

**EFFECT OF CORPORATE GOVERNANCE PRACTICES ON
FINANCIAL PERFORMANCE OF GOVERNMENT MANAGED
MICRO FINANCE INSTITUTIONS IN NAIROBI COSMOPOLITAN, KENYA**

BY

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DECLARATION

This dissertation is my original work and has not been presented for a degree in any other University.

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DEDICATION

This work is dedicated to the almighty God for the wisdom and gift of life that has made me realize and witness the conclusion of this research and to all those who helped me carry out this research.

ACKNOWLEDGEMENT

I give Glory and Honor to the almighty God for giving me the strength, determination and zeal to see me through in carrying out this research project. Special thanks go to my supervisor Dr. Edward Owino for the suggestions, guidance, commitment, scholarly support and encouragement not forgetting my sponsor the National Treasury for seeing it fit that I take this noble course. I also pay tribute for the love and encouragement of my family and friends.

ABSTRACT

This paper discussed the effect of corporate governance practices on financial performance of Government managed MFIs (MFI) in Kenya. The main focus of the study dwelt around three MFIs that is Uwezo fund, Women enterprise fund and Youth enterprise fund. The general objective of the study was to determine the effect of corporate governance practice on financial performance of Government managed MFIs in Kenya. Good governance practices in terms of accountability, managerial responsibility, companies' governance problem, weak Board of Directors (BODs) and protecting minority shareholders and investor were proposed as key elements in the literature in relation to MFIs performance. Sound corporate governance practices is increasingly becoming more important because for the demand for accountability and transparency of funds utilized in MF activities. The study targeted all government managed MFIs in Nairobi Cosmopolitan. The research used a descriptive cross-sectional survey. Questionnaire were used as a research instrument which encompassed both open and closed ended questions in order to collect primary data. The research data collected was edited then coded categorized and keyed into Statistical Package for Social Sciences (SPSS) for the final data analysis. Descriptive analysis together with frequencies, mean and percentages was applied in profiling the respondents. Regression analysis was used to establish the relationship between the independent and dependent variables. The study drew conclusions on the MFIs corporative governance practices in terms of governance structure, independent BOD and board composition had a positive and significant influence on financial performance. The study recommends that for MFIs to realize better financial performance, policy makers must pay attention to the MFIs governance structure.

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ABBREVIATIONS AND ACRONYMS

AGPO	Access to Government Procurement Opportunities
AMFIK	Association of MFIs of Kenya
BODs	Board of Directors
CBK	Central Bank of Kenya
CSFI	Center for the Study of Financial Innovation
DPP	Directorate of Public Procurement
EVA	Economic Value Added
GOK	Government of Kenya
HRM	Human Resources Management
ITNA	Institutional and Training Needs Assessment
KWFP	Kenya Women Microfinance Bank
MDG	Millennium Development Goals
MESPT	Micro Enterprise Support Programme Trust
MFIs	Micro Finance Institutions
NSE	Nairobi Securities Exchange
PSCGT	Principles for Corporate Governance
PWDs	Persons with Disabilities
REVA	Refined Economic Value Added
SACCO	Savings and Credit Cooperative Organization
SEC	Security and Exchange Commissions
SPSS	Statistical Package for Social Sciences
UCSCU	Uganda Co-operative Savings and Credit Union Limited
WB	World Bank
YEDF	Youth Enterprise Development Fund
YESA	Youth Employment Scheme Abroad

DEFINITION OF TERMS

Corporate governance: Are ways a company is managed, monitored and are accountable (Otieno, Mugo, Nene & Kimathy, 2018)

Corporate governance practices: Refers to the BOD adopted policies that stakeholders, Government, CEOs and BODs use in managing MFIs and sustain responsibilities owed to investors and other stake holders (Mwasi, 2011).

Financial performance: Is the percentage to which the set financial objectives are archived (Rashid, Islam & Anderson, 2008)

CHAPTER ONE

INTRODUCTION

1.1 Background to the Study

Corporate governance has captured the attention of both scholars and practitioners in the last two decades. Governance entails procedures, arrangements, rules and processes used in administering and coordinating activities in organizations. In essence governance relates to the leadership roles in the setup of an organization (Siele, 2009). Corporate governance entails the custom in which power is managed in the taking care of the organizations entire portfolio of assets and capital aiming at retaining and improving shareholders value as well as fulfilling needs of other persons with interest in the framework of its corporate mission.

Following the enactment of the 2002 corporate governance code in Ghana by the Security and Exchange Commissions (SEC), a couple of codes of the best exercises have been put in place. Ghanaian people have pushed various regulators for a single and all comprehensive code. SEC Ghana have been over time debated on the matters of compliance with the code of corporate governance, the acknowledged practices and problems faced by the developing countries. While the social and cultural issues of corruption persist, its argued that it is time the government takes up the task to have good governance, the right legal enforcement, effective legal system and enlighten its citizens on corporate governance development mostly in developing countries like Ghana (Olusegun, 2012).

In Kenya the government has supports financial institutions like insurance, cooperative societies, capital markets and banks. The Kenyan treasury gives out the general policy oversight used by different financial segments which are supported by the government. The financial sector gives a major segment of the economic pillars of the vision 2030. The financial sector in Kenya comprises of 12 deposits micro finance, 42 commercial banks, 49 companies offering insurance services, 199 Savings and Credit Cooperative Organizations (SACCOs) are registered under the Government of Kenya SACCO society act, 2008. All these financial institutions are distinct and use different laws to drive their operations.

The proclamation of Kenyan Constitution of 2010 amounted to a major leap for women, people living with disabilities and youth. This constitution emphasized on the normative role of the

government to defend, improve, respect and fulfill the citizens' rights. The rights of the marginalized and helpless groups who include; children and women, youths and persons living with disability are clearly indicated in articles 54, 55, and 66. These articles give groups rights which include right to employment, right to take part in leadership and development processes among others. The Kenyan government is tasked with the role to create a supportive environment which involves starting up affirmative action's programs aimed at realizing these rights. Article 27 criminalizes discriminations of all nature while article 100 promotes representation of persons living with disability (GOK Constitution, 2010). The above pledges are pinned under the Kenya Persons with Disability 2003 and Kenya National Youth Policy 2002.

In addition, there exist several institutional and policy frameworks that are directed towards achieving the mentioned rights and to support the vulnerable groups in Kenya. Revolving funds like Uwezo that supports economic growth of people living with disabilities, by providing affordable startup money to venture into businesses or fund basic provisions. Additionally, in 2013 the President of Kenya offered a directive to amend procurement rules and have 30% of the contracts given to the persons living with disabilities, youths and women. This initiative is known as Access to Government Procurement Opportunities (AGPO). The Directorate of Public Procurement (DPP) which is under the Ministry of Finance was mandated to oversee the initiative. However, to date, Women, Youth and PWDs are yet to fully take up the above mentioned opportunities. A critical analysis done on the counties procurement processes shows that less than 20% of the groups took up the plea and are venturing into the opportunities. Challenges like lack of knowledge among these groups about the funds and opportunities available for them, the methods, regressive group dynamics, lack of ideas for entrepreneurship and also capacity to identify opportunities are some of the factors leading to the low response to the offer by the government (Masses & Kemunche, 2016).

1.1.1 Corporate Governance Practices

Good governance is a word used with major flexibility depending on the context in which it is used. It was used by Ndikwe and Owino (2015) to refer to effective and efficient management, human rights, rule of law, corruption free processes, many players in partnerships, brimming recognition of constructive involvement, human rights, the rule of law, multi-actor partnerships,

political diversity, transparent management of both physical and human resources. Corporate governance is a set of rules, procedures and methods used by a firm for directing and controlling purposes. Essentially it combines harmonizing a company's interests, the needs of stakeholders which includes customers, suppliers, financiers, shareholders, government and the community (Ndikwe & Owino, 2016). Corporate Governance often refers to ways a companies are managed, monitored and are accountable (Otieno, Mugo, Nene, & Kimathy, 2018).

Good governance involves rule of law which necessitate good governance to comprise fair legal framework enforceable by impartial regulatory institutions which fully protects all stakeholders. They comprise of transparency, directness, and consensus oriented, parity and all-inclusiveness, effectiveness and efficiency, accountability and participation. This term is also used by the international development literature to mean the ways public organizations conduct public affairs and manages their public resources. Generally, governance is the process that involves making of decisions and implementing them. Also it concerns balancing between the economic and social aims(objectives), individuals and common objectives and promoting well planned deployment of resources, transparency in dealings of authorities and those charged with the roles as required to streamline the individual organizations and social interests (Kosgei, Abdi, & Kosgei, 2014).

Globally, the practices of corporate governance differ depending on the country, with the disparities in systems of corporate governance being used, merging of corporate governance practices aiming at practices that will be internationally accepted and discoveries that will ensure efficient and effective governance practices. Example, in Malaysia the government undertook determinations to put in place the needed infrastructure for efficient corporate governance methods. An effective corporate governance agenda is described as once that draws require attention on the implementation, scrutiny and advocacy (Rikken, 2018).

Center for the Study of Financial Innovation (CSFI, 2014), projected that the value of management as well as governance to be one of the very demanding threats facing MFIs (Labie & Mersland 2011) They also highlighted the needs for good corporate governance in respect to the MFIs (MFI). In the Asian countries, micro finance takes up roles of a parallel financing institution which involves reaching poor and marginalized clients which other financial institutions can't reach

therefore, they are used as an efficient mechanism for poverty mitigation since their lives majority of world's poor people (Brau & Woller, 2004).

In West Africa, a research done by World Bank (2004), through 'Loi PARMEC', discovered that, it is very significant for governments to change their regulatory processes so as to give way for all financial institutions deliver services even to the poor since the current untimely rules are discouraging innovations. Loi PARMEC, West Africa, supports the cooperative system, other than the others. The model confines the poor access to finances and choices. Using these prudential rules is necessary only when there is a grave mass exists of commercial organizations that are strong to acquire licenses for mobilizing the public to make deposits. The government is supposed to take up the roles as opposed to the banks capacities of supervision which is limited and practiced in developing countries (WB, 2014).

Systems of corporate governance practices in a lot of countries relies majorly on internal influences forming; corporate ownership organization, economic states, legal laws, policies of governance, culture and history. Also it's affected by the outside factors, example the range of capital inflows from abroad, and the worldwide economic climate and cross border institutional investment. Majorly determinates of an institutions corporate governance include boards corporation and board skills of the board which combines the use of both skills and knowledge forming a great dimension of board effectiveness. Members appointed in the board should have functional knowledge in the traditional arrears of the business like finance, the appropriate skills and competences and industry knowledge that enables them deeply understand different roles, issues and challenges in the company (Ndikwe & Owino, 2016).

In Kenya, the central bank necessities financial stability and sustainability form every licensed financial institution. The Capital Market Authority presumes the listed organizations to observe principles of good governance from the year 2002. Values of good corporate governance includes transparency, fairness, responsibility that are to outperform other companies and are able to interest investors to support financing growth. Parliament and the Public Investment Committee, has a role to frequently review corporate governance in the state corporations. In the department of

Investments and Public Enterprises, the Government requires quality corporate governance form state owned corporations (Letting, 2015).

1.1.2 Financial Performance of Micro Finance Institutions

Performance indicates organizations progress, situations and compliance while financial performance measures the outcomes of the operations of an organization and policies in money terms. The findings are revealed in the organizations return on investment or return on asset and value added (Omonywa, 2015). Similarly, financial performance can be described as the percentage to which the set financial objectives are archived (Rashid, Islam & Anderson, 2008). Financial indicators used to measure performance includes; leverage, liquidity, debt and return on investment (ROI).

Jeffrey et al. (1997) pinpoints several performance measures that can be regarded as the best. These includes Economic Value Added (EVA) and Refined Economic Value Added (REVA). REVA gives a methodical framework for measuring performance and shareholders value creation. On the other hand, EVA performs measures relating to the expression of its connections with the value of shareholders. Although REVA is considered as a more advanced measure to determine firm's performance in terms of operations is adequate in terms of awarding the financiers for the risk attached to their investment. Jeffrey et al. (1997) endorsed REVA over EVA observing that in the period within 1988-1992, 25 companies using REVA performed better than the same number of firms using EVA.

The main metric used to judge a company's performance is the prices of the stocks but, strategy, choice and the value of the right performance measure to measure the appropriateness of a specific strategy should combine the necessary rate of return on the capital investment, which should gauge the capital used and the amount that correlates highly with adjusted risk rate of return used for shareholders earning. The appropriate measures of performance are the one which takes into consideration Net Operating Income after taxes, invested amount of capital and the required return on capital (Bennet, 1991). For example, making notifications on the changes on the changes is the

wealth of a shareholder, a market derivative cost of capital should be used to market the value of a firm's asset (REVA).

The study measures financial information and measures of performance using repayment capability which gauges ability to honor debt from MFI and none MFI incomes. Repayment capacity refers to evaluation of the capability of a business to finance additional debt and meet other cash needs. Repayment capacity is measured by observing a company and its borrower's financial status. This helps in making useful risk management decisions. It's calculated by measuring a companies and the borrowers to measure a company's financial status which assist making the correct risk management decision. It's significant for the companies to conduct several valuations on the financial performance in order to solve causes rather than to deal with the symptoms of the problems. A few sampled micro finances will be used to gauge the financial performance. This study was after looking at the financial statement which would help to measure financial sustainability of each Government supported MFI.

1.1.3 Overview of Government Managed Micro Finance Institutions in Kenya

In Kenya, MFIs are classified into 3 categories; wholesale financing institutions, retail and deposits taking financial institutions. Firms that are specifically under wholesale micro finance include; Micro Enterprise Support Programme Trust (MESPT), women enterprise funds, Jitegemee trust, Olko credit, and youth enterprise funds. The deposits taking financial institutions are; Kenya Women Microfinance Bank (KWFT), Rafiki deposits, SMEP, Faulu Kenya, U&I Ltd, Samac credit and Centaury Ltd. Other firms under retail micro finance are Kenya agency for development and enterprise technology, ELCOF Kenya, BIMAS, SISDO, Micro Afrca, opportunity Kenya and Fusion capital limited.

The study will focus on Uwezo funds and Youth Enterprise and Development Funds, because regardless of the achievements received during economic recovery period in 2003-2007, the Kenyan Youth still face problems which includes unemployment, poverty and income disparity and income spread. In preceding studies carried out using the consistency disbursement model

shows that there exists a variations of inadequacies related with set-ups, managing and sustaining funds which results into slump of projects soon after they are started.

Several problems have been noted in implementing Uwezo funds funded projects resulting from management problems, training of the entrepreneurs taking up the projects, identify and implementing projects, evaluation and lack of close monitoring. Out of these problems the performance of these projects as well as loan repayment becomes a major threat to ensuring sustainability of the program. A report by Uwezo funds released in 2016 showed that loan performance all over the country was very poor standing at 946,522,479, out of the given amount of 1.7 million and which was expected to be paid from beneficiaries (Mutunga, 2018).

