nimusiima (2023) covered listed entities in Uganda and examined the nexus between age of the firm and financial performance. Cross sectional design was adopted. It was noted after analysis that the age of the firm and financial performance is positively linked with each other. Ali, Rani, Shaikh and Shaikh (2021) focused on Pakistan and determined how corporate governance, the age

of the firm and capital structure were linked. Panel data of non-financial firms listed within Pakistan's context was used. It was shown that the age of the firm and its size are positively linked with financial performance.

4.5 Discussion of Findings

The first hypothesis was **H01:** there is no statistically significant relationship between board independence and financial stability of microfinance banks in Kenya. From the findings in Table 4.9, board independence had p-value as $p=0.016$ i.e. $p<0.05$. Thus, this study rejects hypothesis **H01** deducing that a significant relationship exists between board independence and financial stability of microfinance banks in Kenya. The focus of the study in Vietnam by Ngo, Le, Nguyen and Luu (2023) was on independence of the board and its implication on financial performance where the moderator variable was market competition. Non-executive members and duality role were measures of independence of the board. Panel data was adopted for processing of the obtained information where it became apparent after analysis that the duality role of the CEO was negatively linked with financial performance while the proportion of non-executive members had positive relationship with financial performance.

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specific focus of the inquiry was listed banks in Chinese context. The measure of financial stability was z-score. Auxiliary information was gathered and processed and the results were that ownership concentration and financial stability were positively linked with each other. This positive effect was found to be more pronounced for banks that were smaller in their relative sizes. In Vietnam, Duong, Huynh, Van-Nguyen and Le (2022) analyzed the link between innovation and ownership concentration and their implication on financial stability with emphasis on energy entities. The total number of firms covered was 103 and the horizon was 2007-2020. Through panel data as a methodology, it became apparent that ownership concentration and innovation were positively linked with financial stability.

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In a study that was done by Kiruga, Ombok and Adoyo (2023), the period considered was 2016-2020 and gathering of information was reinforced by auxiliary sources. The analysis was able to point out existence of significant nexus between ownership concentration and performance in monetary terms. In particular, both local and government ownership concentration were found to have negative nexus with financial performance in the studied firms.The focus of the study by Muriungi, Mwangi, Kinoti and Okiro (2021) was ownership concentration and its effect on financial decision and value of the firm. The study covered listed firms in Kenya. The time period considered was 2008 all through to 2017. The agency theory and institutional monitoring theory guided the study variables. The analyzed findings indicted existence of significant effect of ownership concentration on investment decisions. Enkirisai (2018) explored the relationship existing between ownership structure of the firm and the link with performance focusing on State owned entities in the NSE. The adopted design was quantitative in nature. Among the theories that were adopted included the stakeholder theory and the theory of growth of the firm. Total of 11 listed parastatals were covered. The collected information after analysis indicated that ownership structure was significant predictor of performance.

The third hypothesis of the study was **H03** there is no statistically significant relationship between CEO compensation and financial stability of microfinance banks in Kenya. As per the findings in Table 4.9, the p-value of CEO compensation was 0.028, i.e. $p<0.05$ and hence rejection of **H03**. Ahamed (2022) was interested in determining how compensation of the CEO was linked with financial performance of banks with focus on Bangladesh. The period of consideration was 2010 all through to 2020. The analyzed results were that a positive and significant connection is evident between compensation to CEO and financial performance. Chatterjee, Jia, Nguyen, Taylor and Duong (2023) determined how remuneration to the CEO and financial distress were linked

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Omamo, K'obonyoand Muindi (2022) focused on establishing the effect of CEO compensation on financial performance. The study was conducted focusing on listed firms in Kenya that were 65 in total. The study utilized data from primary sources. Once information had been gathered and analyzed, the findings were that competitive remuneration packages paid to the CEO is motiving tor them to achieve the goals of the firm hence driving better financial performance outcomes.

In view of the last hypothesis, results in Table 4.9 give p-value under firm age and the interaction term as 0.681 and 0.168 respectively all of which are greater than 0.05. Thu, the study accepts hypothesis **H04** and deduced that firm age was an insignificant. Kieschnick and Moussawi (2018) focused in the age of the firm, corporate governance issues and the choices of capital

structure. The processed information indicated existence of correlation between the use off debts and the age of the firm. Memon and Samo (2019) notedthat the duality role of the CEO and commissions to the board significantly determined leverage. On the other hand, the independence of the board and leverage was found to be negative.

