**International Journal of Economics, Commerce and Management**
United Kingdom Vol. VI, Issue 1, January 2018
*http://ijecm.co.uk/* ISSN 2348 0386

# EFFECTS OF CORPORATE GOVERNANCE PRACTICES ON GROWTH OF MICROFINANCE INSTITUTIONS IN KENYA

**Joseph Momanyi**
Kabarak University, School of Business and Economics, Kabarak, Kenya
josephmomanyi570@gmail.com

**Philip Ragama**
Kabarak University, School of Business and Economics, Kabarak, Kenya
pragama@kabarak.ac.ke

**Patrick Kibati**
Kabarak University, School of Business and Economics, Kabarak, Kenya
kibati@yahoo.com

**Abstract**

*This study seeks to analyze the effect of corporate governance practices on the growth of microfinance institutions in Kenya. The objectives of the study were to analyze the effect of financial accountability on growth of microfinance institutions, assess financial sustainability on growth of microfinance institutions and establishing how financial transparency affect the growth of microfinance institutions in Kenya. This was a census study based on all the 43 non-bank deposit-taking microfinance institutions registered with Association of Microfinance Institutions (AMFI). Normality tests were carried out using the Kolmogorov-Smirnov normality test. The data was subject to both descriptive and inferential statistics. It was found out that only financial transparency was a statistically significant predictor of asset growth among institutions registered with AMFI-K. It was concluded that not also aspects of the corporate governance induce growth in the industry. This study recommends that the country therefore needs to strengthen policies to improve institution-level corporate governance in order to attract investors and bolster overall growth.*

*Keywords: Corporate governance, financial sustainability, financial transparency, microfinance, microfinance industry, industry growth*

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## INTRODUCTION

### Corporate Governance

Generally, corporate governance (CG) entails how an organization is managed or run. The World Bank and the Asian Development Bank define cooperate governance as the way by which power structures manage the resources of a country so as to foster development. Elsewhere, the United Nations Development Program (UNDP) defines governance as the complex process in which authority exercised in the administration and management of the capital of a country (Lawal, 2012). The term 'complex' is used because many interests of various groups have to be taken into account. In the context of micro-finance, governance refers to the effective use of the resources of different stakeholders such as the creditors, investors, and donors. One of the most important aspects in microfinance is ensuring that deposit taking is well-managed, and that the collected deposits are used for the purposes they were originally intended for.

The CG plays a key role in as far as the growth if economies is concerned. It is essential that external forces are used to tame interests of the managers of the microfinance organizations. There are many justifications why microfinance institutions (MFI) should be well governed. Whenever there are instances of fraud in the MFI, the industry is tainted in the eyes of the international stakeholders such as investors. Bearing in mind that Kenya's economy is largely supported by the small and micro-enterprises, withdrawal of foreign investors would lead to negative effects on the economy. Examples of such scandals happened in Uchumi and CMC Motors (Murigi et al, 2014).

### The Microfinance Industry

As the name suggests, micro-finance is the collection of small amounts of money, but from a large population of people. As Mersland and Strøm (2012) point out, the major aim of microfinance is to alleviate poverty among the world's poor. It is through micro-finance that such populations are included in the labour markets hence the financial system. Through microfinance, low-income earners are able to access credit to better their lives. In other terms, microfinance is actually the extension of the formal financial services to the persons who are considered poor. Microfinance is mainly non-bank organizations that are involved in the alleviation of poverty from the world's poor. These included for instance non-governmental organizations (NGOs), cooperative societies and a wide range of village-based table banking and rotating groups.

Literature survey shows that modern microfinance came up in the 1970s and had taken a more co-operative societies approach. Examples include Rotating Savings and Credit

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Associations (ROSCAs) which developed differently in different parts of the world (Labie and Mersland, 2011). Due to different routes followed by different MFIs in their evolution, today we have MFI with different sources. While some emanated from the NGO world, others came from credit unions. A good example of an MFI with NGO background is the K-Rep bank, now Sidian bank. Yet according to Labie and Mersland (2011), some emerged as a result of restructuring of former public banks. Today, the microfinance industry in has grown so much that it is the backbone of the country's economy. It is regulated by the Association of Microfinance Institutions of Kenya (AMFI). It was formed in 1999, and, by the end of 2016, it had 62 members. While the AMFI coordinates the activities of the MFIs in Kenya, the Central Bank is the regulator if the industry (just as the Capital Markets Authority regulates the stock and securities market).