A research conducted by Wohoro (2016) on the problems that were facing Youth Enterprise funds showed that 28% of the youths who could access the loans, actually were benefiting from them. According to a report by YESA (2016) each constituency was given 4.5 million, however, only a very few percentage of Kenyans youths accessed the funds. Even with the options of accessing these loans through SACCOS, MFIs and NGOs the yield is not as desired. Since most of the money released to Youth Enterprise Development Fund (YEDF) from government end up being sent back to government, therefore we can conclude that access to YEDF is a major problem to the youths (Henry, 2010).

Youth Enterprise Development Fund aimed at fighting unemployment as one of the drowning problem in Kenya. The unemployed youth population amounts to 61%. A good population of these youths are not trained or received formal education. In cognizance of the preceding discussion government decided to develop financial institutions that address youth unemployment. The idea was based on the fact that small and MFIs comes up with programs that are likely to benefit the youths more. Strategic founders of this initiative are enterprise development and externally focused employment creation through Youth Employment Scheme Abroad (YESA). Today the fund concerns itself with developing businesses in terms of entrepreneurship training, aimed at providing the youth with skills for identify business opportunity and tapping them, at the same

time embracing modern techniques of business management. The fund engages several counties and private players to establish commercial infrastructure for the youth such as market stalls, candy shops and shoe shine units. These partners are pushed to mainstream youth entrepreneur in their already existing market structures.

Market and linkages where YEDF is aiming to support the youth projects, market their products locally and abroad and to form links with large companies. YEDF has frequently organized trade fairs both at county and national levels. Youths with very unique products are sponsored to showcase their products outside country and exports. The YEDF facilitates the young people whose services are not locally engaged to protected employment in the foreign labor market. The fund works with partners in funding sourcing of jobs, pre interview training and training in finances.

Women Enterprise Fund is considered a flagship project under the social pillar in Vision 2030 therefore a demo of the Kenyan government to the realization of gender quality and women empowerment that was a millennium development goal. Its outfit is a semi-autonomous government agency which was established in August 2007 aimed at providing affordable and cheap credit support to both youths and women. The funds provide other services like building, marketing, promotion of linkages and infrastructure support. Women enterprise fund suffers from inadequate capital, high competition, insecurity, poor infrastructure and loan diversion (Kadurenge, Wokabi, & Ngetich).

The Uwezo Fund is a flagship program for vision 2030 aimed at promoting business and enterprises at district levels. Uwezo Fund, can be termed therefore as a way of incubating enterprises and enhancing innovative actions while promoting industry and growing the country's economy. Objectives of Uwezo funds include expanding finance accessibility in promoting youth and women in business at the constituency level for greater economic growth towards realizing vision 2030. goals of generating self-employment for women and youth and to provide alternative paradigm for funding communities driven projects. Deposits taking micro finance are managed by the Government of Kenya through the Central Bank of Kenya under Micro Finance Act Number 19 of 2006 and Micro Finance Deposit Taking Regulation 2008.

Youth entrepreneurship bears greeter potential to help achieve the MDG goal 8 (Millennium Development Goals, Chiquita, 2002). Entrepreneurships by the youths in a lot of developing countries is faced with several problems which include poor access to capital, finance markets, business development services and entrepreneurship training to help youth start up high income business.

1.2 Statement of the Problem

Kenya's governance, tradition and cultural systems have historically marginalized Women, Youth and Persons living with Disability. The marginalization has been professed through limited employment opportunities, limited access and control of factors of production for example access to and control of Land, a key factor of production, has for so long remained a preserve of men, non-representation in decision making et cetera. This has ignored the wellbeing and empowerment of Persons with Disabilities (PWDs), women and youth who, instead have been treated as merely welfare and charity issue, and not serious human rights issue. This has caused high dependency and poverty rates. The situation has been worse for PWDs who have in the past been considered to contribute less in the development arena. Consequently, the participation of PWDs, women, youth and in governance and political process has been quite low (Centre for Enhancing Democracy and Good Governance, 2017).

Mersland (2011) in Europe, stated that there exist several challenges being encountered in managing the micro finance services resulting from tremendous growth in service providers of various types resulting to greater number of both clients and assets, more elaborate structures for managing the many institutions and the legal changes, credit unions development, elaborate networks and many non-governmental resulting into regulate financial institutions. Institutions are evolving from focusing in one product to becoming more of a complete bank setup that provide several service like savings, money transfers, payment systems, remittances and insurance. According to Austin et al., (1998), in a much cited case of Corposol/Finansol, also known as Finamerica, in Colombia. The said institution was created as an entrepreneurial Non-Governmental Organization (NGO) and was dominated by a Chief Executive Officer (CEO) who strongly supported the chairman whose board was inactive. Consequently, the company developed

problem due to a more pyramidal and bureaucratic organizational structures which did set up wrong incentives methods for the staffs and being weakly controlled by the BOD and stakeholders.

According to the study done by Durgaranshi (2014) in India, along with increase in popularity of micro finance, there has been an increased a major concern among investors and donors for better corporate governance. As the micro finance business scaled up an attendant commercialization of micro finance took place, hence the need for a systematic approach to corporate governance. Several industries led studies and consulting reports have recommended a set of governance practices to achieve the financial and social objectives of the firm. But the recommendations have not been country specific and not entirely based on empirical evidence. There is evidence that different types of regulatory regimes have distinct implications on the cost of operations and varying effects on the profitability and outreach of MFIs. Hence, country specific studies are required.

According to research done by Ssekiziyivu, Mwesigwa, Bananuka and Namusobya, (2018) in Uganda, MFI have ineffective boards, there exists no fully constituted board of committee, shareholder's rights are frequently not honored and accountability problems are common. Other research shows that the strategies used to improve corporate governance such as having a BOD with the necessary financial advisors are lacking. MFIs' boards of directors are mandated with the task of making sure that sound and judicious management of affairs through the application of good and efficient frameworks which is missing in many of MFIs (Uganda Co-operative Savings and Credit Union Limited (UCSCU), 2015). Mudibo (2005), explained that MFIs' board committee always drown in political pressure from politics and other external forces in implementing processes that encounter management ethics and standards. Mudibo (2005) explained further that there exist no clear differences in roles of credit committees and members of the staff. In such institutions decisions making are delayed and there exists chances of conflicts of interest (Mudibo, 2005).

The critical view is that MFIs like SACCOs are formed by an Act of parliament hence the state is to blame for poor supervisory mechanism. Government managed MFIs in Kenya like; Uwezo, Youth Enterprise and Women Enterprise Funds have faced several challenges in terms of timely

allocation of finances from the center to the projects on the ground. Also there are problems in reporting used by these unit projects and emerging issues so as to sensitize various stakeholders (Isahakia, 2010). Other problems include projects initiated to create jobs for the youth is seemingly like a political gimmick to convince Kenyans that the government is concerned about the plight of the youths (Kempe, 2012). Despite the many hitches of the fund since its formation in 2014, no efforts have been put in place in establishing factors influencing sustainability of Uwezo Fund Projects in Kenya (Mutunga, 2018). There is also evidence of quite a number of constituencies in Kenya have not repaid any amount owe to Uwezo since inception in 2014. In light of these observations, this study sought to fill the knowledge gap linking corporate governance and Government controlled MFI in Kenya. It is in this regards this study sought to determine the effect of corporate governance practices on financial performance of Government managed MFIs in Kenya.

1.3. Research Objectives

The general objective of this study was to determine the effect of corporate governance practices on financial performance of Government managed MFIs in Kenya.

The specific objectives of this study were:

1. To determine the effect of BOD composition on the financial performance of Government managed MFIs.
2. To examine the impact of governance structure on the financial performance of Government managed MFIs.
3. To examine the impact of independent board of directors on the financial performance of Government managed MFIs.
4. To evaluate the arbitrating role of Government on the relationship between corporate governance practices and financial performance of Government managed MFIs.

1.4 The Research Questions

1. What is the effect of board composition on the performance of Government managed MFIs?
2. Does governance structure on affect the financial performance of Government managed MFIs?

3. What is the effect of independence of the board on the financial performance of Government managed MFIs?
4. Does Government mediate the relationship between corporate governance practices and financial performance of Government managed MFIs?

1.4 The Significance of the Study

This study is of great importance to the Government policy makers, academicians, managers of MFIs and other relevant stakeholders. The Policy Makers can derive information of great importance in benchmarking the financial performance of their Institutions against that of their peers. Results of the study enables government to establish its role of corporate governance on the performance of MFIs under its watch; the outcome enables stakeholders to do away with conflict of interest between the agents (managers) and the government which manage these institutions. It highlights to the Government successes and challenges of corporate governance in MFIs and thereby helping policy makers such as Association of MFIs of Kenya (AMFIK) to make informed decisions. Because of the formation of their boards it will be easy for the policy makers (the government) to detect loopholes within the governance of the institutions and thus advice the MFI or take further action. Further it gives an incite in understanding the percentage to which MFIs which are reporting on their adopted corporate governance have complied with several sections of the code of practices and the difficulties they are experiencing. It benefits academia by revealing corporate governance issues that undermine government supported MFIs.

1.5 The Scope of the Study

The study focused on the effect of corporate governance practices on the financial performance of Government managed MFIs in Kenya. The concepts of interest were corporate governance practices, financial performance. The MFIs of interest will be Uwezo Fund, Women and Youth Enterprise Fund.

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

Corporate governance practices (CGP) refers to the BOD adopted policies that stakeholders, Government, CEOs and BODs use in managing MFIs and sustain responsibilities owed to investors and other stake holders (Mwasi, 2011). In recent years, company's governance is being the subject to increasing stakeholder's attention and analysis. The study of company's governance practices has amassed greater importance in recent years with issues such as accountability, managerial responsibility, company's governance problems, weak BODs and protecting minority shareholders and investor. These issues have become boozie phrases and have attracted sizable attention in the current debate on company's failures and reforms. In recent times, it has been increasingly recognized that some Government managed Micro finance in certain areas have violated their social contract with consumers, shareholders, regulators and the community at large.

2.2 Theoretical Review

The section reviews perspectives of transparency of government managed micro finances relevant for the study. The essential theories in company's governance practices were initiated by the agency theory, expanded into stewardship theory and stakeholder's theory which has equivalently revolved into resource dependency theory, transaction cost theory, political theory and ethics theories like business ethics theory, virtue ethics theory and feminist theory. The study will concentrate on theories on agency theory, stewardship theory, stakeholder theory and resource dependency theory as major company's governance practices theories, and Political theory so as to feature influences of the government on effects of company's governance practices on fiscal performance in Government management of MFIs in Kenya.

2.2.1 Agency Theory

Agency theory which is based on principal agent and framework. Jensen and Meckling (1976) observed organizations to be sets of clear and implied contracts which have associated rights. Separating ownership and control by the government managed MFIs shows that there is existence of an agency relationship between the government, the directors who represents the company shareholders and the management to represent the other stakeholders. In the setting of corporations

and issues of company's management, agency theory sights company's governance mechanisms particularly the government to being an important checking device so as to ensure problems may be out of the principal agent relations are diminished (Moldoveanu & Martin, 2001 Mallin, 2007). Blair (1996), explains that managers should be well monitored and there exists arrangement to ensure checks and balances to avoid instances of power abuse. Agency theory proposes that BODs to comprise of independent directors who are outsiders. It also suggests that there should be separation between CEO Positions, chairman of the BOD and the government (Daily and Dalton, 1992; Balta, 2008). While the separation of the two positions is overlooked where the chairman becomes under the influences of the CEO the agency cost incur increases and MFIs suffer from market and fiscal controls. (Dalton et al., 1999; Balta, 2008). Although Agency Theory is the predominant viewpoint in company's governance studies, it's disapproved in current years (Blair, 1996; Hoskisson, 2000 & Fan, 2004) since it restricts capability to explain social and psychological appliances characteristic of the principal-agent connections (Davis, 1991). Company's governance in this context performs on fiscal performance in Kenya manages the government in a checking roles to ensure organizational plan made to manage their activities and to ensure counterbalancing influences put in place to curb misuse of responsibility. MFIs managers should be closely monitored.

The agency theory has been criticized by researchers urging that is gives a lot of concentration on the agency side leaving aside what occurs from the principles side. It's noted that the theory is not concerned with principals, who betray, evade and abuse the agents. Also, agents seem to be innocently get drawn into working with bureaucratic working environment without any choice for infringement, where principals act as unprincipled. The theory presents other ways that humans are noble and should work ethically for the better achievements of the firm. This argument persevered in the finance literature which has become a famous theory stewardship theory (Donaldson, 1990).

2.2.2 Stewardship Theory

Stewardship theory is existing as an alternative to agency theory. This theory gives more concentration to the co-operations and partnership (Sundaramuthy & Lewis 2003), it also provides non-economic idea used to explain relationship. Scholars in the past 20-25 years recommends this

theory to organizations, though it has been expressed and tried in various forms longer than the period. Positively, Dodd (1930) and in the famous public debates with Berle, suggested similar views that are in line with stewardship theory. Throughout the period from the 1920s to the early 1970s managers in both US and UK, though performing was generally known as managerialism, majorly refereed themselves as stewards (Stout, 2013) and were acting in line with wide stewardship approaches. The stewardship theory embraces, fundamentally, that directors should act as stewards and not interested in nurturing personal economic interests, as dictated by the agency theory, but are eager to take steps in the very best interests of the organization, and act in a method that results to organizational utility reasonably than personal welfare. In attempt to work in the direction of organizational needs the personal needs of organizations are archived (Tippett, 2011). Directors therefore while acting as steward are supposed to concern themselves about acting morally and doing what is right (Stout, 2003). Stewardship theory is manifest because of the idea of services for others not the personal (Block, 1993). Some supporters of the theory additionally argue that the theory adopts welfare commitment, development and all-inclusive benefits to others (Caldwell and Karri, 2005).

Stewardship theory improves the idea that persons, including directors, can often not be inspired by concerns of fairness, equality and apprehension for interests of other matters and be trusted to do a decent, professional job, out of the commitment to company aims since they take superiority over personal interest (Basuioc, 2015). As professional's overseers are mandated to some personal offer, act frankly and with due diligence and it be not considered as individual conduct (Blair and Stout, 2001). Consequently, they should seek inherent rewards which includes mutuality and take fulfilment in achieving increase and sustainable results not as characteristically presented, trying to acquire extrinsic rewards that are basically of a monetary nature (Pastoriza & Arinio 2008). This type of approach to management is considered in Japanese organizations where managers are loyal to their organizations and emphasizes on the organizational interests (Martynov, 2009). Blair and Stout (2001) debate from their survey of the empirical work of social scientists that dependable behavior happens and is not changeable.