Mallinguh, Wasike and Zoltan (2020) concentrated on medium sized entities and determined how the sector of the firm and its age affected monetary realization of goals. It was indicated that firm age significantly affected leverage at firm level. Rwakihembo, Aryatwijuka, Kalinda and Nimusiima (2023) covered listed entities in Uganda and examined the nexus between age of the firm and performance of firm in monetary terms. Cross sectional design was adopted. It was noted after analysis that the age of the firm and financial performance is positively linked with each other. Ali, Rani, Shaikh and Shaikh (2021) focused on Pakistan and determined how corporate governance, the age of the firm and capital structure were linked. Panel data of non-financial firms listed within Pakistan's context was used. It was shown that the age of the firm and its size are positively linked with financial performance.

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

Summarization, concluding remark as well as policy recommendations are indicated in this chapter.

5.2 Summary of the Findings

The subsequent sections provide a summary of the key findings that were obtained after analysis of the findings in the present study.

5.2.1 Board independence and financial stability

The first hypothesis was **H01:** there is no statistically significant relationship between board independence and financial stability of microfinance banks in Kenya. It was noted from beta coefficients that a unit increase in board independence would reduce financial stability of microfinance banks in Kenya.From the findings, this study rejects hypothesis **H01** deducing that a significant relationship exists between board independence and financial stability of microfinance banks in Kenya.

5.2.2 Ownership concentration and financial stability

The study had the second hypothesis being **H02** there is no statistically significant relationship between ownership concentration and financial stability of microfinance banks in Kenya. The findings of the beta coefficients were that a unit reduction in ownership concentration of microfinance banks in Kenya would improve their financial stability. According to results,

hypothesis **H02** was rejected, and inference made was that a statistically significant relationship exists between ownership concentration and financial stability of microfinance banks in Kenya.

5.2.3 CEO compensation and financial stability

The findings of the regression beta coefficients indicated that increasing CEO compensation of microfinance bank in Kenya would increase their financial stability. As per the findings, the study rejects hypothesis **H03** and deduced that CEO compensation was a significant predictor of financial stability of microfinance banks in Kenya.

5.2.4 Firm age, corporate governance and financial stability

From the regression beta coefficient results, the study noted that a unit increase in the number of years operated by microfinance banks in Kenya (represented by their ages) would reduce their financial stability. The study accepts hypothesis **H04** and deduced that firm age was an insignificant moderator on the relationship between corporate governance and financial stability of the studied microfinance banks in Kenya

5.3 Conclusion

5.2.1 Board independence and financial stability

An increase in board independence would reduce financial stability of microfinance banks in Kenya. A significant relationship exists between board independence and financial stability of microfinance banks in Kenya.

5.2.2 Ownership concentration and financial stability

A unit reduction in ownership concentration of microfinance banks in Kenya would improve their financial stability of microfinance banks in Kenya. A statistically significant relationship exists between ownership concentration and financial stability of microfinance banks in Kenya.

5.2.3 CEO compensation and financial stability

Increasing CEO compensation of microfinance bank in Kenya would increase their financial stability. CEO compensation was significant.

5.2.4 Firm age, corporate governance and financial stability

The age of the firm is usually reflected in the number of years it has been in operation. An increase in the number of years operated by microfinance banks in Kenya (represented by their ages) would reduce their financial stability Firm age was not established to be a significant moderator variable.

5.4 Theoretical Contribution of the Study

In regard to agency theory, it can be noted that an effective corporate governance is the foundation of financialstability especially in respect to financial institutions. The agency theory regards directors of the firm to be having fiduciary role to the company. In this regard, they are expected to demonstrate highest level of trust to the company which they manage and control as agents. However, the already indicated self-interested behavior of the directors may complicate their ability to act and operate as stewards and hence fail to demonstrate their fiduciary role to the company. In aligning the interests of the owners of the firms with those in management, some costs are incurred. These are referred to agency costs and they increase as the firm also ex expands and increase in size. The aspects of these agency costs include the expenses incurred to monitor

behavior of managers for ensuring their interests are well aligned with owners of the firm. These may also include the fees charged and incurred by the firm to support and run auditing activities. The other aspects of these costs include the expenses that are met to lower the costs of agency problem in an organization like share options or free share ownership ion the firm. These also include the amount of remuneration perks that are paid to the directors of the firm.