MFIs are those organizations involved in the collection and disbursement of small-scale credit largely to poor individuals. Currently, the microfinance in Kenya consists of many institutions varying in terms of size, vision, geographical coverage, commercial orientation, formality, and professionalism. According to AMFI (2013), MFI include NGOs, Faith based organizations (FBOs), financial services associations (FSAs), community based organizations (CBOS), rotating savings and credit associations (ROSCAs), and savings and credit co-operative societies (SACCOs). A Micro and Small Enterprises (MSE) study of 1999 showed that the sector had employed 2.3 million Kenyans and contributed 18% of the GDP of the country. According to the Mix Market data the population of the micro finance borrowers rose from 0.6 million in 2000 to 1.4 million in 2013. In addition, the number of savers increased to 8.7 million in 2013 from 0.09 million in 2000. After 2007, the MPESA mobile money transfer system accelerated the growth of MFIs in the country.

MFIs in Kenya are supposed to empower the vulnerable populations such as the women and youth. While only 62 MFIs had registered with the AMFI by 2016, there are more MFIs in Kenya. In 2016, the 62 members had a combined client base of 6.1 commanding assets of about Kshs 325 billion. Clearly, the MFIs in Kenya have formed a formidable financial services category that actually competes with commercial banks (Sun, 2012). However, unlike the commercial banks, MFIs include a social mission.

In Kenya, many people prefer to get credit from the MFIs because they are more flexible in their terms such as interest rates and repayment periods (Moenga, 2013). According to Lekaram (2014), AMFI categorizes MFIs in Kenya into two: deposit-taking and non-deposit-taking MFIs.

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## Statement of the Problem and Research Gap

The CG practices of MFI in Kenya are not well documented. It is important therefore for research of this nature to undertake a two-fold mission. First to describe the CG practices of MFIs in Kenya and then second, quantify the effect of these practices on the growth of the industry. According to Korir and Cheruiyot (2014), there has not been recent efforts to investigate quantitatively the consequences of the practices of business leaders in the MFI in Kenya. In-fact, most studies have focused on documenting the effect of CG practices on public organizations or those listed at the Nairobi Securities Exchange (NSE), leaving out the important microfinance institutions (Mang'unyi, 2011; Manini & Abdillahi, 2015; Mulili, 2011; Muriithi, 2009; Ongore & K'Obonyo, 2011; Nyamongo & Temesgen, 2013; and Murigi & Kamau, 2014). On this basis, it is critical to update the empirical and quantitative effect of the cooperate governance variables on the performance and growth of MFIs in Kenya, especially taking into account the recent capping of interest rates in the country.

## General Research Objective

The general objective is to analyze the effect of corporate governance practices on microfinance industry growth in Kenya.

## Special Research Objectives

i. To determine how financial accountability affects growth of microfinance institutions in Kenya.
ii. To assess how financial sustainability affects growth of microfinance institutions in Kenya
iii. To determine how financial transparency affects the growth of microfinance institutions in Kenya.

## Research Questions

i. How does financial accountability affect growth of microfinance institutions in Kenya?
ii. How does financial sustainability affect growth of microfinance institutions in Kenya?
iii. How does financial transparency affect the growth of microfinance institutions in Kenya?

## Significance and Relevance of the Study

The microfinance sector is the key source of credit for the SMEs, but the greed of boards of directors threatens the stability and future prosperity of the SME (Manini et al., 2015). This study is important because after describing the status of CG among microfinance institutions in

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Kenya, it also offers the relevant recommendations. It is from such description and recommendations that the microfinance industry can be made better, the SME sector expanded and the national economy reformed. Thus this study could be used to influence policy for economic reform in the country.

**Scope of the Study**

This study covered all the microfinance institutions registered under the AMFI; whether they are compliant to CG guidelines or not. In terms of time, the study covered the period between 1999 (when AMFI was registered) and 2016.

**Delimitation and Limitations of the Study**

For those institutions which were registered with AMFI later, the study begins its analysis from the time of its registration. In terms of content, the study covered CG practices in the following categories: board independence, remuneration of directors, and financial transparency.

As shown in the above section, the study was indeed ambitious. However, the time within which the study should be carried out was limited. This was a limitation for the study. However, in order to deal with this challenge, the breadth of the study was reduced without affecting the depth of analyses. For instance, limitations in time may lead to the reduction of categories of CG to just a few (such as financial reporting transparency, board independence and remuneration of directors) which would be analyzed in greater detail. Further, fewer institutions were analyzed instead of studying all of them, since time is of essence. The second challenge was that of secondary data availability. In order to deal with this challenge (for instance where AMFI, NSE, CMA and CBK could not provide the data) the researcher inspected the annual reports of the institutions, published CG reports and peer reviewed articles. Overall, the researcher ensured that the study limitations did not affect the reliability of the results.

## LITERATURE REVIEW

### Theoretical Review

Many theories have been propounded on CG and MIG. However, not all the theories can be applied across the board. This study sought to use the theories that are relevant to the study topic; which include the agency theory, stakeholder theory and stewardship theory.