Similar to agency theory, stewardship theory stresses need for alignment of aims of both principal and agent unlike the stewardship theory which assumes that the board members and the appointed managers are in charge of stewardship roles and behaviors are aligned automatically, after

appointment with purposes of their principals (Pastoriza & Arinio, 2008). This theory holds that directors possess different forms of inspiration from what is posed by the agency theory, which is derived from organizational theory and founded on psychology and social studies. Under stewardship theory managers are regarded as trustworthy to the corporation. On the other side in agency individualism is preferred, stewardship theory observes to communism. Hernandez defined the theory briefly as follows: the degree to which individuals freely conquers individual interests so as to protect others welfare in the long run. From this theory the dominant purpose, which guides managers to achieve their job, becomes the desire to do brilliantly and uprightly. Similarly, and in precise effective Performance of stewards with naturally puzzling work effort towards exercising accountability and right, and thus gaining credit from peers and bosses. Consequently, there exists non-fiscal incentives for BODs serving as stewards. This means that dominant element of this theory is trust (Kluvers & Tippett, 2011). That, as well as communal goals and relational reciprocity, results to growth of long run relationships which is advantageous to everyone involved, leading to directors being trustworthy (Kluvers & Tippett 2011). Although directors obviously have self-interest while stewards. Contrasting agency theory, which puts necessity to cater for the manager's interests into association with the principles, stewardship theory observes interests of directors as being previously in lined with the principals (Pastoriza & Arinio 2008).

The theory stresses goal convergence (Slyke, 2006) other than struggle as suggested by agency theory. Stewardship theory holds that an organization needs structures that allows coordination to be realized more efficiently between managers and stockholders. There exists also stint incentive, goal similarity, belief and administrative documentation in stewardship theory which have been taken in stewardship theory of organization (Van Puyvelde et al., 2013). Whereas the theory may not have similar heredity as agency theory, it also required to be employed in leading large amount of investigation in relation to several issues and topics. A disadvantage of stewardship theory may be seen to be the element that bigger operation cost expense would be made since there will be further investment with time for principles in linking stewards in solving difficulties, combined decisions and conversation (Slyke, 2006).

Similar agency theory, stewardship theory is subject to condemnation as occasionally it is condemned on ground that it allows managers carte blanche when it comes to using their will.

Although it has to be acknowledged that BODs are controlled by several factors like accessibility of right staffs, company products demand and expenses and obtainability of capital (Blair & Stout 2001). In regards to Stewardship theory, managers are viewed as the overseers of company's assets and are supposed to act in best interest of the stockholders (Mallin, 2007). Stewardship theory recounts the BODs role of giving needed support and guidance to organization (Davis, 1991). In relation to the leadership structure, stewards exploit their utility since they attain organizational other than personal objectives (Balta, 2008). In this study, bringing the government of Kenya welfares into alignment with the investor's ones for the sensible and sound organization on the fiscal performance of MFIs.

2.2.3 The Stakeholder Theory

The Stakeholder theory puts into considerations broader group of components other than concentrating shareholders (Mallin, 2007). It scrutinizes firms in the framework of a big range of implied and obvious stakeholders possess genuine prospects, urgent claims, or power concerning the firm (Jones & Politt, 2002). Stakeholder philosophers propose that directors in institutions have a system of relations to work for like providers, workers and trade partners (Abdullah & Valentine, 2009). This theory emphasis on decision-making and proposes that the welfares of every stakeholders bears inherent value, and no interests are presumed to dictate others (Abdullah & Valentine, 2009). Stakeholder theory was entrenched in organization discipline in the year 1970 and progressively was developed by Freeman (1984) combining company's responsibility to a comprehensive range of shareholders. Wheeler et al. (2002) claimed that investor theory was derivative from a mixture of the social and managerial disciplines. In essence, investor theory is less official combined theory and majorly a broad research tradition, integrating philosophy, morals, political theory, economics, law and structural science. Investor theory can be defined as any separate persons who affects or is affected by the accomplishment of the company's (Micro finance Institution's) goals. Distinct from agency theory where directors serve stakeholders, stakeholder theorists propose that directors in company's in organizations have a network of relationships to with the government, providers, workers and trade partners. It is contended that the network is significant rather than owner and manager relationship as supposed in agency theory (Freeman, 1999). Donaldson and Preston (1995) contended that the theory emphases on executive

decision making and welfares of all investors have inherent value, and no interest are presumed to overlook others.

The implication of investor theory identifies that companies are not affected purely by the exercise possession rights in the company. In the context of this study stakeholder's examples shareholders and managers of the Government controlled MFIs in Kenya, emphasizes on executive roles played by the Government which emphasizes on executive decisions so as to establish sound company's governance on fiscal performance of MFIs.

2.2.4 Resource Dependency Theory

At the same time as, the investor theory emphasizes on relations with several groups for personal advantages, resource dependence theory focusses on role of BODs in giving admission to resources required by firms. Hillman, Canella and Paetzold (2000) struggle that resource dependence theory emphasizes on roles that managers play in giving or safeguarding vital resources to companies through links to the external environment. Certainly, Johnson et al. (1996) agrees that resource dependence theorist's gives emphasis on the selection of those to represent independent companies as way of archiving accessibility in critical to firm success. In this study the government appoints representatives of independent MFIs managed by it. Example, separate managers who are associates to provide legal advice both board meetings and private conversations with directors that may be pricier for the firm to have. According to Hillman, et al. (2000) managers should bring finances to the firm, such as info, expertise, and accessibility to constituents such as providers, consumers, public policy makers, and social groups. Managers can be categorized into four groups of insiders, expertise, specialist and public influential. The insiders are those previously were executives of the company and give expertise in certain arrears. The second group are business experts who comprises of current, former executives and directors of large profit making firms and give expertise on applicable business policy, decision making and problem solving. Third, the provision authorities include lawyers, bankers, insurance company representatives and public relations specialists and these provide support in specific particular fields. Lastly, the community persuasive are the political personnel's, university faculty, members of clergy, and leaders of communities.

2.2.5 Political Theory

Contemporary Political Theory developed by Andrew Shorten, (2017), shows Political Theory as an activity not a body of knowledge. It can be described as what we do not what we know, we use this theory every time we reason about important political matters. Basically, this theory involves trying to know how we are supposed to live together. For example, we apply it when we ask about how we can design, policies or if we need to modify electoral system or even the constitution. Frequently, political theorists address the questions by asking different questions which are more abstract and less familiar, which include nature, democracy, equality, freedom, justice and rights. Though the questions are less regularly subjects of heated conversations in clubs and dinner tables, they are significant to people who care about (Shorten, 2017).

Dryzek, Honig and Phillips (2011), in “Overview of Political Theory” book, described Political theory as intern corrective outfit with the basic purpose lying at humankind’s discipline of political science. Political theory customs, methods, vary though the ground is united by pledge to speculate, assess, and analyze the customs, does, and association of political deeds in the past as well as present, in our homes or outside. What seems sometimes thoughtful is the disparities in people’s views and feelings, as political theorists observe a worry with justice demands and how they should be fulfilled, the assumptions and pledges of democracy, the divisions between the secular world and the religious ways, natures and identification of public good etc.

Political theory sometimes seems to lack essential identity. Certain practitioners seek to correct the apparent lack by putting political theory to its rightful role as arbitrator of general questions and explorer timeless texts or by recurring the focus to put the theory to history. However, majority have a robust sense of their aptitude. Many understand the within riven and undefined character of the ground as thoughtful of taking along with encounters and possibilities of the condition. In the past two decades, profuse, acute, and structuralism theorists in their very diverse ways have answered to the failure of old norms concerning unitary nature of state characteristics. They reconsidered the assumptions and denotations of individuality, frequently refusing unitary beginnings and moving in the direction of more varied, varied, or agonistic beginnings in their place. The likenesses have impacts in the field’s own insight and understanding. This review of the function and role of the limitations of the academic disciplines which may help, political

theorists to find if diversity as an asset and a forte other than weakness in essential of refinement; (Dryzek, Honig & Phillips, 2011)

Political theory brings approach of developed voting funding from shareholders, slightly by buying elective power. Henceforth partaking political effect in company's governance inside the association. Community interest is much earmarked as government contributes in company decisions, putting into account cultural encounters (Pound, 1993). The political model sights out the distribution of company's control, incomes and rights which are determined using the governments' approval. The political way of company's governance is considerable effect on governance growths. Over the last years, country governments have had strong political impact on companies. Leading to arrival of politics into the governance organization of firm mechanism (Hawley & Williams, 1996).

2.3 Empirical Review

Empirical means based on, concerned with, or verifiable through observing or knowledge rather than theory and pure logic. The empirical review carries mixed results about the relationships between company's governance and fiscal performance of government managed firms generally as seen from the empirical studies done by various researches.

2.3.1 Board Composition and Financial Performance

The board multiplicity is integrating gender, age and the size of the board, idea proposes that BODs should imitate the organization of society as well as correctly represent the genders, society and specialized experiences of it. BODs companies are necessitated to have correct mix so as to give varied viewpoints. BOD's diversity is supported on basis of moral roles to stakeholders and for commercial reasons through acquiring extensive decisions (Daily & Dalton, 2003). Gender diversity is a measured portion of the wider conception of BODs diversity and numerous academicians have illustrated that few women sits in the company's BODs, in comparison to the number of men. On the other hand, most women directors provide support in managerial skills like legal, public relations, Human Resources Management (HRM) other than working and advertising skills. Founded on the sign by empirical studies, it's significant to explore more on the influence of gender diversity of BODs on MFI performance since it leads to better company's governance and delivers diverse viewpoints, standards and new philosophies to the BODs and incites lively

assembly room consultations. The BODs magnitude is explained as the number of executive and non-executive directors. The size of the BOD ought to be big enough so as to in company's main skills and viewpoint or minor enough to let active participation of all directors and the uneven functioning of assemblies. There exists certainty that the amount of managers affects performances of companies. An amount of researchers has stated that larger BODs enjoy the advantages and when BOD size increases firm performance significantly increases as many members provide greater monitoring and give significant and make accessible improved links to the outside environment (Pfeffer, 1972).

Dalton, Ellatran and Johnson (1998) who did mental analysis consisting of 54 empirical studies of BODs structure to determine their association with productivity subsequently the study found less proof of a relationship among BODs structure and a firm's monetary performance. Likewise, there is encouraging result of company's governance on the fiscal routine of banks, the result of company's governance on fiscal performance of parastatals in Kenya (Fondo, 2016). Ngure (2007) applied survey design approved connection among company's governance as well as performance in micro finances. The results were that 70% of MFIs have BODs comprised of 10 members while 30% of the MFIs comprise of 10 members in their BOD. As the relationship among companies with performance remained discovered using fiscal features of the MFIs, the study established that there is relationship among diverse features of company's governance and firm performance. Precisely, the study established that BOD size was in a positive manner connected with company's performance (Ngure, 2007).

2.3.2 Governance Structure and Financial Performance

Black, Jang and Kim performed a study in 2003 on the importance in the association among company's governance and share prices, to be precise companies with healthier company's governance arrangement performed better. Capital meaning cash raised by the shareholder is used in financing its operations. Shareholders do not have a direct ownership and right to company property but they have an ownership interest in the entire organization. They do not involve themselves in daily managing of the organization. In its place, they chose directors who will together as a BOD present the interest of shareholders and see through the whole management on

their behalf. The stockholders influence long term decisions of the company using the over-all assemblies which in most categories of meetings are held each year. During general meetings, they carefully vote on matters of importance like electing directors and auditors. Afterward, they are to content themselves to having the right governance in the management. They are projected to eradicate directors whose actions are considered wrong. They ought to check the performance of these directors regularly. For the stockholders to do all these, they required to be informed of the activities to be carried out during the meeting before the date (Principles for Corporate Governance-PSCGT, 2002).

This BOD acts as a hinge among the owners and controllers of companies as well as a critical link between the stockholders who acts as providers of capital and management who are the persons who are to use the raised capital to generate value (Monks & Minow, 2001). The directors have a fiduciary role relating to achieving responsibilities geared in the direction of the shareholders they represent. Their responsibilities include appointment, dismissal, reimbursing employees and recommending to the top managers (Denis, 2001). The BOD is also accountable for ensuring that the audited fiscal reports of the corporation shows a true and fair image of the company's fiscal position (Hill & Jones, 2004). Boards can comprise of both inside and outside directors. Inside directors are the one charged with controlling and hold senior positions in the firm. They are also discussed to as executive directors. These managers are represented on the BOD since they own close knowledge on the organizations activities without the BOD cannot achieve its controlling role. Conversely, outside directors are not workers of the company.

Company's governance observes managing staff to include of the CEO and top managers. Their main obligation is performance. Executive management and particularly the CEO, is answerable to BOD for general running of the company. Precise executive manager's tasks differ from firm to firm and shows breakdown of the mission, objectives, strategies and major dealings of the company. Mostly, effective executive management are persons who understand the company at large, who can set up scales of current needs of the company against upcoming requirements, who can come up with right and sound decisions (Johnson & Scholes, 2002). Gompers, Ishii, Metric (2003), used the 24 unique governance guidelines and built a Governance Index used to substitute the level of stockholders rights at around 1500 big firms throughout the 1990s. The study examined

and established that companies with sound company's governance rules delight in higher estimates, more profits and more sales increases.

Klapper and Love (2004), found a great positive relationship among good governance and performance with steady level data and ROA (return on asset) as a proxy for capital performance. The outcomes seem to confirm that the relationship is positive. More significantly, this relationship appears to be robust in countries with less established principles, though confirming that this may differ among countries.

In Kenya, literature on company's governance as well as the effects on fiscal performance resident company's similarly carry a combination of outcomes which are founded on a diverse theoretical viewpoint and research approaches put into contemplation. Kioko (2014), researched the effects of company's governance taking place in the fiscal performances of firms taking part in Nairobi Securities Exchange by means of descriptive study design and research findings determined that company's governance bears a useful impact on fiscal performance of entities and mechanisms independently, had diverse results on their effect on fiscal performance.

The study determined company's governance which has combined results on its effect on fiscal performance of insurance companies. While fiscal performance of insurance in Kenya are meaningfully affected by BOD Structure (the fraction of outside director's number of directors) and leverage (the fraction of liabilities to sales), the performance is not meaningfully affected by BOD size and membership in risk committee. Mboi (2011), observed several governance mechanisms as well as Impacts Company's fiscal performance like Tea factories by means of descriptive study design determined the positive relationship among company's governance and company's fiscal performance. The results also proposed that power separation has meaningfully impacted performance as BOD composition and size had a meaningfully undesirably impacted performance. Brown and Caylor (2004) generated measure of company's governance, Gov. Score, founded on a new data given by Institutional Shareholder Services including 8 company's governance groups that include audit, BODs, bylaws, CEO and director compensation, ownership, advanced practices, incorporation state. In their discoveries they stated that there is a positive relationship among the quality of CG and measures of profitability.