The study further contributes to the stewardship theory which argues that managers being agents are trustworthy and thus effectively utilize the resources provided to them including assets. This is theory where managers are not motivated to realize their individual and selfish goals but those that are well aligned with objectives of the principal. In this theory, managers are believed to give their value to reputation. The theory notes that stewards under the theory derive their satisfaction and motivation whenever the firm remains successful. The theory provides an incentive for managers to exercise autonomy when working in effort to maximize returns of their shareholders.

Thus, under the stewardship lens, the costs incurred to monitor and control the actions of managers are minimized. In this theory, a more unified role of the managers is suggested with aim of reducing agency costs. This also can allow them to effectively execute their roles as stewards of the firm. This theory is a normative alternative to the previously discussed agency theory. The main argument is that when managers have been presented with an opportunity to engage in actions of the firm, they would do so as stewards of the assets of the firm. Effective and efficient stewards are managers who cooperate with employees in a manner that seeks to achieve the objective of wealth maximization. It is intrinsic rewards that guide and motivate stewards, these include realization of trust, earning recognition, and stability of their tenure in the firm

5.5 Recommendations of the Study

The independence of the board is indicated by number of independent directors that are in place. In the present study, it was noted that although it had negative relationship, board independence was significant. Hence, this study recommends shareholders to balance between independent and non-independent director of the said institutions.

The study demonstrated that ownership concentration was a significant predictor variable although with negative beta coefficient. Hence, this study recommends that shareholders restructure their shareholding structures and composition so as to balance the interests of shareholders.

It emerged that CEO compensation had direct nexus with financial stability. Thus, this study recommends that shareholders of microfinance banks should provide competitive remuneration package to the CEO which should be tied to their performance. Mechanisms like share bonus, monetary and non-monetary rewards can be adopted to motive CEOs of these firms to maximize the wealth of their shareholders hence contributing towards financial stability.

5.5Limitations of the Study

Information in its secondary nature as guided by the data collection sheet was utilized in this inquiry. The strong incentive of adopting second hand information during analysis was in the best interest of time. It entailed collection and analysis of secondary data from relevant sources including reports and publication from the respective MFIs and other industry reports. However, for this information, chances of the same being manipulated could be very high. To overcome this limitation, only audited and published financial information was used in this study.

5.6 Areas for Further Research

Since MFIs were central in the present study, future research need to cover other financial institutions like insurance companies or even the savings and credit cooperative organizations (SACCOs). Future studies can also be done with other dependent variables like profitability away from financial stability that was adopted in the present study. Apart from financial stability, other constructs like financial inclusion as well as deepening need exploration. Similarly, further research can be conducted focusing on other aspects like sustainable competitive advantage. Since the financial sector was central in the present study, future studies can be conducted targeting other institutions that are non-financial based like those involved in manufacturing concern. This will give more room for the comparison of results.

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APPENDICES

Appendix I: List of Microfinance Banks in Kenya

1. Branch (formerly Century Microfinance Bank Limited)
2. Caritas Microfinance Bank Limited
3. Choice Microfinance Bank Limited
4. Daraja Microfinance Bank Limited
5. Faulu Microfinance Bank Limited0
6. Kenya Women Microfinance Bank PLC
7. LOLC (formerly Key Microfinance Bank PLC)
8. Sumac Microfinance Bank Limited
9. U & I Microfinance Bank Limited
10. Rafiki Microfinance Bank Limited
11. Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)
12. SMEP Microfinance Bank Limited
13. Muungano Microfinance Bank PLC - it was excluded from the analysis
14. On It Microfinance Bank Limited - it was excluded from the analysis

Source: CBK (2024)

Appendix II: Data Collection Sheet

Year	Total number of directors	Independent directors	Largest equity shareholder	Yearly salary payment to CEO	Equity	Assets	Net income	Years of operation
2019								
2020								
2021								
2022								
2023								