*Agency Theory*

The agency theory defines the relationship between principals and their agents. The theory was postulated by Meckling in 1976. The author cites examples of principals and agents; whom

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respectively include, shareholders and senior managers. In other words, the principals are the owners of the company while agents are those entrusted with the management of the organizational day-to-day activities (Mulili, 2011). Ideally, since the agents have been placed there by the agents, they are supposed to act in the interests of the principals. However, the agency theory suggests that managers and directors sometimes do not act in the interests of the principals, but in their own interests (Lekaram, 2014).

The theory is very applicable in this study. This is because in terms of CG, the managers and directors are supposed to safeguard the image of the company. The agents (management) are supposed to implement the wishes of the owners of the company so that their original intents are upheld. CG guidelines are supposed to ensure that the managers act in line with the wishes of the owners of the business organizations who, by all standards, contribute massively to the economic development of the country. Agency theory therefore insists in the establishment of very stringent CG rules so that managers' self-interests do not override the way the firm is run (Mwangi et al. 2013). In the context of MFIs in Kenya, it appears that the agency problem began at the very moment when microfinance ownership was separated from management.

*Stakeholder Theory*

The stakeholder theory was postulated several years after the agency theory (Baker & Anderson, 2010). The theory came to divert the attention of academicians from the owner-manager dichotomy and focus more on the wider supply chain. It insists that a company has many other important stakeholder and not just the owners and the managers. Therefore, the duty of the managers is wider than simply maximizing benefits to the owners, rather to balance the interests of all the stakeholder of the company. These other stakeholders, according to Dkhili and Ansi (2012), include the following: the suppliers, employees and business partners.

In microfinance, it is common for managers and owners to forget the very reason why MFIs exist. Business decisions should not always be about the owners and managers but also other stakeholders, including the most important stakeholders in the context of poverty alleviation in Kenya, the low-income earners. It is for this reason that the stakeholder suggests the inclusion a considerable number of Executive Directors within the board. This is because executive directors, being insiders, understand the business or the reason why the MFI was formed more than non-executive directors. This theory is important in the study because it stimulates the addressing of the issues of a very large component of stakeholders, the deposit owners. By proposing CG ideals, the theory would ensure that the poor people are not

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oppressed by holding managers financially accountable, transparent and able to steer sustainability.

*Stewardship Theory*

This theory also came after stakeholder theory. The proposition of the theory was to define a new understanding of the relations between different parties within the organization and aims of the establishment of the MFI. Proposed by Davis et al. in 1991, the theory defines a steward as any person who maximizes and protects the wealth of the shareholders. In this instance, a steward would be a senior manager in a MFI. The theory appears to be somewhat opposite to the agency theory which views managers as individualistic and moved by self-interest. On the contrary, the stewardship theory views managers as people who are responsible and acting on good faith all the time. In order to avoid CG problems, stewardship theory suggests that managers be considered as more important than previously thought. As a result, they are supposed to be highly remunerated and offered shares (Ongore & K'Obonyo, 2011). This way, they are able to feel ownership of the organization hence govern it as if they are the owners. In the end, the agency costs are reduced, and possibility of CG scandals amongst MFIs reduced.

**Empirical Review**

This section presents results of real studies which were carried out in several parts of the world. The aim is to check whether there exists any relationship between CG and the growth of MFIs in Kenya and other parts as well.

The microfinance industry growth (MIG) behaves differently under different CG practices, literature shows (Korir & Cheruiyot, 2014; Kang et al. 2012, Ongore & K'Obonyo, 2011; Servin et al., 2012). Overall, there are mixed results regarding the effect of CG practices of MFIs on the industry growth. Some show positive effects, others negative, yet others neutral. Nevertheless, as Kang et al. (2012), most studies found a positive relationship between CG and MIG. It is essential however, to understand something about MFIs. Since they pursue both social and economic goals, organizational performance becomes difficult to measure. According to Mersland and Strøm (2010), it is indeed difficult to measure the social performance of MFIs. This raises questions to studies which found out some form of relationship between CG and MIG; whether they took into account all the factors that make it difficult to measure performance of MFIs hence the relationship of CG and industry growth (industry growth is literally assumed to be the cumulated performance of individual MFIs).

Despite the above challenge, empirical research has been done on the small-scale relationship between CG and MIG. Mersland (2007) found out that efficient CG practices

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improved the social and financial goals of the MFIs. The other relationship between CG and MIG has been explored by Mersland & Strøm (2012). They contend that favorable CG practices reduce agency costs, increased returns and higher valuation for the company. Elsewhere, Haq et al. (2010) refute assertions that board characteristics had any effect on performance and growth. According to them, only board remuneration and the presence of audit board committees improves the performance of MFIs. Additionally, Mersland & Strøm's (2009) Chinese study did not bring out any relationship between how financial institutions with MFI departments performed and how they were managed or directed.