2.3.3 Independence of Board of Directors and Financial Performance

There exists different measure for the composition of the managing board, which are wide-ranging as sum of both outside directors and independent managers in the BOD etc. The idea of BOD freedom was founded on agency theory. Sovereign BOD members give possibly greater oversight and responsibility of actions, since they are lesser likely to be subjected to principal-agent challenges. Since independent members don't possess inherent self-interest, instead they are driven by interests of the investors who selected them (La Porta et al. 1999). Hence, a superior fraction of independent directors in the BOD are accountable to promoting positive performance.

2.3.4 Government Role, Corporate Governance and Financial Performance

Board leadership arrangement is significant in company's governance models, which is imitated in CEO and boards chairmen. Equally agency theory and stewardship theory addresses leadership structures adopted for boards. Separating these roles performed by government, chief executive officer and chairman of the board is principally based in the agency theory (Daily & Dalton 1993) assuming that out of agency challenges, it's important to keep a track on the performance of the chief executive officers and directors to protect the investors' rights. Conferring to lam and Lee (2008) merging the chairman's roles and that of the chief executive officer results in chief executive officer being dominant, results into ineffective monitoring of managers and monitoring BOD. Activists of stewardship theory maintain that merging these roles reinforces the leadership and permits leaders to quick actions mostly in critical decisions. Dehaene, De Vuyst and Ooghe (2001) established that merged leadership structure bears significant results on fiscal performance hence participation of government in company governance performs on fiscal performance of MFIs to enable operational monitoring and reinforce leadership. Otieno (2010), who used ordinary least squares method to examine the impacts company governance on fiscal performance of Fiscal Institutions which are listed under Nairobi Securities Exchange (NSE). Consequently, the indication from the research showed that company governance bears an important influence on the performance of fiscal institutions in Kenya, as determined by return on assets.

The empirical literature review on company governance discloses that there exists essential for separating power among the positions of government, BOD chairs and chief executive officer so as to improve independence of BOD to serve as an actual monitoring scheme. Indication from

empirical researches on BODs size formed positive relationships which have quality of management decisions, and relations among BOD effectiveness and competence also gave out mixed outcomes. Likewise, other findings have largely revealed that the superior the participation of government in management its state supported MFIs, the lesser the enticement to indulge in organization scam hence the slighter the likelihood of fraud. Consequently, conclude that company's governance observations on fiscal performance of government controlled micro finance organizations in Kenya precise variables is relative.

2.4 Knowledge Gap

Kerubo (2011) focuses on company governance practices used in MFIs and do not focuses on impacts on fiscal performance of these organizations. Mbithe (2011) concentrated on effects of company's governance on fiscal performance of MFIs which accepts deposits leaving those which do not. Ngure (2007) did a research on the relationship among company governance practices on fiscal performance as well as performances of micro finances in Kenya focusing on company's performance (Moenga, (2013).

Consequently, it necessities the study of effects of company Governance on the fiscal performance of Government controlled micro finance concentrating majorly Micro finance organizations specified the wonderful development in this sector. The empirical study of Quality Company's governance performance in relations to MFIs will be examined at this stage and it's significant to perform more researches in this area so as to improve MFIs' growth by the study. This study is anticipated to complete and many empirical evidence in the fiscal literature supporting the idea that good company's governance improves the performance company. The research also gives the essential rationale that could commend good governance practices of MFIs would improve their performances and decrease risk. Consequently, it is significant to scrutinize the empirical evidence of company's governance tools which develops company's performance. Thus, so as to appreciate the governance practices contributing to improve the fiscal performance of the MFIs in Kenya, the research sought to study the effects of company's governance on Government managed fiscal performance of MFIs in Kenya.

2.5 Conceptual Framework

Figure 2.1 shows sets of variables. The Independent Variable is company's governance practices and the precise variables are BODs composition, governance structure, Independent BOD and role of government in company's governance. The dependent variable is Firm performance. The mediating variable was role of government.

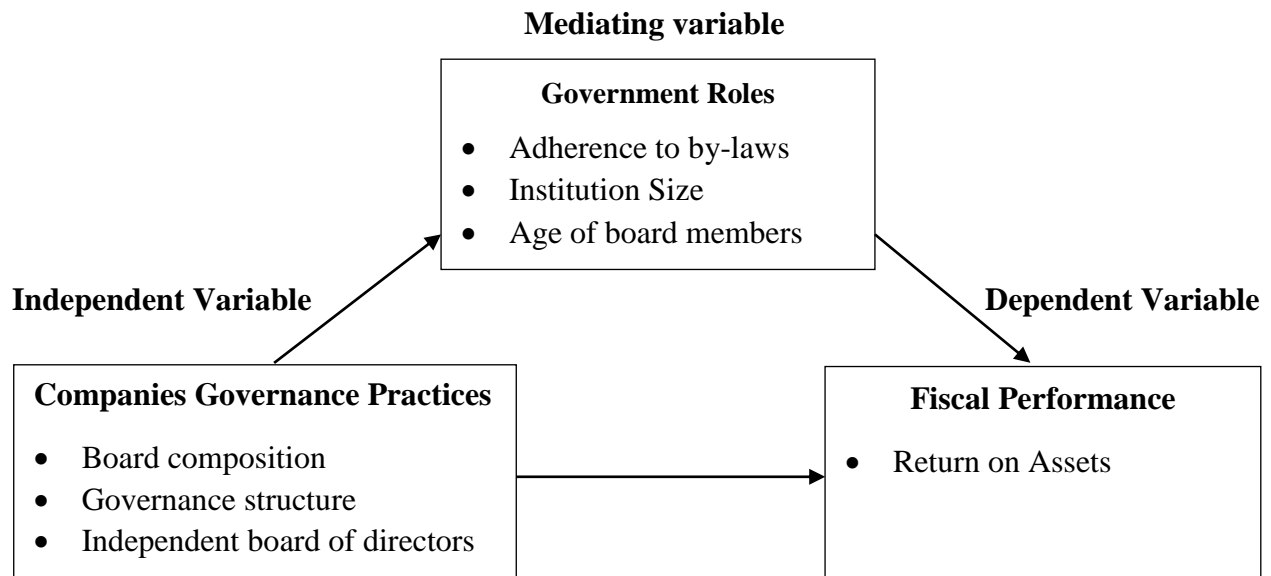


Figure 2.1: Conceptual Framework

2.7 The Research Hypothesis

From conceptual framework in Figure 2.1 above, the subsequent research hypotheses proposed and investigated include:

- H₀₁: Board composition has no significant effect on fiscal performance of Government managed micro finance institutions.
- H₀₂: Governance structure has no significant effect on fiscal performance of Government managed Micro fiscal institutions
- H₀₃: The independence of board members has no significant effect on fiscal performance of Government managed Micro fiscal institutions
- H₀₄: Government role has no significant mediating effect on the relationship between company's governance and fiscal performance of Government managed MFIs.

2.6 Operationalization of Variables

Table 2.1 below shows the operationalization of variables. There are four variables thus, board composition, governance structure, independent board of directors and government role in company's governance.

Table 2.1: Operationalization Variable

Variables Type/ Variable	Indicator	Measurement scale
<i>Independent Variable</i> Board Composition	<ul style="list-style-type: none"> • Board gender • Number of Board • Board skill 	Interval Scale
<i>Independent Variable</i> Governance Structure	<ul style="list-style-type: none"> • Elected members • Appointment of directors • Appointment of Auditors 	Interval Scale
<i>Independent Variable</i> Independent Board of Directors	<ul style="list-style-type: none"> • Accountability to stakeholders • Good decision making • Improved performance 	Interval Scale
<i>Mediating Variable</i> Government role in Company's Governance	<ul style="list-style-type: none"> • Control management excesses • Adherence to by-laws 	Interval Scale
<i>Dependent Variable</i> Firm Performance	<ul style="list-style-type: none"> • Return on Equity 	Interval Scale

CHAPTER THREE

RESEARCH METHODOLOGY

3.1 Introduction

This chapter shows plan of action to be used in conducting the research. The methodology employed encapsulates; the research design, the population of interest, sampling technique and sample size, data collection procedure, instrumentation and data processing and analysis process.

3.2 Research Design

Research design is as the framework and plans for the research as a controller in assembling and examining data (Malhotra, 2019). The proposed study employed a descriptive research design, particularly a cross sectional survey in examining the effect of company's governance practices on fiscal performance of Government managed MFIs in Kenya. Cooper and Schindler (2014) posit that in social studies, descriptive research allow for description of phenomena, a group of people or an event and how they relate to another variable. Descriptive research design was used to provide answers to the; how, who, what, when and where questions concerning different components under study (Burns & Bush, 2014). The design allowed for collection of information about respondent's opinions, habits and attitudes. Conferring to Sultan and Wong (2010) expressive research design allows for quantitative description of variables, estimation of population parameters and subsequently generalization. This research design was preferred owing to its anchorage on; quantitative approach, objectiveness and hypothesis

3.3 Target Population and Sampling Frame

Population comprises a whole group of persons, dealings or matters possessing mutual apparent characteristic about which a researcher is interested in (Sekaran, 2008). The population defines factors whose features the study seeks to refer to. The population in this study consisted of UWEZO Fund Ltd under Deposit Taking MFIs and Youth Enterprise Fund and Women Enterprise Fund under wholesale MFIs sampled from Nairobi Cosmopolitan (Nairobi County, Kiambu County, Thika sub-County, Kajiado County and Machakos County) in Kenya. The target population of this study were all the board members and senior managers in the three (3) registered and Government managed MFIs in Nairobi, Kenya registered under the Association of Micro Finance Institution of Kenya as at 31st December 2018. According to the Constitution of Kenya

(2010), the maximum number of board members in a Government managed MFIs is 10. Hence the population size was 150 respondents as shown in Table 3.1 below.

3.4 Sampling Technique and Sample Size

Sampling technique is critical to obtaining an accurate and adequate representation of the population (Saunders et al., 2013). Sampling is process of drawing a small percentage of elements in a population that represents the whole (Kothari, 2011). Owing to the limited number of branches, the study undertook a census of all the branches in Nairobi Cosmopolitan. Mugenda and Mugenda (2003) prefer a census approach for a small population. The sample size was therefore 150 respondents as shown in Table 3.1 below.

Table 3.1: Sample Size

County	Government Managed MFI	Population	Sample Size
Nairobi	Uwezo	10	10
	Youth Enterprise Fund	10	10
	Women Enterprise Fund	10	10
Thika	Uwezo	10	10
	Youth Enterprise Fund	10	10
	Women Enterprise Fund	10	10
Kiambu	Uwezo	10	10
	Youth Enterprise Fund	10	10
	Women Enterprise Fund	10	10
Machakos	Uwezo	10	10
	Youth Enterprise Fund	10	10
	Women Enterprise Fund	10	10
Kajiado	Uwezo	10	10
	Youth Enterprise Fund	10	10
	Women Enterprise Fund	10	10
	Total	150	150

3.5 Data Collection Instrument

The study used primary data collected using a questionnaire. The questionnaire in Appendix II was instrumental in collecting data. The questionnaire contained both closed ended questions. The closed ended questions enhanced standardization of responses and thus helped in the formulation of objective conclusions.

The questionnaire was structured to minimize on response variations. The data collected consisted of; Section A-background information, Section B gender of the board, Section C board size, Section D independent directors, Section E governance structure and Section F covered return on assets. A five point Likert scale was employed where 1= not at all, 2= little extent, 3= moderate extent, 4= great extent and 5= very great extent.

3.5.1 Validity of the Instrument

The instrument in Appendix II was pilot tested and checked for validity. Saunders, Lewis, and Thornhill (2015) indicated that a pilot survey is important because it is used to improve the instrument. This enables respondents to answer questions without difficulty and offers easy recording of data and analysis. In addition, it assists the researcher to assess the validity of the data collection tool. A pilot test of the instrument was done by subjecting it to data collected from two branches. The instrument was given to two experts to get an expert opinion, where one was an industry practitioners and another a lecturer specializing in cooperate governance. Their feedback was used to examine difficulties in obtaining data on any of the variables and adjustments done. The final instrument was considered valid.

3.5.2 Reliability of Instrument

According to Cooper and Schindler (2013), a measure is reliable to the degree that it supplies consistent results. Reliability is a quantify the degree to which study parameters used gives out consistent results following repeated attempts (Fairchild, 2002). The Instruments reliability coefficient was calculated using Cronbach's Alpha technique. Field (2013) noted that Cronbach's $\alpha > 0.7$ meant the instrument gives good measurement tool henceforth dependable. Figures collected at the pilot study phase were subjected to a scale test and a Cronbach's $\alpha \geq 0.7$ were be interpreted to mean the instrument was internally consistent hence reliable.

3.6 Data Collection Procedures

Data collection procedure refers to the methodology used by the researcher during data collection relative to the research (Kumar, 2009). Primary data was collected by personally administering the questionnaires. The study relied on the use of secondary data sources obtained directly from; reports or publications, journals, books, and related documents. Secondary data was useful in

structuring the methodology to employ and brought about clarity on the research problem (Burns & Bush, 2010).

3.7 Data Analysis

At the end of the field work, the data was prepared for analysis. Data preparation involved; consistency checks, editing, cleaning, and key punching the data into SPSS. Two statistical tests were performed; descriptive statistical test and inferential statistical test. The Inferential test took the form of multiple regression analysis.

Descriptive statistics involved computation of measures of central tendency including mean scores analysis, standard deviation, frequency distribution, cross tabulation, and correlation analysis. Mean analysis was used to rank the attributes in terms of their relative importance to the study from the highest to the lowest. Correlation analysis using Pearson correlation coefficient (r) was applied in examining the level of significance of bivariate variables. A correlation coefficient of $r \pm 1.00$ was interpreted to mean a perfect (positive or negative) correlation existed between the variables. When $r = 0.01$, it meant the relationship was quite weak and $r = 0.9$ it meant very strong correlation between the variables. When $r = 0$ it indicated that there was no correlation between the variables. A correlation was deemed significant if the probability value was equal to or below 0.05 ($p\text{-value} \leq 0.05$).

3.6.1 Pre Estimation Tests

The analysis involved the use of Statistical Package for Social Sciences (SPSS) software. The individual regression coefficients were checked to see whether the independent variable (company's governance) significantly affected performance (Return on Asset). Preceding regression analysis, pretests were done in attempt to ascertain the suitability of the data for regression analysis technique. This pre analysis tests included: normality test, linearity, multicollinearity, homoscedasticity and availability of outliers. Violation of any of these assumptions would mean the results are likely to give biased estimates of the population parameters (Saunders, Lewis & Thornhill, 2016). The estimated regression model took the form of equation below.

$$Y = \alpha_i + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \beta_4 X_4 + \varepsilon$$

Where

Y= Firm Performance (dependent variable)

α_i = constant

$b_1 \dots b_5$ = Coefficients

X_1 = Board composition

X_2 = Governance structure

X_3 = Independent board of directors

X_4 = Government role

ε = error term

3.6.2 Test for Mediation

The study will adopt the Shaver (2005) method of analyzing for mediating variable in management research. The research uses multiple regression technique in measuring significance of the relationship among company's governance and fiscal performance of Government managed Micro fiscal institutions.