Appendix III: Raw Secondary Data Collected

Name of MFI	Year	Board independence	Ownership concentration	CEO Compensation	Firm age	Corporate Governance score	Interacton term	Financial stability
Branch (foremely Century Microfinance Bank Limited)	2019	0.400000	2.086360	0.301030	0.000000	2.787390	0.00000	-0.07837
Caritas Microfinance Bank Limited	2019	0.454545	2.033424	0.903090	0.602060	3.391059	2.04162	-0.32319
Choice Microfinance Bank Limited	2019	0.333333	2.008600	1.113943	0.602060	3.455877	2.08065	-0.77778
Daraja Microfinance Bank Limited	2019	0.333333	2.045323	0.301030	0.602060	2.679686	1.61333	-0.18935
Faulu Microfinance Bank Limited	2019	0.500000	3.369587	1.113943	1.000000	4.983530	4.98353	0.05225
Kenya Women Microfinance Bank PLC	2019	0.461538	3.600319	2.082785	0.954243	6.144643	5.86348	-0.20314
LOLC (formerly Key Microfinance Bank PLC)	2019	0.363636	1.991226	0.025306	0.301030	2.380168	0.71650	-0.19014
Sumac Microfinance Bank Limited	2019	0.416667	1.113943	0.033424	0.477121	1.564034	0.74623	0.34783
U & I Microfinance Bank Limited	2019	0.400000	0.778151	0.477121	0.000000	1.655273	0.00000	-1.75000
Rafiki Microfinance Bank Limited	2019	0.454545	3.040602	0.113943	0.903090	3.609091	3.25933	-0.14988
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2019	0.444444	1.755875	0.477121	0.000000	2.677441	0.00000	0.07576
SMEP Microfinance Bank Limited	2019	0.500000	2.599883	1.041393	0.954243	4.141276	3.95178	-0.04288
Branch (foremely Century Microfinance Bank Limited)	2020	0.363636	3.397940	1.146128	0.698970	4.907704	3.43034	0.05257

Caritas Microfinance Bank Limited	2020	0.500000	2.734800	0.602060	0.698970	3.836860	2.68185	-0.00091
Choice Microfinance Bank Limited	2020	0.333333	2.294466	1.000000	0.698970	3.627800	2.53572	0.00298
Daraja Microfinance Bank Limited	2020	0.300000	2.361728	0.778151	1.041393	3.439879	3.58226	-0.12562
Faulu Microfinance Bank Limited	2020	0.454545	2.681241	1.041393	1.000000	4.177179	4.17718	0.00030
Kenya Women Microfinance Bank PLC	2020	0.500000	2.269513	2.255273	0.477121	5.024785	2.39743	-0.01313
LOLC (formerly Key Microfinance Bank PLC)	2020	0.400000	2.778151	0.301030	0.602060	3.479181	2.09468	-0.00759
Sumac Microfinance Bank Limited	2020	0.416667	2.143015	0.698970	0.000000	3.258651	0.00000	0.00583
U & I Microfinance Bank Limited	2020	0.400000	2.307496	0.301030	0.954243	3.008526	2.87086	-0.18452
Rafiki Microfinance Bank Limited	2020	0.454545	2.123852	0.037426	0.301030	2.615824	0.78744	-0.23022
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2020	0.500000	3.007321	0.301030	1.000000	3.808351	3.80835	-0.02532
SMEP Microfinance Bank Limited	2020	0.545455	2.571709	0.477121	1.000000	3.594285	3.59428	-0.12356
Branch (foremely Century Microfinance Bank Limited)	2021	0.300000	2.269513	1.079181	0.778151	3.648694	2.83924	-0.01423
Caritas Microfinance Bank Limited	2021	0.416667	2.681241	0.698970	0.778151	3.796878	2.95455	-0.00143
Choice Microfinance Bank Limited	2021	0.300000	3.397940	0.845098	0.778151	4.543038	3.53517	-0.01149
Daraja Microfinance Bank Limited	2021	0.272727	2.736397	0.698970	1.079181	3.708094	4.00171	0.00145
Faulu Microfinance Bank Limited	2021	0.500000	2.785330	1.079181	1.041393	4.364511	4.54517	0.00306