The issue of board size also has mixed results and views. While some prefer large boards, others do not. For instance, Thomsen and Conyon (2012) posited that huge boards of directors are good because there is expertise which is required in decision making. Other than a good mix of directors' skills, large boards make it possible to almost always have quorum during board meetings. According to Lawal (2012), large boards favour continuity because after terms end, at least some few members of the outgoing bard will remain to join the new board; and this is good for the organization. On the other side, others such as Hartarska and Mersland (2012) huge boards are not always effective. First they inflate the remuneration costs. Second, if there is a powerful CEO, they are rendered somewhat redundant. Third, where many people are involved, decision making takes long or sometimes becomes completely inefficient making coordination difficult. Ferede (2012) found out that the size of the board was negatively associated with the performance of Ethiopian MFIs. He therefore suggested that MFIs should have lean boards which are genuine in their control of managements' functions.

There are many justifications why most literature found positive relationship between CG and MIG. First of all, stringent CG measures in place assure investors that their investment is safe (Danoshana & Ravivathani, 2013). This therefore makes it easier for external directors to buy more equity securities. CG ensures that strict accounting standards are adhered to leading to financial development of the organization. Positive CG practices lead to increased company value over time as more and more people trust the brand. This trust comes because adherence to CG practices as provided by the regulators or owners lowers the risks of the company solely because decisions are made based on consensus and not personal benefit drives. According to Akpan (2015), CG leads to greater transparency in disclosures hence improves market liquidity and reducing costs of capital. As indicated earlier, reduced costs lead to increased valuation of the organization.

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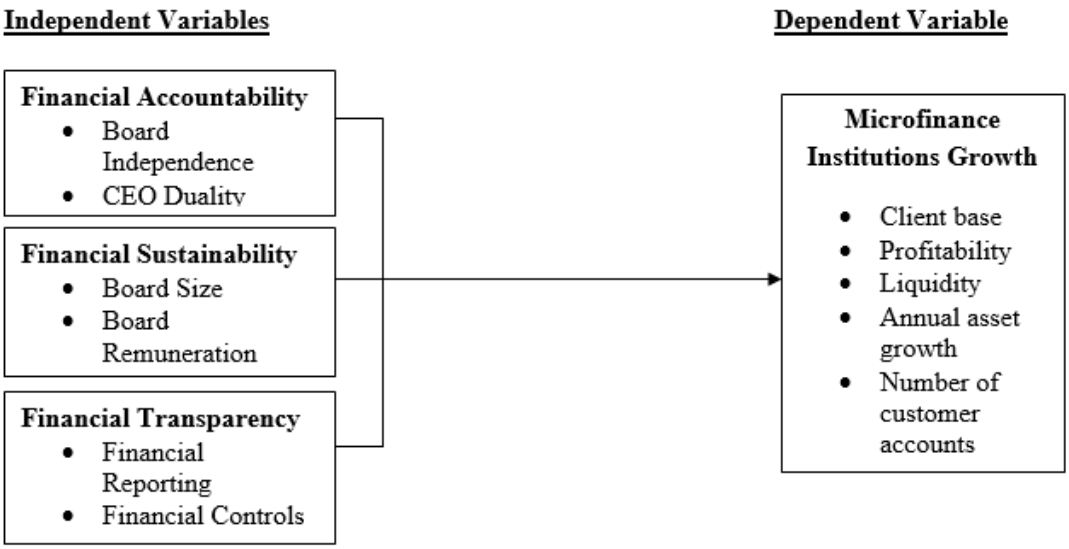
## Conceptual Framework and Study Variables

Figure 1: Conceptual framework




The rectangular boxes represent the specific variables that were used to measure CG and MIG. The conceptual framework simply shows that financial accountability, financial sustainability and financial transparency among MFIs influence the growth of the industry. The specific boxes for the above variables show that financial accountability is measured by board independence and CEO duality; financial sustainability measured by board size and board remuneration; financial transparency measured by the levels of financial controls and reporting. Board size is a measure of financial sustainability because the more board members in a MFI there are, the more money they draw from the organization in terms of perks, salary and other non-salary payments. Board remuneration simply describes how much each of the directors is paid, as this amount reduces the expansion funds at the disposal of the MFIs. The dependent variable is measured by client base, profitability and annual asset growth.