The hypothesized regression model will take the form of equation (1) to equation (6) below. Baron and Kenny (1986) proposed that to check for mediating variables, the mostly used technique entails approximating three regression equations by the use of Ordinary Least Squares (OLS) as explained below. First, the relationship between board composition, governance structure, independence of BODs and firm performance was tested based on the regression equation (1);

$$Y = \alpha_0 + cX + \varepsilon_0 \quad \text{equation (1)}$$

In equation (1), Y is the dependent variable (firm performance), α_0 is the coefficient estimate of the intercept, the symbol c is the coefficient estimate of X on Y and X stands for the independent variable in this case company's governance and ε_0 = Error terminology which was associated with regression technique. Fitting the latent variables that define X_i in the model, the estimated equation changed to equation (2) below;

$$Y = \alpha_0 + c(\beta_i X_1 + \beta_{ii} X_2 + \beta_{iii} X_3) + \varepsilon_0 \quad \text{equation (2)}$$

From equation (2) Y = company's governance, X_1 = board composition, X_2 = governance structure, X_3 = independence of board of directors and ε_2 = Error term associated with the regression model and β_{i-iii} = Beta parameters of the independent variables. If c differed statistically from zero, then testing whether the effects are direct or mediate continues. Doing this requires one to estimate two regression equations. The first was used to determine whether there exists any relationship among X (independent variables) and X_4 (mediating variable) through estimation of the subsequent regression equation as well as test to determine whether the coefficient a differs from zero.

$$X_4 = \alpha_2 + aX + \varepsilon_2 \quad \text{equation (3)}$$

In equation (3), X_4 = Government role and X stood for the independent variable in this case, company's governance. Substituting X with the actual variables that defined the independent variable the new estimated equation (4) will be;

$$X_4 = \alpha_2 + a(\beta_i X_1 + \beta_{ii} X_2 + \beta_{iii} X_3 + \beta_{iv} X_4) + \varepsilon_2 \quad \text{equation (4)}$$

If a major relationship exists amongst X and X_4 , thus the last step accessed whether X affects Y , once adjusting for effects of X_4 on Y . Equation (5) is therefore tested;

$$Y = \alpha_3 + c'X + bX_4 + \varepsilon_3 \quad \text{equation (5)}$$

From equation (5), c' is the coefficient estimate of X on Y and b was the coefficient estimate of X_4 on Y . Substituting the independent variable (X) with the specific variables, the new estimated variable was as shown in equation (6) below.

$$Y = \alpha_3 + c'(\beta_i X_1 + \beta_{ii} X_2 + \beta_{iii} X_3) + bX_4 + \varepsilon_3 \quad \text{equation (6)}$$

If b was mathematically important, then provided that a was mathematically important in Equation 3, the understanding is that X_4 (Government role) intermediates the relationship among X (company's governance) and Y (firm performance). Thus estimated c' is evaluated. If c' is non-significant, then the understanding was that X_4 (Government role) completely intermediated the relationship among X (company's governance) and Y (firm performance). If c' is mathematically significant, then the understanding was that X_4 (Government role) partly intermediated the relationship among X (company's governance) and Y (firm performance).

3.6.3 Variable Specification

The specific measures of the variables under study are spelt out in Table 3.1.

3.6.4 Data Presentation

The collected data was tabulated and summarized using pie-charts and frequency tables. Overall response rates and general demographic information was presented. Then the key body of the research according to the stated specific objectives was presented using suitable tables and figures. Discussion and explanation on the outcomes of the study was presented. Observed trends were discussed accompanied by appropriate deductions. Inference were made in relation to comparable or conflicting findings from literature to back up discussions. In the event of any unusual observations, explanations were given for the possible cause.

3.8 Ethical Considerations

In the process of conducting the study, ethical issues that were considered by the researcher included; confidentiality, informed consent and plagiarism. The researcher ensured that in the collection of data from the various institution involved was done in a confidential way and identity of the respondent was kept confidential. The study considered and cited the sources of the information and acknowledge them in the references page to avoid plagiarism.

CHAPTER FOUR

DATA ANALYSIS AND INTERPRETATION

4.1 Introduction

This chapter presents the results and interpretation of findings. The study sought to determine the effect of corporate governance practices on financial performance of Government managed MFIs in Kenya. Data was collected using questionnaires as the data collection instruments and summarized by use of descriptive statistics which involved the use of frequency tables, percentages, mean and standard deviation. Multiple regression analysis was used in determining the relationship between the explanatory variables and the outcome variable.

4.2 Validity and Reliability Test Results

The questionnaire in Appendix II was pilot tested for its face validity and its reliability. According to Creswell (2009), a pilot test helps to test the reliability and validity of data collection instruments. According to Yin, (2013) the validity of a questionnaire refers to the extent to which it measures what it claims to measure. Using two branches of the MFI's and five board members from each of the MFI's, the questionnaire was subjected to a face validity test. The instrument was then given to two experts to get an expert opinion, where one was an industry practitioners and another a lecturer specializing in cooperate governance. The two branches were excluded from the final survey to avoid contamination. The feedback from the ten board members and the two experts was used to remove; double barreled questions, handle difficult questions, clarify on ambiguous questions and eliminate vague questions. The final instrument was then considered to meet the requirement of face validity.

Reliability is an indication of how much one can rely on the data source. Data is deemed to be reliable if it is dependable, authentic, reputable, and trustworthy. It also makes it possible for a similar study to be replicated with consistent outcomes (reliability). This is because consistency is the primary measure of reliability (Pierce, 2008). The instrument was tested for reliability using the Cronbach alpha test as proposed by Akeem (2015). The 38 items in the instrument resulted in an overall Cronbach alpha = 0.884 (Appendix II). Field (2013) noted that an overall alpha ≥ 0.7 of

the instrument is interpreted to mean the instrument is reliable, the study instrument was considered reliable.

4.3 Response Rate

A total of 150 questionnaires were distributed out of which 120 questionnaires were returned resulting in a response rate of 80%. This response was considered adequate and representative of the population as it conforms to Mugenda and Mugenda (2003) stipulation that a response rate of 70% and above is excellent. These findings are illustrated in the Figure 4.1 below.

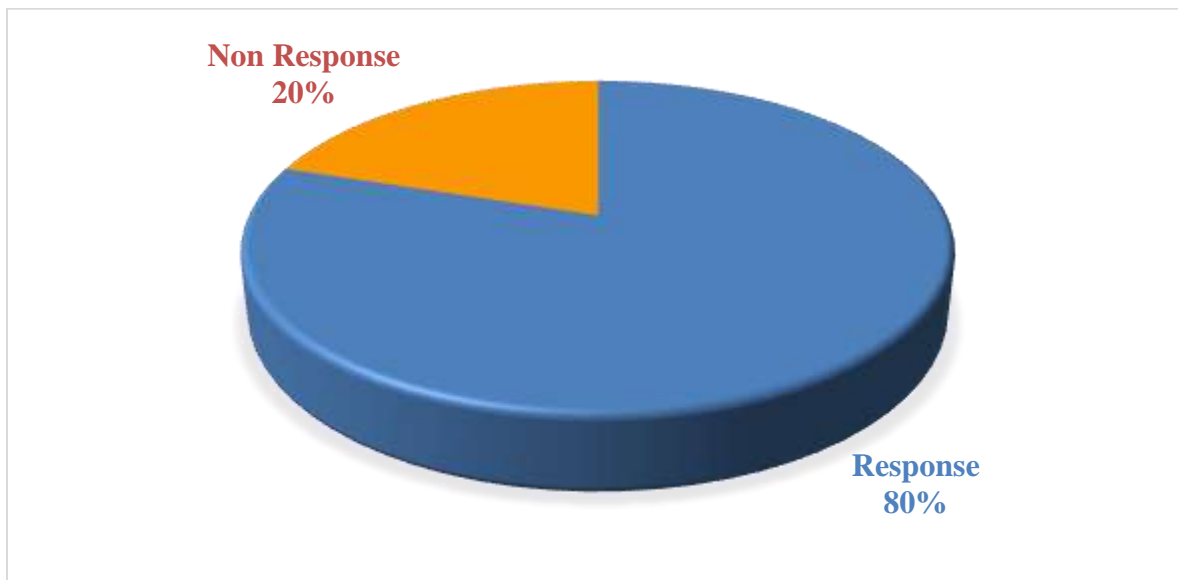


Figure 4.1: Response Rate

4.4 Background Information

The study sought to profile the respondents with an aim of establishing their suitability in providing data relevant for completion of this study. Table 4.1, shows most of the respondent were of the male gender (49.2%) with the female gender comprising of 50.8%. This indicated a gender parity which gave an even representation of either gender. Most of the respondents had up to Bachelor's degree level of education (42.5%) with 18.3% having up to O' level qualification, implying that the respondents were literate enough to articulate the issues of concern to this study. In reference to age, a majority of the respondents (55.8%) fell in the age bracket 31-45 years. They were therefore mature adults with ability to competently comment on the governance practices of the government managed MFIs. An examination of the Government managed Micro Finance

Institutions (MFI) that fell within the respondent’s area of work reveals that most of them are related with Uwezo Funds (40.8%), Youth Enterprise Funds (33.3%) and 25.8 % Women Enterprise Funds. This meant that each of the MFIs under study was represented.

Table 4.1: Respondent Profile

Variable	Response Category	Frequency	Percent
Respondent gender	Male	59	49.2
	Female	61	50.8
Highest Professional qualification	0 Level	22	18.3
	A Level	9	7.5
	Bachelors	51	42.5
	Masters	19	15.8
Respondent age groups	Less Than 30	48	40.0
	31-45	67	55.8
	45-60	5	4.2
MFI within your work area	Uwezo Funds	49	40.8
	Women Enterprise Funds	31	25.8
	Youth Enterprise Funds	40	33.3
	Total	120	100.0

4.5 Internal Validity Test

The 5 constructs in the study were subjected to a scale test to ascertain their internal consistency reliability. All the constructs in the study had Cronbach’s alpha values greater than 0.7 hence they were considered to be internally consistent and reliable (Field, 2013).

Table 4.2: Internal Validity Test

Construct	Number of Items	Cronbach’s Alpha
Board Composition	7	0.786
Governance structure	7	0.884
Independent Board of Directors	7	0.912
Government role	7	0.781
Financial Performance	5	0.908
Overall	38	0.884

4.6 Board Composition

An analysis of board composition in Table 4.3 shows most of the most of the MFIS (63.7%) had 9-12 members and those that had 5-8 member BODs were 25%. Most of the boards (55%) had 1-4 members of the male gender with 43.3% of the MFI having 1-4 BOD members of the female gender. This meant most of the MFIs had more of male BOD members compared to the female members.

Table 4.3: Board Composition

Variable	Response Category	Frequency	Percent
Number of members are in the Government managed MFI Board of Directors (BOD)	5-8	30	25.0
	9-12	76	63.7
	Above 16	14	1.6
How many BOD are male	1-4	66	55.0
	5-8	32	26.7
	9-12	18	15.0
How many BOD are female	Above 16	4	3.3
	1-4	52	43.3
	5-8	43	35.8
How many BOD are female	9-12	19	15.8
	Above 16	1	2.5
	None	5	2.5
	Total	120	100.0

4.6.1 Aspects of Board Composition affecting Performance of MFI

The results in Table 4.4 shows that the respondents agreed to a large extent (28.3%) that board size affected the financial performance of the MFI. The independence of board members affected financial performance of the MFI to a large extent as indicated by 28.3% of the respondents, while 45.8% of the respondents opined that the appointment process affected the financial performance of the MFIs. Most of the respondents 36.7% agreed to a large extent that the Government involvement in comprising the board affected the financial performance of the MFIs. Resulting from this analysis it was inferred that board composition had an effect on the performance of the MFIs.

Table 4.4: Aspects of Board Composition affecting Performance of MFI

Variable	Response Category	Frequency	Percent
Board size and financial performance of the MFI	little extent	7	5.8
	moderate extent	29	24.2
	no extent	28	23.3
	large extent	34	28.3
	very large extent	22	18.3
Independence of board members on financial performance of the MFI	little extent	3	2.5
	moderate extent	13	10.8
	no extent	8	6.7
	large extent	34	28.3
	very large extent	62	51.7
Appointment process on financial performance of the MFI	little extent	6	5.0
	moderate extent	18	15.0
	no extent	7	5.8
	large extent	55	45.8
	very large extent	34	28.3
Government involvement on financial performance of the MFI	little extent	2	1.7
	moderate extent	13	10.8
	no extent	27	22.5
	large extent	44	36.7
	very large extent	34	28.3
	Total	120	100.0

4.6.2 Mean Analysis of Board Composition

A mean score analysis in Table 4.5 shows that variables that best described board composition were; independence of the board (mean score=4.16), Government involvement (mean score =3.79), Appointment process (mean score=3.78) and Board size (mean score=3.29). The weighted mean score of board composition was equal to 3.75, which meant the respondents agreed to a large extent that board composition affected firm performance.

Table 4.5: Mean Analysis of Board Composition

Board composition variables	N	Minimum	Maximum	Mean	Std. Deviation
Independence of board members	120	1	5	4.16	1.108
Government involvement	120	1	5	3.79	1.028
Appointment process	120	1	5	3.78	1.163
Board size	120	1	5	3.29	1.191
Weighted mean score				3.75	

4.6.3 Correlating Board Composition and Financial Performance

Resulting from a Karl Pearson's coefficient of correlation (r) and probability value (p-value) analysis, Table 4.6 shows that board size had a significant weak positive correlation ($r=0.182$, $p=0.048$) with firm performance and Independence of board members had a significant weak positive correlation ($r=0.232$, $p=0.011$) with firm performance. Implying a correlation existed between board skill and financial performance.

Table 4.6: Correlation of Board Composition and Financial Performance

Board Composition		Board size	Independence of board	Appointment process	Government involvement	Financial Performance
Board size	Pearson Correlation	1				
	Sig. (2-tailed)					
Independence of board members	Pearson Correlation	.544**	1			
	Sig. (2-tailed)	.000				
Appointment process	Pearson Correlation	.576**	.550**	1		
	Sig. (2-tailed)	.000	.000			
Government involvement	Pearson Correlation	.366**	.258**	.481**	1	
	Sig. (2-tailed)	.000	.004	.000		
Financial Performance	Pearson Correlation	.182*	.232*	.107	.023	1
	Sig. (2-tailed)	.048	.011	.249	.800	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.6.4 MFI Board Appointment

The respondents agreed to a great extent (29.2%) that all stake holders were involved in the process of appointing BODs as shown in Table 4.6. Most of the respondents agreed to a large extent (39.2) that the newly appointed BODs were taken through an induction course. It was observed that most of the respondents indicated to a moderate extent that due care was taken in the process of appointing BODs. It was noted from Figure 4.2 that a majority of the respondents (39.2%) agreed to a large extent that most of the BODs composed of political appointees.