Kenya Women Microfinance Bank PLC	2021	0.363636	2.326336	2.230449	0.602060	4.920421	2.96239	-0.64286
LOLC (formerly Key Microfinance Bank PLC)	2021	0.444444	2.361728	0.079181	0.698970	2.885354	2.01678	-0.11075
Sumac Microfinance Bank Limited	2021	0.300000	2.178977	0.778151	0.301030	3.257128	0.98049	0.01491
U & I Microfinance Bank Limited	2021	0.363636	2.307496	0.004321	1.000000	2.675454	2.67545	-0.13433
Rafiki Microfinance Bank Limited	2021	0.333333	2.143015	0.041393	0.477121	2.517741	1.20127	-0.32258
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2021	0.444444	3.007321	0.301030	1.041393	3.752795	3.90813	0.03904
SMEP Microfinance Bank Limited	2021	0.454545	2.571709	0.602060	1.041393	3.628314	3.77850	-0.20270
Branch (foremely Century Microfinance Bank Limited)	2022	0.333333	2.269513	1.176091	0.845098	3.778938	3.19357	-0.01989
Caritas Microfinance Bank Limited	2022	0.333333	2.819544	0.845098	0.845098	3.997975	3.37868	0.00479
Choice Microfinance Bank Limited	2022	0.300000	2.658965	0.845098	0.845098	3.804063	3.21481	-0.01203
Daraja Microfinance Bank Limited	2022	0.272727	3.477121	0.698970	1.113943	4.448819	4.95573	-0.45995
Faulu Microfinance Bank Limited	2022	0.333333	2.736397	1.176091	1.079181	4.245821	4.58201	-1.17291
Kenya Women Microfinance Bank PLC	2022	0.384615	2.834421	2.100371	0.698970	5.319407	3.71811	0.56510
LOLC (formerly Key Microfinance Bank PLC)	2022	0.333333	2.311754	0.845098	0.778151	3.490185	2.71589	0.10526
Sumac Microfinance Bank Limited	2022	0.300000	2.361728	0.845098	0.477121	3.506826	1.67318	-0.14027
U & I Microfinance Bank Limited	2022	0.363636	2.178977	0.000000	1.041393	2.542613	2.64786	0.06522

Rafiki Microfinance Bank Limited	2022	0.444444	2.726727	0.301030	0.602060	3.472202	2.09047	-4.13514
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2022	0.500000	2.255273	0.477121	1.079181	3.232394	3.48834	-0.04373
SMEP Microfinance Bank Limited	2022	0.400000	3.007321	0.021189	1.079181	3.428510	3.69998	-1.00000
Branch (foremely Century Microfinance Bank Limited)	2023	0.375000	2.269513	0.170262	0.903090	2.814775	2.54199	-0.02198
Caritas Microfinance Bank Limited	2023	0.444444	2.819544	1.204120	0.903090	4.468108	4.03510	-0.09926
Choice Microfinance Bank Limited	2023	0.272727	3.477121	0.778151	0.903090	4.528000	4.08919	-0.89459
Daraja Microfinance Bank Limited	2023	0.400000	2.746634	0.845098	1.146128	3.991732	4.57504	0.01272
Faulu Microfinance Bank Limited	2023	0.454545	2.843233	0.954243	1.113943	4.252021	4.73651	0.08142
Kenya Women Microfinance Bank PLC	2023	0.400000	2.311754	1.146128	0.778151	3.857882	3.00202	0.01635
LOLC (formerly Key Microfinance Bank PLC)	2023	0.444444	2.416641	0.954243	0.845098	3.815327	3.22433	-0.20779
Sumac Microfinance Bank Limited	2023	0.272727	2.382017	0.602060	0.602060	3.256804	1.96079	0.08633
U & I Microfinance Bank Limited	2023	0.272727	2.726727	0.301030	1.079181	3.300484	3.56182	-0.17949
Rafiki Microfinance Bank Limited	2023	0.363636	2.482874	0.269513	0.698970	3.116023	2.17801	-0.36207
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2023	0.500000	3.007321	0.037426	1.113943	3.544747	3.94865	-2.64894
SMEP Microfinance Bank Limited	2023	0.400000	2.571709	0.477121	1.113943	3.448830	3.84180	-0.16393