## METHODOLOGY

### Research Design

A research design is a framework that guides the research process. According to Orotho and Kombo (2008), it explains how the study is conceptualized, how data would be collected and analyzed. Hence it does not only provide the philosophical basis for the study but also the practical roadmap. This study adopted a causal research design. The design was adopted

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because the study is conceptualized in such a way that one thing causes another, such as good CG practices causing the growth of the industry.

**Population**

The population for this study consisted of all the 62 members of AMFI. However, some institutions did not have available data while others were in the mainstream banking sector with microfinance divisions; hence were excluded.

**Census Design**

This was a census study based on all the 43 non-bank deposit-taking microfinance institutions registered with AMFI by mid-2016 and had available data. However, for some variables, 53 institutions had data, hence some analyses are based on a larger group.

**Data Collection**

This study used both primary and secondary data. Both quantitative and qualitative data were collected. Overall, a meta-analysis approach was adopted to synthesize data of different types and from different sources. Primary data collection made use of a questionnaire which was administered to the senior managers or directors of the microfinance institutions.

**Data Processing, Analysis and Presentation**

Different techniques and approaches to data processing, analysis and presentation were applied. The techniques and approaches were mainly determined by the type of data collected. Quantitative data was cleaned and processed through the following processes: checking for validity and checking for reliability using the Cronbach's Alpha. Analysis was mainly through descriptive statistics and inferential statistics such as correlation and regression analysis. Qualitative analysis was done using content or textual analysis and theme matching. Where, applicable, N-Vivo software was used to do the analysis. The qualitative results complemented the quantitative data.

**Ethical Considerations**

It was important to observe key issues as follows. First, it was important to obtain a letter from the university as an identification document to show that the study was sanctioned. In terms of ethics, the researcher did not share data received from microfinance institutions with any third party without the written consent of the institutions. The data obtained was solely used for

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research purposes. In many circumstances, competitors are known to seek information about the institution being studied (Zikmund, 2012). The researcher kept all sensitive information obtained from the study institutions as confidential as possible.

## ANALYSIS AND FINDINGS

### Descriptive Analysis

The first step in descriptive analysis was the summation of the demographic information provided by the questionnaire respondents. It was found out that most of the respondents (35) were male while the rest were female. This represented 81 per cent of the total respondents.

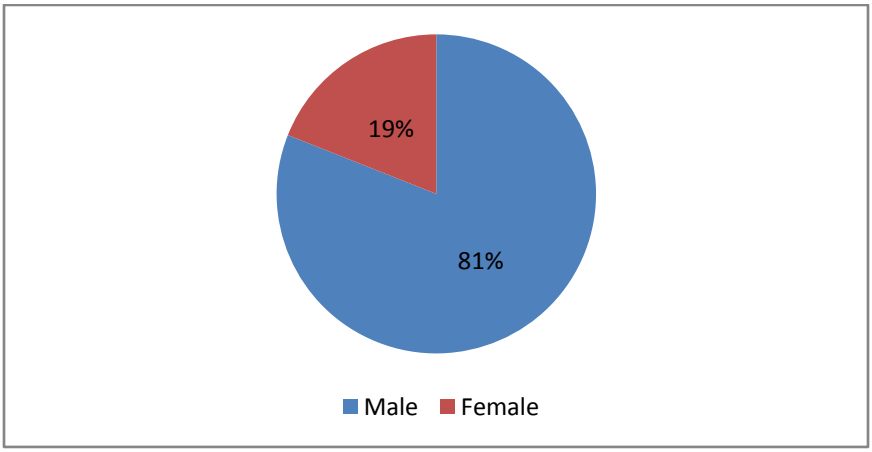


Figure 2: The distribution of respondents by gender

On the other hand, it was found out that most senior management officials had an undergraduate university degree, followed by those who had a postgraduate degree (Figure 3).

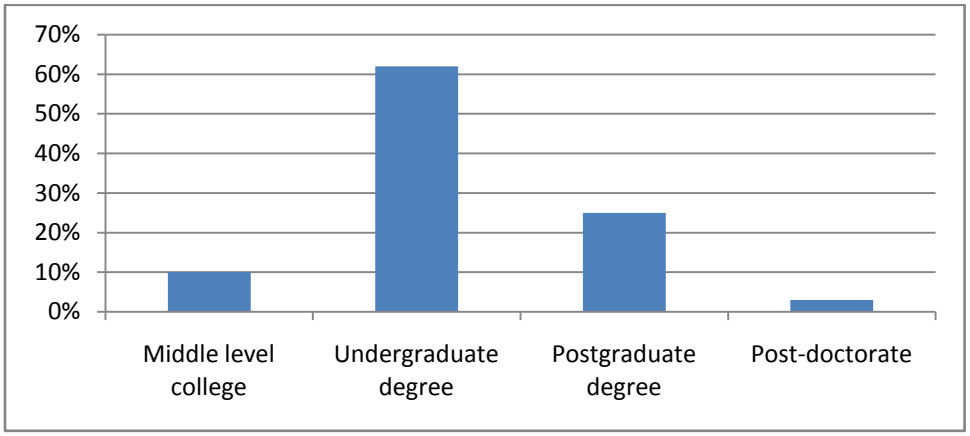


Figure 3: The distribution of respondents by level of education

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A shown in the appendices, a total of 43 MFIs registered under AMFI-K were studied. It was established that the companies were categorized by sector. The figure below shows the sectorial distribution of companies registered with AMFI-K which were the focus of this study.