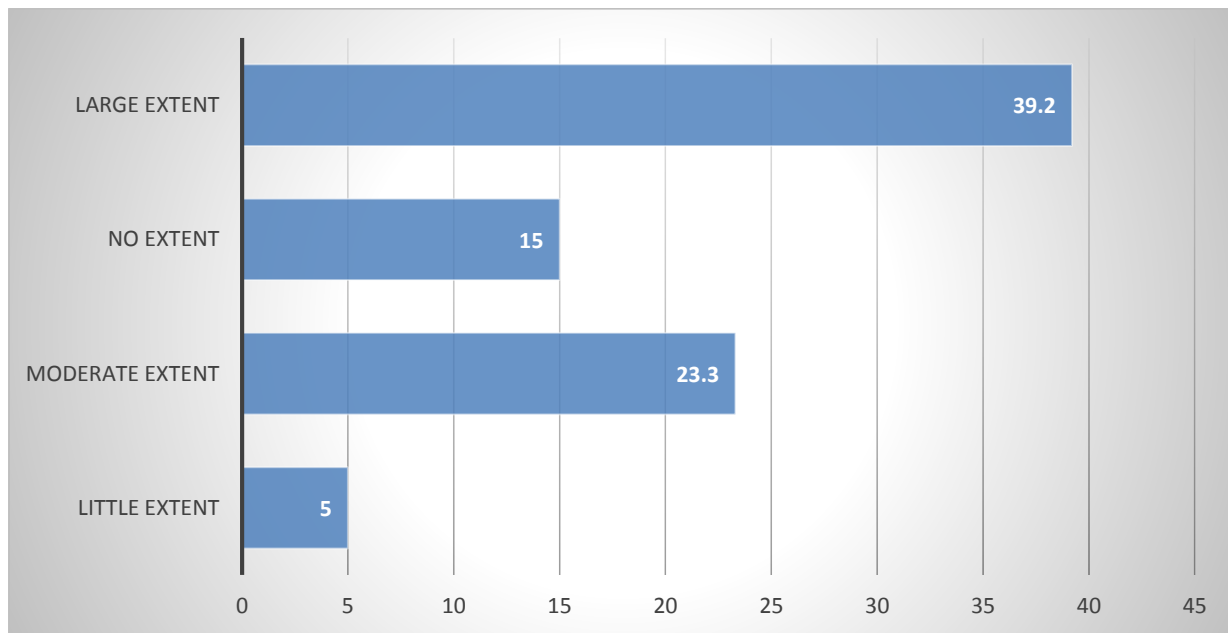


Figure 4.2: BODs composed of political appointees

Table 4.6 shows that most of the respondent agreed to a large extent (37.5%) that the BOD appointment was influenced by ministry of finance. The preceding analysis provides evidence that was interpreted to mean the process of BOD appointments is not competitive and is characterized by political interference and headquarter interests.

Table 4.7: MFI Board Appointment

Variable	Response Category	Frequency	Percent
All stake holders involved in BOD	little extent	11	9.2
	moderate extent	31	25.8
	no extent	32	26.7
	large extent	35	29.2
	very large extent	11	9.2
Induction course	moderate extent	12	10.0
	no extent	19	15.8
	large extent	47	39.2
	very large extent	42	35.0
Due care take	little extent	12	10.0
	moderate extent	33	27.5
	no extent	32	26.7
	large extent	27	22.5
	very large extent	16	13.3
Composed of political appointees	little extent	6	5.0
	moderate extent	28	23.3
	no extent	18	15.0
	large extent	47	39.2
	very large extent	21	17.5
Influenced by ministry of finance	little extent	12	10.0
	moderate extent	17	14.2
	no extent	39	32.5
	large extent	45	37.5
	very large extent	7	5.8
	Total	120	100.0

4.6.5 Available Board Skills

Table 4.7 shows that 37.5% of the respondents agreed to large extent that BODs had the right education level to be member of the board. A majority of those surveyed agreed to a large extent that the BODs had the required functional skills to perform their board duties and they further

agreed to a very large extent that the BODs had the governance capacity to perform their roles. This meant the MFI BOD members had the requisite skills to perform their duties.

Table 4.8: Available Board Skills

Variable	Response Category	Frequency	Percent
Education level	little extent	10	8.3
	moderate extent	19	15.8
	no extent	14	11.7
	large extent	45	37.5
	very large extent	32	26.7
Functional skills	little extent	1	.8
	moderate extent	17	14.2
	no extent	16	13.3
	large extent	55	45.8
	very large extent	31	25.8
Governance capacity	little extent	1	.8
	moderate extent	17	14.2
	no extent	13	10.8
	large extent	39	32.5
	very large extent	50	41.7
	Total	120	100.0

On further examination of board skills, the results in Table 4.8 show that 42.5% of the respondents strongly agree and 32.5% agreed that the BOD member given induction before commencing their work. Most of the respondents agreed (32.5%) or strongly agreed (28.3%) that the BOD s had the necessary skills. It was observed that 34.1% strongly agreed and 21.7% agreed that academic qualifications are considered in the process of appointing BOD members. A majority of the respondents disagreed (33.3%) that financial literacy was key consideration in the process of appointment. Most of the respondents agreed (42.5%) that the BOD possessed necessary skills to merit their appointment to the board. These results show that while most of the BOD members had the requirements that allowed them to meet to be fit for appointment, many of the respondents thought they lacked financial literacy to manage MFIs.

Table 4.9: Statement Relating to Board Skill

Variable	Response Category	Frequency	Percent
BOD member given induction	strongly disagree	8	6.7
	disagree	13	10.8
	neither agree nor disagree	9	7.5
	agree	39	32.5
	strongly agree	51	42.5
Have necessary skills	strongly disagree	2	1.7
	disagree	10	8.3
	neither agree nor disagree	35	29.2
	agree	39	32.5
	strongly agree	34	28.3
Academic qualifications are considered	strongly disagree	18	15.0
	disagree	23	19.2
	neither agree nor disagree	12	10.0
	agree	26	21.7
	strongly agree	41	34.1
Financial literacy is key	strongly disagree	12	10.0
	disagree	40	33.3
	neither agree nor disagree	16	13.3
	agree	34	28.3
	strongly agree	18	15.0
BOD possess necessary skills	strongly disagree	14	11.7
	disagree	13	10.8
	neither agree nor disagree	26	21.7
	agree	51	42.5
	strongly agree	16	13.3
	Total	120	100.0

4.6.6 Correlating Board Skills and Financial Performance

The resulting correlation output in Table 4.10 shows the existence of a significant positive correlation ($p > 0.05$) between functional skills, governance capacity, having necessary skills, financial literacy is key and BOD necessary skills and financial performance. This therefore meant that board skills had a significant correlation with MFI financial performance.

Table 4.10: Correlating Board Skills and Financial Performance

		education level	functional skills	governance capacity	BOD member given induction	Have necessary skills	Academic qualifications are considered	Financial literacy is key	BOD possess necessary skills	Financial Performance
education level	Pearson Correlation	1								
	Sig. (2-tailed)									
functional skills	Pearson Correlation	.422**	1							
	Sig. (2-tailed)	.000								
governance capacity	Pearson Correlation	.385**	.432**	1						
	Sig. (2-tailed)	.000	.000							
BOD member given induction	Pearson Correlation	.217*	.293**	.293**	1					
	Sig. (2-tailed)	.017	.001	.001						
Have necessary skills	Pearson Correlation	.064	.233*	.277**	.532**	1				
	Sig. (2-tailed)	.487	.010	.002	.000					
Academic qualifications are considered	Pearson Correlation	.195*	-.115	.112	-.144	.356**	1			
	Sig. (2-tailed)	.033	.213	.225	.119	.000				
Financial literacy is key	Pearson Correlation	.115	.118	.037	-.143	.172	.498**	1		
	Sig. (2-tailed)	.212	.203	.688	.120	.061	.000			
BOD possess necessary skills	Pearson Correlation	-.153	-.009	.130	.197*	.255**	.081	.333**	1	
	Sig. (2-tailed)	.096	.921	.157	.031	.005	.380	.000		
Financial Performance	Pearson Correlation	-.103	.253**	.211*	.175	.383**	.056	.249**	.263**	1
	Sig. (2-tailed)	.267	.006	.021	.058	.000	.545	.007	.004	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.7 Governance Structure

Governance structure was analyzed as comprising separation of duties and corporate governance principles. On examining governance structure of Government managed MFIs in Table 4.11, it was observed that most of the respondents agreed to a large extent (35.8%) or to a very large extent (24.1%) that clear difference existed between policy issues and management roles. A majority of the respondents agreed to a large extent (37.5%) or to a very large extent (33.3%) that the BOD gives guidelines. Most of the surveyed respondents agreed to a large extent (35.8%) or to a very large extent (27.5%) that the management prepared the budgets. There was an indication that BOD was not updated regularly on performance following 31.7% of the respondents indicating that the reporting was only moderate. The outcome indicates a clear effort by the BODs of the MFIs to practice separation of duties with a weakness in reporting observed.

Table 4.11: Aspects of Separation of Duties

Variable	Response Category	Frequency	Percent
Clear difference between policy issues and managing role	little extent	7	5.8
	moderate extent	13	10.8
	no extent	28	23.3
	large extent	43	35.8
	very large extent	29	24.1
BOD gives guidelines	little extent	4	3.3
	moderate extent	19	15.8
	no extent	12	10.0
	large extent	45	37.5
	very large extent	40	33.3
Management prepares budget	little extent	4	3.3
	moderate extent	24	20.0
	no extent	16	13.3
	large extent	43	35.8
	very large extent	33	27.5
BOD is updated regularly on performance	little extent	1	.8
	moderate extent	38	31.7
	no extent	13	10.8
	large extent	38	31.7
	very large extent	30	25.0
Total		120	100.0

4.7.1 Mean Score of Aspects of Separation of Duties

A mean score analysis, reported in Table 4.5 shows that clear difference between policy issues and management roles had the highest mean (mean score=4.03), followed by BOD gives guidelines (means score=3.82), Management prepares budget (mean score=3.79) and BOD is updated regularly on performance (mean score=3.48). The weighted mean score of the variables related with separation of duty was equal to 3.78, which implied that most of the respondent agreed to a large extent that separation of duty affected firm performance.

Table 4.12 Mean Score of Separation of Duties

Separation of Duties	N	Minimum	Maximum	Mean	Std. Deviation
Clear difference between policy issues and management roles	120	1	55	4.03	4.826
BOD gives guidelines	120	1	5	3.82	1.159
Management prepares budget	120	1	23	3.79	2.122
BOD is updated regularly on performance	120	1	5	3.48	1.202
Weighted mean score				3.78	

4.7.2 Corporate Governance Principles

Resulting from Table 4.13, it was noted that most of the respondents agreed to a very large extent (46.7%) and to a large extent (44.2%) that the BOD was taken through induction. Respondents agreed to a large extent (44.2%) and very large extent (35.0%) that BOD had scheduled meetings and plan. The respondents were neutral on the issue of BOD having a clear succession plan. The respondents agreed to a large extent that the BOD were aware of their roles. This resulting indicating that the MFIs followed the corporate governance principles, only that succession planning was not upheld perhaps because of the existence of an external appointing structure.

Table 4.13: Corporate Governance Principles

Variable	Response Category	Frequency	Percent
BOD be taken through induction	little extent	1	.8
	moderate extent	2	1.7
	no extent	8	6.7
	large extent	53	44.2
	very large extent	56	46.7
BOD has scheduled meetings and plan	moderate extent	9	7.5
	no extent	16	13.3
	large extent	53	44.2
	very large extent	42	35.0
BOD has clear succession plan	little extent	9	7.5
	moderate extent	13	10.8
	no extent	45	37.5
	large extent	37	30.8
	very large extent	16	13.3
BOD are aware of their role	little extent	3	2.5
	moderate extent	33	27.5
	no extent	7	5.8
	large extent	47	39.2
	very large extent	30	25.0
	Total		120

4.7.3 Mean Analysis of Governance Principles

The mean score analysis in Table 4.14 shows that taking the through an induction was the most important aspect of the governance principles owing to it having the highest mean score (mean= 4.34), followed by BOD has scheduled meetings and plan (means score=4.07) and BOD are aware of their role. The weighted mean score of the variables related with governance principles was

equal to 3.81, which was interpreted to mean that the respondents agreed that governance principles affected the performance of MFIs.

Table 4.14: Mean Analysis of Governance Principles

	N	Minimum	Maximum	Mean	Std. Deviation
BOD be taken through induction	120	1	5	4.34	.750
BOD has scheduled meetings and plan	120	2	5	4.07	.886
BOD are aware of their role	119	1	5	3.55	1.205
BOD has clear succession plan	117	1	5	3.27	1.056
Weighted mean score				3.81	

4.7.4 Correlation between Governance Principles and Firm Performance

Table 4.15 shows the existence of a significant positive correlation ($p > 0.05$) at the 0.01 level in a 2 tailed test between; BOD taken through induction, BOD has scheduled meetings and plan and BOD are aware of their role. This meant that there existed a significant correlation between governance principles and performance of the MFIs.

Table 4.15: Correlation between Governance Principles and Firm Performance

		BOD be taken through induction	BOD has meetings and plan	BOD has clear succession plan	BOD are aware of their role	Financial Performance
BOD be taken through induction	Pearson Correlation	1				
	Sig. (2-tailed)					
BOD has meetings and plan	Pearson Correlation	.496**	1			
	Sig. (2-tailed)	.000				
BOD has clear succession plan	Pearson Correlation	.104	.235*	1		
	Sig. (2-tailed)	.265	.011			
BOD are aware of their role	Pearson Correlation	.073	.207*	.309**	1	
	Sig. (2-tailed)	.429	.024	.001		
Financial Performance	Pearson Correlation	.316**	.299**	.090	.259**	1
	Sig. (2-tailed)	.000	.001	.337	.005	

** . Correlation is significant at the 0.01 level (2-tailed).

* . Correlation is significant at the 0.05 level (2-tailed).

4.8 Independent Board of Directors

Table 4.16 shows a majority of the respondents agreed to a very large extent (25.9%) that CEO influences BOD selection. It was noted that most of the respondents agreed to a large extent (29.1%) that CEO had personal relationships with directors and that the CEO had the strongest voice in selection and dismissal. These observations were all indicators of lack of independence of the BOD. Figure 4.3 shows that most of the respondents agreed to a large extent that the BOD selects the CEO, which exhibits the independence of the BOD.