Appendix IV: Uncommuted Raw Secondary Data

Name of MFI	Year	Total number of directors	Independent directors	Largest equity shareholder	Yearly salary payment to CEO	Equity	Assets	Net income	Years of operation	
Branch (foremely Century Microfinance Bank Limited)	2019	10.00	4.00	122.00	2.00	319.00	289.00	-25.00	1.00	
Caritas Microfinance Bank Limited	2019	11.00	5.00	108.00	8.00	263.00	1244.00	-85.00	4.00	
Choice Microfinance Bank Limited	2019	12.00	4.00	102.00	13.00	153.00	98.00	-119.00	4.00	
Daraja Microfinance Bank Limited	2019	9.00	3.00	111.00	2.00	169.00	172.00	-32.00	4.00	
Faulu Microfinance Bank Limited	2019	10.00	5.00	2342.00	13.00	3464.00	27225.00	181.00	10.00	
Kenya Women Microfinance Bank PLC	2019	13.00	6.00	3984.00	121.00	4071.00	29582.00	-827.00	9.00	
LOLC (formerly Key Microfinance Bank PLC)	2019	11.00	4.00	98.00	1.06	142.00	431.00	-27.00	2.00	
Sumac Microfinance Bank Limited	2019	12.00	5.00	13.00	1.08	23.00	433.00	8.00	3.00	
U & I Microfinance Bank Limited	2019	10.00	4.00	6.00	3.00	8.00	534.00	-14.00	1.00	
Rafiki Microfinance Bank Limited	2019	11.00	5.00	1098.00	1.30	1281.00	60500.00	-192.00	8.00	
Salaam Microfinance	2019	9.00	4.00	57.00	3.00	66.00	225.00	5.00	1.00	

Bank (formerly Uwezo Microfinance Bank Limited)										
SMEP Microfinance Bank Limited	2019	12.00	6.00	398.00	11.00	513.00	2942.00	-22.00	9.00	
Branch (foremely Century Microfinance Bank Limited)	2020	11.00	4.00	2500.00	14.00	5935.00	406.00	312.00	5.00	
Caritas Microfinance Bank Limited	2020	10.00	5.00	543.00	4.00	3314.00	1712.00	-3.00	5.00	
Choice Microfinance Bank Limited	2020	12.00	4.00	197.00	10.00	2013.00	79.00	6.00	5.00	
Daraja Microfinance Bank Limited	2020	10.00	3.00	230.00	6.00	406.00	133.00	-51.00	11.00	
Faulu Microfinance Bank Limited	2020	11.00	5.00	480.00	11.00	29682.00	9.00		10.00	
Kenya Women Microfinance Bank PLC	2020	12.00	6.00	186.00	180.00	30613.00	30613.00	-402.00	3.00	
LOLC (formerly Key Microfinance Bank PLC)	2020	10.00	4.00	600.00	2.00	1712.00	686.40	-13.00	4.00	
Sumac Microfinance Bank Limited)	2020	12.00	5.00	139.00	5.00	686.40	348.00	4.00	1.00	
U & I Microfinance Bank Limited	2020	10.00	4.00	203.00	2.00	168.00	168.00	-31.00	9.00	
Rafiki Microfinance Bank Limited	2020	11.00	5.00	133.00	1.09	139.00	5935.00	-32.00	2.00	

Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2020	8.00	4.00	1017.00	2.00	1264.00	1264.00	-32.00	10.00	
SMEP Microfinance Bank Limited	2020	11.00	6.00	373.00	3.00	348.00	3314.00	-43.00	10.00	
Branch (foremely Century Microfinance Bank Limited)	2021	10.00	3.00	186.00	12.00	28038.00	54.00	-399.00	6.00	
Caritas Microfinance Bank Limited	2021	12.00	5.00	480.00	5.00	29279.00	2284.00	-42.00	6.00	
Choice Microfinance Bank Limited	2021	10.00	3.00	2500.00	7.00	6005.00	132.00	-69.00	6.00	
Daraja Microfinance Bank Limited	2021	11.00	3.00	545.00	5.00	3446.00	124.00	5.00	12.00	
Faulu Microfinance Bank Limited	2021	10.00	5.00	610.00	12.00	2284.00	29279.00	7.00	11.00	
Kenya Women Microfinance Bank PLC	2021	11.00	4.00	212.00	170.00	2310.00	28038.00	-14815.00	4.00	
LOLC (formerly Key Microfinance Bank PLC)	2021	9.00	4.00	230.00	1.20	307.00	296.00	-34.00	5.00	
Sumac Microfinance Bank Limited	2021	10.00	3.00	151.00	6.00	805.00	1665.00	12.00	2.00	
U & I Microfinance Bank Limited	2021	11.00	4.00	203.00	1.01	134.00	307.00	-18.00	10.00	