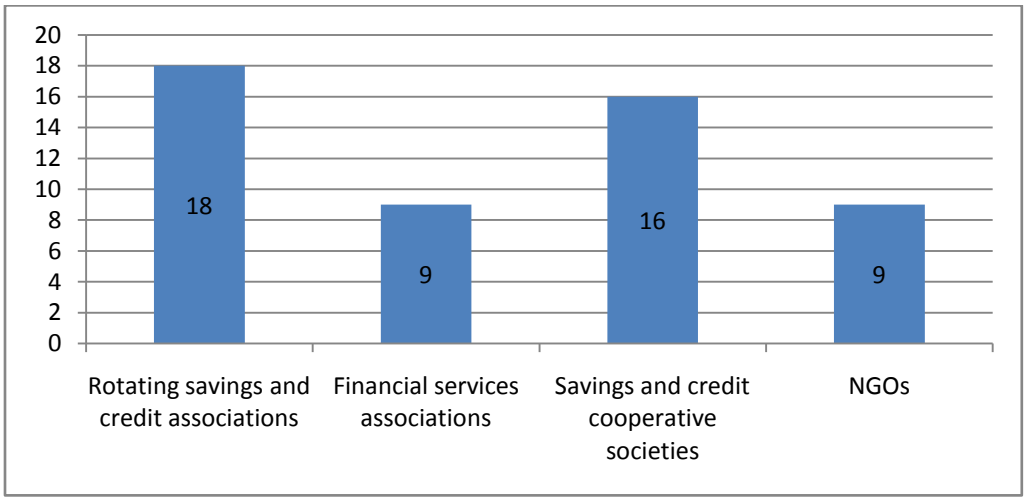


Figure 4: The distribution of MFIs by segment

As the chart shows, most MFIs in Kenya are ROSCAs followed by SACCOs. Out of the 62 firms that were studied, 43 had complete data on the variables of interest. The least members in the board of directors were 3 while the most number was 17. The mean ratio of the independent directors to board size was 0.155. Further, the means for FRENCY and BREM were 23.2 and 19.7. The remuneration for directors can be misleading since there is huge disparity between remuneration in the finance associations as opposed to SACCOs as espoused in Lekaram (2014). This description is shown below.

Table 1: Descriptive statistics for all variables

| | N | Minimum | Maximum | Mean | Std. Deviation | Skewness | | Kurtosis | |
|---|---|---|---|---|---|---|---|---|---|
| | Statistic | Statistic | Statistic | Statistic | Statistic | Statistic | Std. Error | Statistic | Std. Error |
| MIG | 43 | -.70 | .92 | .1662 | .19236 | -.454 | .322 | 1.588 | .634 |
| BIND | 43 | .00 | .56 | .1550 | .15350 | .738 | .322 | -.268 | .634 |
| FRENCY | 43 | 19.2 | 27.0 | 23.244 | 1.9441 | .004 | .322 | -.600 | .634 |
| BREM | 43 | 16.3 | 23.0 | 19.780 | 1.1444 | -.074 | .322 | 1.178 | .634 |
| Valid N (listwise) | 43 | | | | | | | | |

The above table also show that the data were normally distributed since skewness lies between -1≤X≤1 and kurtosis lies between -2≤X≤2.

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The respondents were asked their views towards the various aspects of MFIs governance. The distribution of their responses is shown below.

Table 2: Views on corporate governance of MFIs

| **Statement** | **1** | **2** | **3** | **4** | **5** |
|---|---|---|---|---|---|
| This MFI has many board members | 1% | 9% | 20% | 42% | 28% |
| This MFI has high remuneration for directors | 5% | 15% | 18% | 22% | 40% |
| This MFI does not have separate CEO and Chairman of Board positions | 4% | 26% | 36% | 24% | 10% |
| This MFI has few independent directors | 42% | 28% | 20% | 5% | 5% |
| This MFI has a financial policy | 8% | 12% | 5% | 45% | 30% |
| The MFI is transparent in its financial reporting | 4% | 20% | 16% | 18% | 42% |
| This MFI is financially accountable | 3% | 10% | 45% | 25% | 17% |
| This MFI is financially sustainable | 5% | 5% | 45% | 30% | 15% |

(Strongly disagree=1, Disagree=2, Neither agree nor disagree=3, Agree=4, Strongly agree=5)

The above results showed that most MFIs had many board members, remunerated their directors highly, had many independent directors, had a financial policy, and had a transparent reporting system.