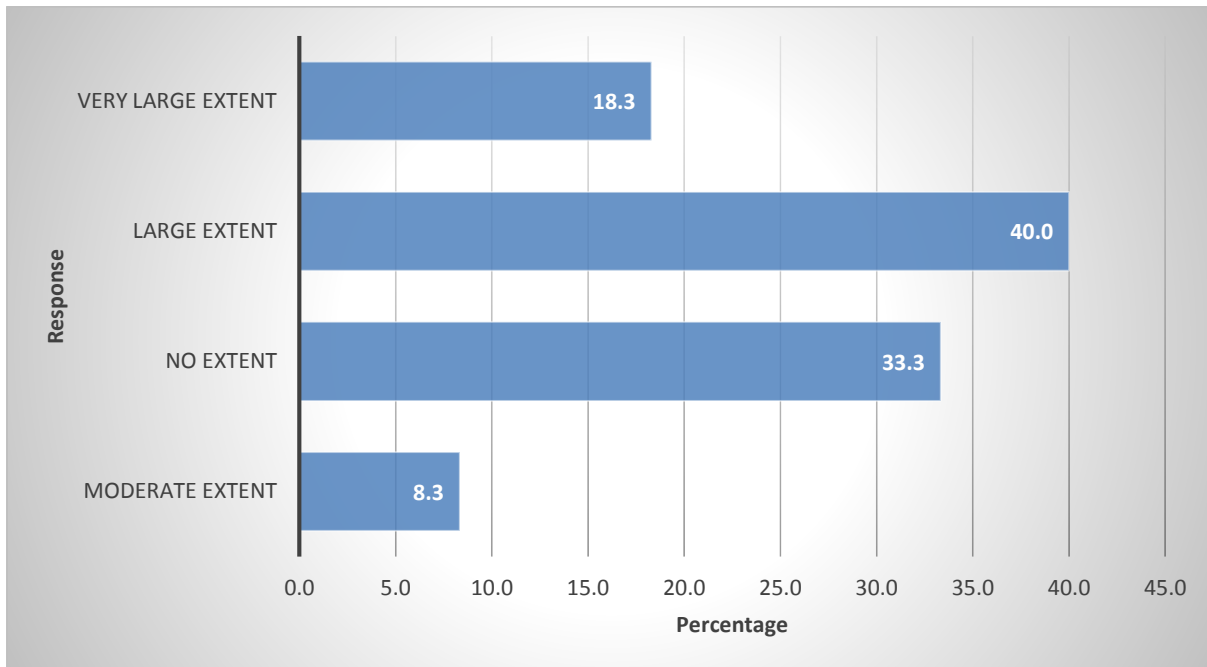


Figure 4.3: BOD Selects CEO

From Table 4.16, it most of the respondent were not sure who revises the CEO salary, as many were neutral (50.8%) on this question, implying lack of independence by the BOD. It was noted that most of the respondent agreed to a large extent (59.2%) that the BOD ensures proper disclosure. This evidenced independence of the board.

Table 4.16: Independent Board of Directors

Variable	Response Category	Frequency	Percent
CEO influences BOD selection	little extent	20	16.7
	moderate extent	20	16.7
	no extent	26	21.7
	large extent	23	19.2
	very large extent	31	25.9
CEO has personal relationships with directors	little extent	24	20.0
	moderate extent	26	21.7
	no extent	30	25.0
	large extent	35	29.1
	very large extent	5	4.2
CEO has strongest voice in selection and dismissal	little extent	28	23.3
	moderate extent	21	17.5
	no extent	35	29.2
	large extent	28	23.3
	very large extent	8	6.6
BOD selects CEO	moderate extent	10	8.3
	no extent	40	33.3
	large extent	48	40.0
	very large extent	22	18.3
BOD revises CEO salary	little extent	4	3.3
	moderate extent	16	13.3
	no extent	61	50.8
	large extent	33	27.5
	very large extent	6	5.0
BOD ensures proper disclosure	little extent	1	.8
	moderate extent	4	3.3
	no extent	16	13.3
	large extent	71	59.2
	very large extent	28	23.3
Total		120	100.0

4.8.1 Mean Analysis of Independent Board of Directors

Using mean analysis, the study ranked the variable that comprised Independent Board of Directors, with BOD ensures proper disclosure having the highest mean (mean score=4.00), BOD selects CEO (mean score=3.67) being the second most important role, CEO influences BOD selection (mean score=3.18) and BOD revises CEO salary (mean score = 3.16) respectively.

Table 4.17: Mean Analysis of Independent Board of Directors

Independent Board of Directors	Minimum	Maximum	Mean	Std. Deviation
BOD ensures proper disclosure	1	5	4.00	.759
BOD selects CEO	2	5	3.67	.865
CEO influences BOD selection	1	5	3.18	1.418
BOD revises CEO salary	1	5	3.16	.833
CEO has personal relationships with directors	1	5	2.75	1.195
CEO has strongest voice in selection and dismissal	1	5	2.71	1.231

4.9 Government Role Mean Score Analysis

The role of the Government in management of MFIs was analyzed in Table 4.18. According to most of the respondents, the most important were; BOD approves loans (mean score=4.37), BOD in involved in administration and managing (mean score=4.37), Cabinet secretary appoints BOD (mean score=3.85), BOD prepares financial reports (mean score=3.85), BOD disburses funds (3.42) and Presidents appoints non-executive chair (mean score=3.31). The weighted mean of Government roles was 3.84, interpreted to mean most of the respondents agreed to a large extent that the role of the Government affected the fiscal performance of the MFIs.

Table 4.18: Government Role

Government Role	Minimum	Maximum	Mean	Std. Deviation
BOD approves loans	1	5	4.37	.891
BOD in involved in administration and managing	2	5	4.17	.933
Cabinet secretary appoints BOD	1	5	3.95	3.838
BOD prepares financial reports	1	5	3.85	.908
BOD disburses funds	1	5	3.42	1.222
Presidents appoints non-executive chair	1	5	3.31	1.345
Weighted mean score			3.84	

4.9 Effect of Corporate Governance Practices on Financial Performance

The effect corporate governance practices (independent variables) on financial performance (dependent variable) was examined using multiple regression analysis. The study assumed a linear relationship between corporate governance practices and financial performance and used the Ordinary Least Square (OLS) method of estimation to extract a regression line of best fit. The unmediated model took the form of equation (1) below.

$$Y = \alpha_i + \beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3 + \varepsilon \quad \text{equation (1)}$$

Where

Y = Firm Performance (dependent variable)

α_i = constant

$b_1 \dots b_3$ = Coefficients

X_1 = Board composition

X_2 = Governance structure

X_3 = Independent board of directors

ε = error term

With inclusion of government role in the model, the mediated model took the form of equation (2) below.

$$Y = \alpha_3 + c'(\beta_i X_1 + \beta_{ii} X_2 + \beta_{iii} X_3) + b X_4 + \varepsilon_3 \quad \text{equation (2)}$$

If b was mathematically important, then provided that a was mathematically important in Equation 3, the understanding is that X_4 (Government role) intermediates the relationship among X (company's governance) and Y (firm performance). Thus estimated c' is evaluated. If c' is non-significant, then the understanding was that X_4 (Government role) completely intermediated the relationship among X (company's governance) and Y (firm performance). If c' is mathematically significant, then the understanding was that X_4 (Government role) partly intermediated the relationship among X (company's governance) and Y (firm performance).

4.9.1 Pretest Diagnosis

The study tested for the following assumptions of linear regression; normality, multicollinearity, linearity and homoscedasticity. Regression analysis assumes that variables have a normal distribution. Violations of normality creates a problem of determining whether model coefficients are significantly different from zero. The study used a graphical method in terms of P-P plot and normal probability plot for normality in testing the null-hypothesis that the data set was normally distributed. The P-P plot in Figure 4.4 shows distribution of the rings is dense along the diagonal line, providing evidence that the data is normally distributed. The normal distribution plot in Figure 4.5 shows a bell shape around the values +3 and -3, indicating the data is normally distributed.

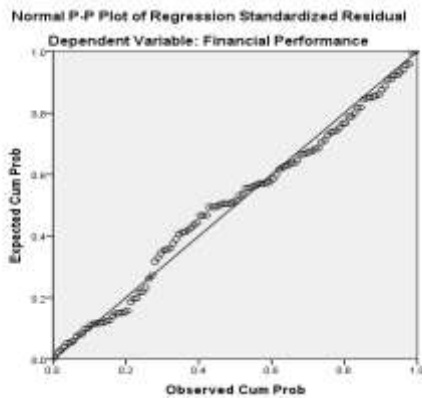


Figure 4.4 P-P Plot for Financial Performance

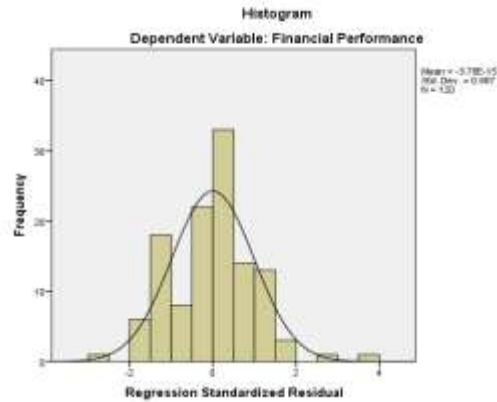


Figure 4.5: Normal Distribution

The study adopted the use of Tolerance and VIF, where the VIF provided a measure of how much the variance for a given regression coefficient is increased compared to if all predictors were uncorrelated. Multicollinearity is said to exist when the independent variables are highly correlated with each other. The presence of multicollinearity means; it may be difficult to separate out the effect of the individual independent variable, the variances and the standard errors of the regression coefficient estimates will increase resulting in lower t-statistics. Denis (2011), suggest that VIF of 3 shows no multicollinearity, while VIF greater than 10 shows multicollinearity exist. The collinearity statistics in Table 4.19 shows VIF figures of 1.119. The predictors all had VIF < 10 and the Tolerance statistics were all less than one and the hence the data did not suffer from multicollinearity.

Table 4.19: Collinearity Diagnostics

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	1.507	.419		3.597	.000		
1 Board Composition	.123	.099	.101	1.238	.218	.893	1.119
Governance Structure	.570	.090	.514	6.312	.000	.893	1.119

a. Dependent Variable: Independent BOD

Homoscedasticity means that the variance of errors is the same across all levels of the independent variables. When the variance of errors differs at different values of the independent variables, heteroscedasticity is indicated. The data was subjected to the Homoscedasticity test using the Breusch-Pagan Test. The resulting sig. values of the predictor variables were; board composition had a sig. value =0.956, governance structure had a sig. value = 0.267, independent BOD had a sig. value = 0.815. Since all the predictor variables had sig. values > 0.05, the data set had no problem of heteroscedasticity

Table 4.32: Coefficients Showing Homoscedasticity Statistics

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	Collinearity Statistics	
	B	Std. Error	Beta			Tolerance	VIF
(Constant)	-0.009	0.162		-0.055	0.956		
1 Board Composition	-4.68E-05	0.039	0	-0.001	0.999	0.616	1.623
Governance Structure	0.013	0.078	0.017	0.163	0.871	0.267	3.749
Independent BOD	-0.009	0.028	-0.02	-0.336	0.737	0.815	1.227

a. Dependent Variable: Unstandardized residual

4.9.2 Regression Analysis of Corporate Governance Practices on Financial Performance

In this study, corporate governance was a construct comprising of; board composition, governance structure and independent board of directors. The effect of corporate governance practices on financial performance was examined by testing the following three research hypothesis;

- H₀₁: Board composition has no significant effect on fiscal performance of Government managed micro finance institutions.
- H₀₂: Governance structure has no significant effect on fiscal performance of Government managed Micro fiscal institutions
- H₀₃: The independence of board members has no significant effect on fiscal performance of Government managed Micro fiscal institutions
- H₀₄: Government role has no significant mediating effect on the relationship between company's governance and fiscal performance of Government managed MFIs.

Upon regressing corporate governance practices on financial performance, the model summary of in Table 4.20 was generated that shows the coefficient of determination (R^2) under model one was 0.599, which meant that corporate governance practices explained 59.9% of the variations in financial performance of an MFI, 40.1% of the variations unexplained. This meant the model predicted by corporate governance practices provided a moderately good fit.

Table 4.20: Model Summary of Corporate Governance on Financial Performance

Model	R	R Square	Adjusted R Square	Std. Error of the Estimate	Change Statistics				
					R Square Change	F Change	df1	df2	Sig. F Change
1	.774 ^a	.599	.589	.56774	.599	57.875	3	116	.000

a. Predictors: (Constant), Independent BOD, Board Composition, Governance Structure

b. Dependent Variable: Financial Performance

The ANOVA Table 4.21 shows that model 1, had a sig-value = 0.000. which meant that the model predicted by; corporate governance was significant in predicting changes on firm performance of the Government managed MFIs.

Table 4.21: ANOVA Corporate Governance on Financial Performance

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	55.965	3	18.655	57.875	.000 ^b
	Residual	37.390	116	.322		
	Total	93.356	119			

a. Dependent Variable: Financial Performance

b. Predictors: (Constant), Independent BOD, Board Composition, Governance Structure

Resulting from the coefficients Table 4.22, board composition had a significant coefficient with p-value = 0.010, the study therefore rejected H₀₁ at 5% level, and interpreted the results to mean that board composition had a significant effect on fiscal performance of government managed MFIs. The resulting coefficient of governance structure was significant with a p-value = 0.000 and therefore the study rejected H₀₂ at 5% level, and interpreted the results to governance structure had a significant effect on fiscal performance of government managed MFIs. An examination of the Independent BOD reveals the existence of a significant p-value = 0.001 and therefore H₀₃ was rejected at 5% level and interpreted the results to independent BOD had a significant effect on fiscal performance of government managed MFIs.

Table 4.22: Coefficients of Corporate Governance Practices

Model	Unstandardized Coefficients		Standardized Coefficients	t	Sig.	95.0% Confidence Interval for B		
	B	Std. Error	Beta			Lower Bound	Upper Bound	
1	(Constant)	-.669	.387		.086	-1.435	.097	
	Board Composition	.230	.087	.165	2.632	.057	.403	
	Governance Structure	.686	.091	.540	7.501	.000	.505	.868
	Independent BOD	.277	.081	.242	3.428	.001	.117	.438

a. Dependent Variable: Financial Performance

Using model in Table 4.22, the resulting coefficients were used in the fitted model in equation 3;

$$Y = -0.669 + 0.230X_1 + 0.686X_2 + 0.277X_3 \quad \text{equation (3)}$$

From the fitted equation (3), $Y = \text{Financial performance}$, $-0.669 = \text{constant}$ (showing firm performance in the absence of cooperate governance), $X_1 = \text{board composition}$, $X_2 = \text{governance structure}$, $X_3 = \text{independent BOD}$. Governance structure had the highest effect on financial performance, where a unit change in governance structure would result in a 68.6% positive change in financial performance. Independent BOD had the second highest influence on financial performance and a unit change in independent BOD would result in a 27.7% positive change in financial performance. Board composition had the third highest influence on financial performance and a unit change in board composition would result in a 23.0% positive change in financial performance. This results were interpreted to mean that company's governance (in terms of governance structure, independent BOD and board composition) had a positive and significant effect on customer satisfaction, which was highly informed by employee responsiveness and the physical environment of the service.