Rafiki Microfinance Bank Limited	2021	12.00	4.00	139.00	1.10	124.00	6005.00	-40.00	3.00	
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2021	9.00	4.00	1017.00	2.00	1665.00	134.00	65.00	11.00	
SMEP Microfinance Bank Limited	2021	11.00	5.00	373.00	4.00	296.00	3446.00	-60.00	11.00	
Branch (foremely Century Microfinance Bank Limited)	2022	9.00	3.00	186.00	15.00	2564.00	26961.00	-51.00	7.00	
Caritas Microfinance Bank Limited	2022	12.00	4.00	660.00	7.00	3550.00	27780.00	17.00	7.00	
Choice Microfinance Bank Limited	2022	10.00	3.00	456.00	7.00	665.00	5889.00	-8.00	7.00	
Daraja Microfinance Bank Limited	2022	11.00	3.00	3000.00	5.00	387.00	3382.00	-178.00	13.00	
Faulu Microfinance Bank Limited	2022	12.00	4.00	545.00	15.00	347.00	2951.00	-407.00	12.00	
Kenya Women Microfinance Bank PLC	2022	13.00	5.00	683.00	126.00	361.00	3037.00	204.00	5.00	
LOLC (formerly Key Microfinance Bank PLC)	2022	12.00	4.00	205.00	7.00	57.00	289.00	6.00	6.00	
Sumac Microfinance Bank Limited	2022	10.00	3.00	230.00	7.00	221.00	1006.00	-31.00	3.00	

U & I Microfinance Bank Limited	2022	11.00	4.00	151.00	1.00	368.00	433.00	24.00	11.00	
Rafiki Microfinance Bank Limited	2022	9.00	4.00	533.00	2.00	37.00	120.00	-153.00	4.00	
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2022	8.00	4.00	180.00	3.00	686.00	1480.00	-30.00	12.00	
SMEP Microfinance Bank Limited	2022	10.00	4.00	1017.00	1.05	46.00	402.00	-46.00	12.00	
Branch (foremely Century Microfinance Bank Limited)	2023	8.00	3.00	186.00	1.48	2593.00	27329.00	-57.00	8.00	
Caritas Microfinance Bank Limited	2023	9.00	4.00	660.00	16.00	3234.00	22704.00	-321.00	8.00	
Choice Microfinance Bank Limited	2023	11.00	3.00	3000.00	6.00	351.00	5346.00	-314.00	8.00	
Daraja Microfinance Bank Limited	2023	10.00	4.00	558.00	7.00	393.00	3219.00	5.00	14.00	
Faulu Microfinance Bank Limited	2023	11.00	5.00	697.00	9.00	393.00	3353.00	32.00	13.00	
Kenya Women Microfinance Bank PLC	2023	10.00	4.00	205.00	14.00	367.00	3678.00	6.00	6.00	
LOLC (formerly Key Microfinance Bank PLC)	2023	9.00	4.00	261.00	9.00	231.00	451.00	-48.00	7.00	

Sumac Microfinance Bank Limited	2023	11.00	3.00	241.00	4.00	278.00	1480.00	24.00	4.00	
U & I Microfinance Bank Limited	2023	11.00	3.00	533.00	2.00	312.00	405.00	-56.00	12.00	
Rafiki Microfinance Bank Limited	2023	11.00	4.00	304.00	1.86	58.00	235.00	-21.00	5.00	
Salaam Microfinance Bank (formerly Uwezo Microfinance Bank Limited)	2023	10.00	5.00	1017.00	1.09	188.00	853.00	-498.00	13.00	
SMEP Microfinance Bank Limited	2023	10.00	4.00	373.00	3.00	122.00	872.00	-20.00	13.00	

Appendix V: Important URLs for Reference

https://cak.go.ke/sites/default/files/2023-04/CAK%20Decision%20on%20Proposed%20Acquisition%20of%2055.8%25%20of%20Maisha%20Microfinance%20Bank%20Kenya%20Ltd%20by%20Cactus%20Cantina%20Investments%20Ltd.pdf

https://www.centralbank.go.ke/uploads/press_releases/957591347_Press%20Release%20-%20Acquisition%20of%20Uwezo%20MFB.pdf

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