**Inferential Analysis**

Table 3: The relationship between all CG measures and MIG, controlling for institution size

Correlations

| Control Variables | | | MIG | FRENCY | BIND | BREM |
|---|---|---|---|---|---|---|
| SIZE | MIG | Correlation | 1.000 | .338 | .040 | -.237 |
| | | Significance (2-tailed) | . | .012 | .773 | .085 |
| | | df | 0 | 43 | 43 | 43 |
| | FRENCY | Correlation | .338 | 1.000 | .146 | .692 |
| | | Significance (2-tailed) | .012 | . | .291 | .000 |
| | | df | 43 | 0 | 43 | 43 |
| | BIND | Correlation | .040 | .146 | 1.000 | .332 |
| | | Significance (2-tailed) | .773 | .291 | . | .014 |
| | | df | 43 | 43 | 0 | 43 |
| | BREM | Correlation | .237 | .692 | .332 | 1.000 |
| | | Significance (2-tailed) | .085 | .000 | .014 | . |
| | | df | 43 | 43 | 43 | 0 |

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The above results showed that BREM was negatively associated with performance and MIG. This means that the more microfinance industry pays its directors, the more negative impact it had on the overall performance and growth. In addition, FRENCY had a statistically significant positive relationship with MIG. This means that the more there is financial transparency, the more the industry grows. However, BIND did not have significant results.

The next step in inferential analysis was regression. The equation below was used to carry out predictions of performance and industry growth based on the three measures of corporate governance.

$ROE = \alpha + \beta_1 BIND + \beta_2 FRENCY + \beta_3 BREM + \varepsilon$

Table 4: Model summary with the study variables

Model Summary

| Model | R | R Square | Adjusted R Square | Std. Error of the Estimate |
|---|---|---|---|---|
| 1 | .377[a] | .142 | .074 | 3.10612 |

a. Predictors: (Constant), BIND, BSIZE, BREM

The results show that the three measures of CG were responsible for 14.2% of performance or industry growth (R Square=0.142). This implies that there are other factors that are responsible for growth in the industry. Moreover, controlling for firm size, the model below was obtained.

Table 5: Model summary controlling for firm size

Model Summary

| 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 | .374[a] | .140 | .090 | 3.07945 | .140 | 2.772 | 3 | 51 | .051 |

a. Predictors: (Constant), BREM, BIND, FRENCY

When the size of the firm was controlled for, the three measures' contribution to industry growth decreased by 0.002 to 14%. However, before making an inference, it was essential to analyze variance. The two ANOVA table below show significance of model variables in situations of controlled firmed size and otherwise.

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Table 5: ANOVA Output

ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 80.092 | 4 | 20.023 | 2.075 | .098[b] |
| | Residual | 482.400 | 50 | 9.648 | | |
| | Total | 562.492 | 54 | | | |

a. Dependent Variable: MIG
b. Predictors: (Constant), FRENCY, BIND, BREM

v/s

ANOVA[a]

| Model | | Sum of Squares | df | Mean Square | F | Sig. |
|---|---|---|---|---|---|---|
| 1 | Regression | 78.860 | 3 | 26.287 | 2.772 | .041[b] |
| | Residual | 483.633 | 51 | 9.483 | | |
| | Total | 562.492 | 54 | | | |

a. Dependent Variable: MIG
b. Predictors: (Constant), BREM, BIND, FRENCY, FSIZE_

The above tables showed that when the size of the organization was not included, the effect of the model was not significant but when it was, the effect was significant.

**Qualitative Analysis**

The general comments offered by the respondents at the end of the questionnaire were also analyzed qualitatively, using the content analysis approach. Specifically, the theme matching technique was applied. It was established that suggestions for reform differed with the level of work of the respondent. For instance, the senior management felt that regulatory environment was stringent, with reference to the interest rates capping. On the other hand, employees in the lower ranks felt that the directors' remuneration was an inhibiting factor to the growth of the industry. The argument was that part of the exorbitant perks received by directors could be used to motivate the employees who play a critical role in the client satisfaction which further leads to growth in the industry (Asunka, 2017). Hence the preferred policy direction for those in senior management was a less stringent legal ecosystem, while those lower in the job groups preferred a reform of the institutional reward system.