4.10 Mediating Effect of Government Role

The study employed the Baron and Kenny's (1986) Method of mediation in examining the moderating effect of the relationship between company's governance and fiscal performance. The moderated model took the form of equation (4) below.

$$Y = \beta_0 + c'(\beta_1 X_1 + \beta_2 X_2 + \beta_3 X_3) + \beta_4 X_4 + \varepsilon_i \quad \text{equation (4)}$$

From equation (2) $Y = \text{company's governance}$, $X_1 = \text{board composition}$, $X_2 = \text{governance structure}$, $X_3 = \text{independence of board of directors}$, $X_4 = \text{governance role}$ and $\varepsilon_i = \text{Error term associated with the regression model}$ and $\beta_{1-3} = \text{Beta parameters of the independent variables}$ and β_4 the coefficient of Government role. If c differed statistically from zero, then testing whether the effects are direct or mediate continues. If c was mathematically important, then that X_4 (Government role) intermediates the relationship among X (company's governance practices) and Y (firm performance). Thus estimated c' is evaluated. If c' is non-significant, then the understanding was that X_4 (Government role) completely intermediated the relationship among X (company's governance practices) and Y (firm performance).

Following a test of the mediated model, The ANOVA results in Table 4.23 shows that model 1 and model 2 both were non-significant (sig. value > 0.05) hence the model (1) predicted by corporate

governance was not significant and the model mediated by role of government mediated was also non-significant.

Table 4.23: ANOVA Statistics of Mediated Model

Model		Sum of Squares	df	Mean Square	F	Sig.
1	Regression	.586	1	.586	.745	.390 ^b
	Residual	92.770	118	.786		
	Total	93.356	119			
2	Regression	2.017	2	1.008	1.292	.279 ^c
	Residual	91.339	117	.781		
	Total	93.356	119			

a. Dependent Variable: Financial Performance

B. Predictors: (Constant), Corporate Governance Principle

C. Predictors: (Constant), Corporate Governance Principle, Role of Government

The coefficients Table 4.24 of the mediated model shows that model 1 and model 2 were non-significant as the resulting sig. value > 0.000. The study therefore failed to reject H₀₄ at 5% level, and interpreted the results to mean that role of government had no significant mediating effect on the relationship between company's governance and fiscal performance of Government managed MFIs.

Table 4.24: Coefficients of Corporate Governance in a Mediated Relationship

Model		Unstandardized Coefficients		Stand. Coeff.	t	Sig.	95.0% Confidence Interval for B	
		B	Std. Error	Beta			Lower Bound	Upper Bound
1	(Constant)	3.265	.491		6.647	.000	2.292	4.238
	Corporate Governance principle	.110	.128	.079	.863	.390	-.142	.363
2	(Constant)	2.617	.684		3.824	.000	1.262	3.973
	Corporate governance principle	.092	.128	.066	.719	.473	-.161	.345
	Role of government	.189	.139	.124	1.354	.178	-.087	.465

a. Dependent Variable: Financial Performance

CHAPTER FIVE

SUMMARY, CONCLUSION AND RECOMMENDATIONS

5.1 Introduction

In this chapter a summary of the findings, conclusion and recommendations are presented. The general objective of the study which was to determine the effect of corporate governance practices on financial performance of Government managed MFIs in Kenya.

5.2 Summary of the Findings

A summary of the study finding is covered in this section and a discussion of the results as corroborated by other studies are equally presented. The discussion is guided by the study research objectives.

5.2.1 Discussion on Board Composition and Financial Performance

Under the first research objective, the study sought to determine the effect of BOD composition on the financial performance of Government managed MFIs. The study established the existence of a significant positive relationship between board composition and fiscal performance of government managed MFIs. A mean score analysis shows that the effect of board composition was explained to a large extent by; independence of the board, government involvement, appointment process and board size. In a related studies Ngure (2007) established that BOD size was in a positive manner connected with company's performance.

The outcome of a correlation analysis between board skill and firm performance shows that board size had a significant weak positive correlation with firm performance and independence of board members had a significant weak positive correlation with firm performance. This meant that there was a correlation between board skill and financial performance. The study by Fondo (2016) corroborates this position and indicates that a company's board skills had a significant effect on fiscal performance of parastatals in Kenya.

5.2.2 Discussion on Governance Structure and Financial Performance

The second research objective sought to examine the impact of governance structure on the financial performance of Government managed MFIs. The study determined that governance structure had a positive influence on the financial performance of Government managed MFIs. On further examination, it was observed that the existence of a clear difference between policy issues and management roles had the highest mean, followed by BOD gives guidelines, management prepares budgets, and BOD is updated regularly on performance. The weighted mean score of the variables related with separation of duty was equal to 3.78, which implied that most of the respondent agreed to a large extent that separation of duty affected firm performance. Correlation analysis shows the existence of a significant positive correlation between; BOD taken through induction, BOD has scheduled meetings and plan and BOD are aware of their role and firm performance. This meant that there existed a significant correlation between governance structure and performance of the MFIs. In a related study, Gompers, Ishii, Metric (2003) established that companies with sound company's governance rules delight in higher estimates, more profits and more sales increases. Similarly, Klapper and Love (2004), found a great positive relationship among good governance and performance with steady level data and ROA (return on asset) as a proxy for capital performance.

5.2.3 Independent Board of Directors and Financial Performance

The third research objective sought to examine the impact of independent board of directors on the financial performance of Government managed MFIs. It was established that independent BOD had a significant effect on the fiscal performance of government managed MFIs. Using mean analysis, the study ranked the variables that comprised independent board of directors, with BOD ensures proper disclosure having the highest mean, followed by BOD selects CEO, being the second most important role, CEO influences BOD selection, and BOD revises CEO salary, respectively. In a related study Ongore (2011) argued that when BOD are independent, they make objective decisions that tend to result in positive performance. In addition, La Porta et al. (1999) argues that sovereign BOD members give possibly greater oversight and responsibility of actions, since they are lesser likely to be subjected to principal-agent challenges. Since independent members don't possess inherent self-interest, instead they are driven by interests of the investors

who selected them, a superior fraction of independent directors in the BOD are accountable to promoting positive performance.

5.2.4 Mediating Role of Government on Corporate Governance and Financial Performance

The fourth research objective sought to evaluate the mediating role of Government on the relationship between corporate governance practices and financial performance of Government managed MFIs. The study established that Governments role did not play a significant role in mediating the relationship between corporate governance practices and financial performance of Government managed MFIs. On the contrary the reviewed literature points at the significance of the government in governing this relationship, which calls for further investigation.

5.3 Conclusion

The study concludes that the MFIs corporate governance practices in terms of governance structure, independent BOD and board composition all had a positive and significant effect on financial performance. The corporate governance practices which had the highest effect on firm performance was governance structure. This meant that for an MFI to maximize its performance, more attention should be paid to corporate governance practices. The key cooperate governance practices included; existence of a clear difference between policy issues and management roles, followed by BOD giving guidelines and management being responsible for preparing budgets. It was further concluded that Governments role did not play a significant role in mediating the relationship between corporate governance practices and financial performance of Government managed MFIs.

5.4 Recommendations

The study recommends that for MFIs to realize better financial performance, policy makers must pay attention to the governance corporate practices in terms of governance structure, independent BOD and board composition. Policies should be formulated that define governance structure in terms of existence of a clear difference between policy issues and management roles.

It is recommended to managers of MFIs that the BODs of MFIs should be given room to make independent decision far from interference by managers of MFI. where the CEO has personal relationships with directors and when CEO has the strongest voice in selection and dismissal shows lack of independence of the BOD.

A further recommendation to policy regulators is that they should regular audits of the laws that define board composition in terms of the appointment process, induction of the BOD and the required skills. It was observed that some of the board members lacked the minimum requirements to sit on the boards.

5.5 Areas for Further Studies

It was observed that despite literature indicating that government role affects the governance practices of MFIs, this study could not establish the same. Further studies on the same topic should be carried out on government managed MFIs in other counties.

5.6 Limitations of the Study

Finding most of the BOD s in the office was a challenge and they were on reached after numerous visits to the MFI, which escalated the research cost. The sensitivity of some of the questions resulted in incidences of non-response to some of the questions.

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APPENDICES

APPENDIX I: Introduction Letter

Pascal Amoke
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11/6/2019.

Dear Sir/Madam

RE: REQUEST FOR DATA.

I am a Master of Business Administration (Corporate Management) student at KCA University. I am undertaking a research entitled “*Effect of Corporate Governance Practices on Financial Performance of Government Managed Microfinance Institutions*”. The purpose of this letter is therefore to kindly request your voluntary participation in this study by providing me with information on Government Managed Microfinance Institutions that you work with.

The information gathered shall be treated confidentially and shall be used for this research only. Your cooperation will be highly appreciated.

Yours Faithfully,

Amoke Pascal – Reg. No.

KCA - UNIVERSITY

Appendix II: Research Questionnaire

Kindly respond to all questions by putting a tick (√) in the box matching your answer or write your answer in the space provided if it is not included in the choices.

Section A: Background Information

1. Please indicate your gender

Male Female

2. What is your Highest Professional qualification?

O' Level A Level

Bachelors Masters

Other.....

3. In which of the following age groups do you belong to

Less than 30 years 31-45 years

45-60 years More than 60 years

4. Which ONE the following Government managed Micro Finance Institutions (MFI) fall within your work area?

Uwezo Fund Women Enterprise Fund Youth Enterprise Fund

Section B: Board Composition

5. How many members are in the Government managed MFI Board of Directors (BOD)?

1-4

5-8

9-12

13-16

Above 16

No Board Members

6. How many of the board members are of the male gender? _____

7. How many of the board members are of the female gender? _____

8. Kindly rate the extent to which the following aspects of composition of the Government managed Micro Finance Institutions boards affect the financial performance of the MFI. Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Aspects of board composition of the MFI	1	2	3	4	5
8a	Board size					
8b	Independence of board members					
8c	Appointment process					
8d	Government involvement					

9. To what extent do you agree with the following statements with regard to board composition of Government managed MFI.

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

9a	MFI Board Appointment	1	2	3	4	5
9b	All stakeholders are involved in the appointment of the Board members.					
9c	Board members undergo an induction course to make them understand and appreciate their roles					
9d	Due care is taken to ensure that the board has professionals from all relevant fields.					
9e	The board is mainly composed of political appointees and not based on skill sets					
9f	The MFI board composition is strongly influenced by the ministry of Finance					

10. To what extent do the following factors relating to available board skills affect the financial performance of Government managed MFI?

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Available board skills	1	2	3	4	5
10a	Education level					
10a	Functional skills					
10a	Governance capacity					

11. Indicate your level of agreement with the following statements relating to Government managed MFI.

Use the following scale: Strongly Disagree (1); Disagree (2); Neither Agree nor Disagree (3); Agree (4); Strongly agree (5)

	Statements relating to board skills	1	2	3	4	5
11a	All Board members are given the appropriate induction training before starting on their roles					
11b	Due care is taken to ensure that the board members have the necessary skills to manage Government supported MFIs					
11c	A member's academic qualifications is considered before for appointment to the Board					
11d	Financial literacy is a key skill required for appointment to the boards.					
11f	All the board committee members are equipped with the relevant skills to serve in a Government supported MFI					

Section C: Governance Structure

12. How do the following aspects of governance structure affect the financial performance of Government managed MFI.

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Aspects of separation of duties	1	2	3	4	5
12a	There is a clear distinction between management role and policy issues.					
12b	Board provides the prerequisite policy guidelines for the MFI to implement.					
12c	Management prepares the budget for board approval					
12d	The board is updated on a regular basis on the financial performance of the MFI.					

13. Rate the extent to which the following aspects of application of corporate governance principles on the financial performance of Government managed MFI?

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Corporate governance principles	1	2	3	4	5
13a	MFI board members should be taken through a governance induction course.					
13b	MFI boards have set work and meeting plans					
13c	The board has set out a clear succession plan.					
13d	Board members are aware of their role in ensuring there is a strategic plan for the MFI					

Section E: Independent Board of Directors

14. Kindly rate the extent to which the CEO relates to the Board of Directors

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Independence of Board of Directors	1	2	3	4	5
14a	The CEO influences the selection of board members.					
14b	The CEO has personal relationships with other directors.					
14c	The CEO has the strongest voice in selection and dismissal of independent directors					
14d	The board plays an important role in selecting, monitoring and replacing the CEO					
14e	The board can revise the CEOs remuneration					
14f	The board ensures proper disclosure and actively communicates with the Ministry					

Section F: Role of the Government

15. Kindly rate the extent to which the following roles by the Government affects the financial performance of the MFI.

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Government Role	1	2	3	4	5
15a	The President appoints the non-executive chairperson					
15b	The Cabinet Secretary appoints the board members					
15c	The board approves loans					
15d	The board disburses funds to the MFIs in a timely way					
15e	The board is involved in management and administration of the MFI Fund					
15f	The board is responsible for preparing financial reports on the financial status of the Fund					

Section G: Financial Performance

16. Rate the following aspects of financial performance of Government managed MFI.

Use a scale of 1 to 5 where 1= little extent, 2= moderate extent, 3= no extent, 4= large extent and 5 is to a very large extent.

	Aspects of financial performance	1	2	3	4	5
16a	The MFI has good improvement of ROA in the last five years					

16b	The non-performing loans have reduced in the last five years					
16c	The MFI operations are as per expected budget					
16d	Audited accounts are done on a timely basis					
16e	The board has approved up to date accounts					

17. There are many government/ ministry policies in place that make it hard to use corporate governance in financial management of the Government managed MFI. What is your level of agreement with this statement?

- | | | | |
|-------------------|--------------------------|----------|--------------------------|
| Strongly agree | <input type="checkbox"/> | Agree | <input type="checkbox"/> |
| Neutral | <input type="checkbox"/> | Disagree | <input type="checkbox"/> |
| Strongly disagree | <input type="checkbox"/> | | |

18. What do you think should be done to enhance the effectiveness of corporate governance and hence better financial performance of Government supported MFIs in Kenya?

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THANK YOU!!!