**DISCUSSIONS**

The results do not, generally, deviate from what exists in CG literature of microfinance institutions. Financial transparency, sustainability and accountability continue to be key issues of focus in Kenya's microfinance industry. The results obtained in this study have to be understood in the context under which the study was carried out, circumstances surrounding data collection and theories underpinning the analysis of the collected data. The authors submit that the level of compliance to CG principles has to be tied with the levels of microfinance development in the country. Kenya is fairly advanced in its microfinance, but societal issues continue to affect the way MFIs are governed, hence affecting their performance and industry growth. Views on CG among MFIs indeed provide adequate representation of what happens on the ground.

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The fact that most MFIs still have many board members is consistent with the agency theory in which principals do not trust agents. The situation is exacerbated by the fact that corruption is ingrained in Kenya's society. The fact that these directors are highly remunerated is inconsistent with the provisions of the stakeholder theory in which most benefits are not supposed to be enjoyed by a few stakeholders at the expense of others. In addition, most respondents did not seem to know about the independence of their boards. This left even the employees ignorant of the predicaments they were going through in their work. In other words, they were unable to explain whether their work situation was as a result of the country's economic situation, donor's level of commitment, managers' policies or the owners' greed. Although most MFIs had financial policies, most respondents could not say whether the financial manager were fully accountable of their actions.

Mixed results were obtained when the size of the MFI was taken into account and otherwise. In both cases, the remuneration of directors (a measure of financial sustainability), was found to be negatively correlated to performance and growth. Second, financial transparency was not only related but also significant in both experiments (controlling for and otherwise). However, the outcomes of board independence, a measure of financial accountability, varied on whether the size of the firm was controlled for or not. In the same way, the nature of the experiment affected the outcomes of the regression modelling. When the size of the firm was not controlled for, none of the measures of CG was a significant predictor of MIG. However, upon controlling for FSIZE, all the variables because significant predictors of MIG.

The role of the size of the MFI is key in analyzing the CG outcomes on growth and performance. Although there is considerable amount of vibrancy in Kenya's microfinance, all the MFIs are not of the same size. Therefore, FSIZE became an important confounding variable in the analysis. In other words, answers to the questions whether CG affected MIG were to be based on the size of the microfinance institution.

## SUMMARY

This study sought to analyze the effect of corporate governance practices on the growth of microfinance institutions in Kenya. The objectives of the study were to analyze the effect of financial accountability on growth of microfinance institutions, assess financial sustainability on growth of microfinance institutions and establishing how financial transparency affect the growth of microfinance institutions in Kenya. This was a census study based on all the 43 non-bank deposit-taking microfinance institutions registered with Association of Microfinance Institutions (AMFI). Normality tests were carried out using the Kolmogorov-Smirnov normality test. The

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method of analysis used was causal research design approach where both descriptive and inferential statistics. It was found out that only financial transparency was a statistically significant predictor of asset growth among institutions registered with AMFI-K, not controlling for firm size. However, controlling for the size of the MFI, all CG measures were found to be significant predictors of MIG.

## CONCLUSIONS

Generally, the study variables were in some cases related to MIG, hence in some conditions predictors of MIG. Overall, not all aspects of the corporate governance induce growth in the industry. In the model, the CG variables were not the only predictors of MIG. There are other factors that influence growth in microfinance, since the overall predictive power of board profile on financial performance was low. The most important conclusion from this study was that the size of the MFI was the most important factor in explaining whether the institution's CG practices induced growth and increased performance.

## RECOMMENDATIONS FOR POLICY

From the above findings, the following recommendations are put forward:

i. Corporate governance in Kenya has to be given priority among MFIs. Some MFIs still hold onto the olden models of governance that diminish the gains of other stakeholders. It is recommended that the central bank becomes more stringent in the implementation of the CG ideals in the Microfinance Act;
ii. In a special way, SACCOs and ROSCAs need to streamline their CG. This is because most extremes and outliers in data were found in these categories of MFIs. Specifically, the remuneration of directors is lowest among these two categories; as well as independence of the board; and
iii. Institutional-level CG practices need to be strengthened in all MFIs. There is no need of complying the central bank provision and the Act without strengthening internal systems which make financial processes transparent, boards accountable and the organization sustainable.

## RECOMMENDATIONS FOR FURTHER RESEARCH

For further research, the study recommends the investigation of the relationship between corporate governance aspects and growth of microfinance institutions that do not take deposits, as well as those not yet registered with AMFI-K. Second, it is proposed that future studies should investigate the nature of relationship between CG measures and MIG. The fact that

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some CG measures were not related to MIG, or were insignificantly related, does not mean they were not related at. Results of correlation coefficient and regression simply denounced the possibility of a linear relationship. However, from statistics, we know that relationship could also be curvilinear or logarithmic.

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